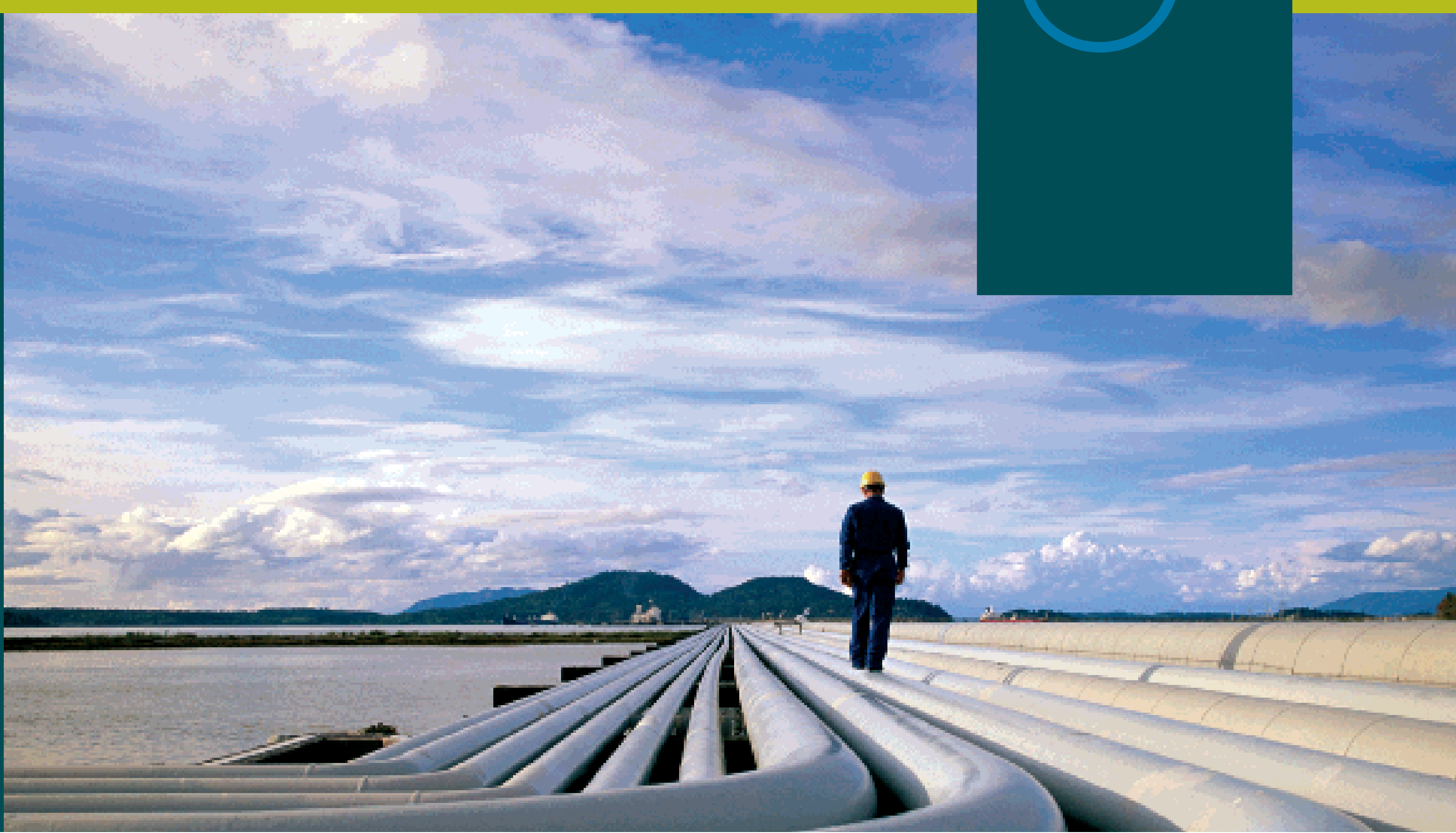
Annual Report 2003

enagas



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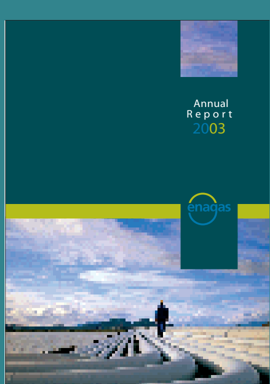
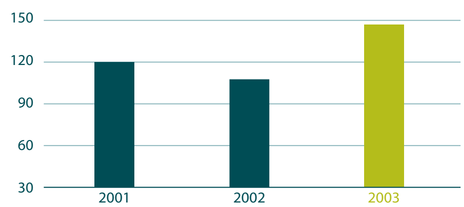
Summary

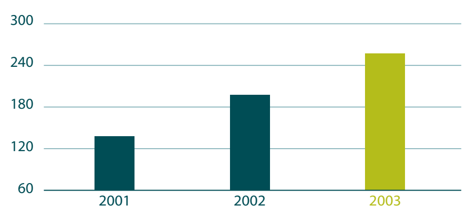


Main Aggregates



Net Profit
(millions euros)

CONSOLIDATED FINANCIAL DATA (Millions Euros)	2001	2002 (*)	2003
Net Income	117.8	110.1	142.0
Operating Profit	138.1	207.2	249.5
Operating Cash Flow	249.4	333.7	383.0
Investments	216.8	192.3	426.3
Net Debt	1,062.2	1,253.0	1,278.7
Workforce as of 31st December	**857**	**884**	**878**

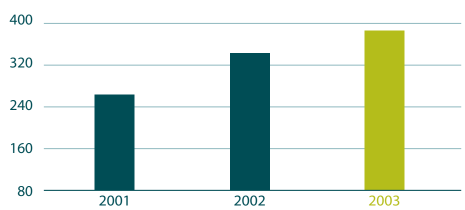


Operating Profit
(millions euros)

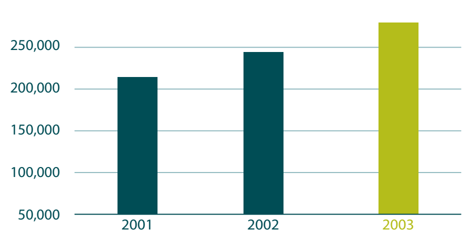
FINANCIAL DATA PER-SHARE	2001	2002 (*)	2003
Net Income (euros)	0.49	0.46	0.59
Dividend (euros)	0.49	0.23	0.30
Operating Cash Flow (euros)	1.04	1.40	1.60
No. Shares (millions)	11.95	238.7	238.7

- On May 3rd 2002 each old share was split into 20 new ones.
- The gross dividend of 0.30 euros per share in 2003 was approved by the General Shareholder's Meeting 2004.
- The financial data per share for 2001 have been standardised using the total number of shares as of 31 December 2002 for the calculation.

* The results are not comparable due to the change in the regulatory framework as of February 19th, 2002.



Operating Cash Flow
(millions euros)



Transported Natural Gas Demand
(GWh)

TRANSPORTED NATURAL GAS DEMAND (GWh)	2001	2002	2003 (*)
Tariff market	130,838	109,846	80,703
Liberalised market	80,969	133,192	194,535
Total Demand	**211,807**	**243,038**	**275,238**

* Final figures at February 29th 2004.

CONVERSION TABLES

ENERGY UNITS

Equivalent to	kWh	MBtu	cal	therm
1 kilowatt-hour (kWh)	1	0.003411	0.8601	0.03411
1 million BTUs (MBtu)	293.2	1	252	10
1 calorie (cal)	1.162	0.00397	1	0.0397
1therm	29.32	0.1	25.2	1

1 gigawatt-hour (GWh)= 10^6 kilowatt-hours (kWh)
1 m^3(n)= 10 cal (high heat value)

VOLUME UNITS

Equivalent to	1 cubic metre of gas	1 cubic metre of LNG	1 ton of LNG
1 cubic metre of gas	1	0.00171	0.00078
1 cubic metre of LNG	584	1	0.456
1 ton of LNG	1,281	2.193	1

1 bcm = 10^9 m^3.

Cubic metres:
Normal m^3(n): Measured at 0º and 1 atm.
Standard m^3(s): Measured at 15º and 1 atm.

1 m^3(n) = 0.948 m^3(s).

Letter from the Chairman

Dear Shareholder,

It is a pleasure for me to address you again on this, the occasion of the publication of the Annual Report for 2003, a year when Enagas and its team of professionals made significant strides towards achieving our strategic objectives and implementing new projects that will enable us to ensure our growth and the creation of maximum value in future.

2003 was a key year for the Company, a year full of major achievements, when we yielded good results in business and the stock market alike, maintaining our business leadership and providing the transparency and independence needed by the ongoing liberalisation of the sector in which we operate.

Furthermore, in 2003 Enagas continued to show evidence of its commitment to the very best in corporate-governance practices and kept on evolving in its activities towards an entrepreneurial philosophy that makes economic results compatible with environmental friendliness and a responsible social stance.

Operating Environment

In 2003 the commercialisation part of the natural gas market's liberalisation was successfully brought to a conclusion. As a result, as of the first of January of that year, any consumer can contract with the natural-gas supplier of its choice.

As of 31 December the liberalised market accounted for a share of over 70% of the transported natural-gas demand, proof of the speed with which the sector has opened up since 2000.

In 2003, the transported gas demand climbed to 13.2% more than the year before. The demand coming from plants using combined conventional-and-gas turbines burning natural gas to generate electricity was in fact double the figure for 2002, consolidating this segment of the market.

Another relevant issue in 2003 was the development in third party access to the network. Enagas handled all requests submitted by agents operating in the Spanish gas market and signed 83 capacity-reservation contracts with 12 marketing companies and four contracts with direct customers. There were no conflicts at all over gas-capacity reservation requirements.

Enagas played a dual role in this process: As the transporter, it implemented the necessary projects to ensure the capacity needed to meet agents' requirements, and as System Technical Manager, it played a key role in guaranteeing the continuity and security of the gas supply and the smooth operation of the system.

In this context, and thanks to the solidity and stability of the regulatory framework defined for the sector in February 2002, Enagas has been able to satisfy under optimum conditions the demand and the need for infrastructure anticipated in the Mandatory Planning Document, which stipulates the investments needed in the gas sector for the 2002-2011 period and stresses the strategic importance of such investments for the market's further development.

Results

I would now like to detail the development of Enagas's results during 2003, with which we are very satisfied. Thanks to the internal management and a commitment by the entire organisation, we have been able to grow for yet another year in terms of both size and profitability.

Our net profit in 2003 was 142.0 million euros, 29% more than last fiscal year, increasing the profit per share to 0.59 euros.

Our operating result rose to 249.5 million euros, from the 207.2 million earned at the close of 2002. This 20.4% increase is due fundamentally to the important increase in revenues that can be attributed to investments made in 2002 and the Company's policy on operational efficiency and cost containment.

Work also continued in 2003 to implement the investment plan that Enagas announced when it went public, displaying proof of the Company's high efficiency and superior creation of value for its shareholders.

The year's investments totalled 426.3 million euros, more than twice the amount of investments made in 2002. In addition, the Enagas Board of Directors approved 639.9 million euros in investment projects, which makes for an accumulated total of over 2,200 million euros' worth of projects in progress, more than 80% of the plan until 2006.

Over the course of the year, 157.7 million euros' worth of infrastructure were put into operation, projects that enabled a cleaner, more efficient fuel to be brought to a higher number of users, thus helping to improve quality of life and boost economic, environmental and social development in both the short and the long run.

The Company's financial policy is an essential element in Enagas's strategy for creating value. The Company's main objective in this area is to minimise risk and optimise the balance-sheet structure by financing its activities mainly with long-term, fixed-cost debt under the best possible conditions.

Following these criteria, in 2003 Enagas refinanced its debt through a long-term syndicated loan for 1 billion euro that replaced the short-term loan the Company held before. It also arranged for coverage instruments for the 2004-2008 period that will curb the financial cost of indebtedness while ensuring the profitability of investments.

As of 31 December 2003, Enagas's debt ratio stood at 41.3%, quite a conservative level if we take into account the regulated, stable nature of the business and the amount of leverage that similar companies have.

The average cost of debt for the Company in 2003 was 2.86%, one of the lowest levels in the entire sector. This figure was reached thanks to the shrewd handling of the Company's financial policy in a lowering interest rates scenario.

Stock-Exchange Development and Dividend

The performance of Enagas's shares in 2003 can be regarded as highly satisfactory. With an annual revaluation of 48.3%, Enagas has registered the highest appreciation of all the Ibex-35 utilities and the fifth highest in the entire Ibex 35 index.

After closing fiscal 2003 with outstanding marks, our share's performance has continued to run strong in the opening months of 2004, propelled by strategic progress, operational improvements at the Company and the publication of the 2004 remuneration for gas-transport activities. At the time this document went to press, Enagas had attained a strong market capitalisation of over 2,200 million euros, proof that the strategy of creating value right, whereas our market capitalisation figure has risen by almost 800 million euros since the Company went public.

Enagas's shares have consolidated in the market as a lsecure and growth stock. Enagas is a unique alternative that offers a high return at low risk in a fast-developing sector.

Enagas's good results for 2003 have therefore enabled us to propose to the Shareholders' Meeting for approval a gross dividend of 0.30 euros per share, 29% more than the year before. This would mean a pay-out ratio of 50% of the Company's net profit distributed amongst its shareholders.

The year 2004

Lastly, now that the year has ended, I must draw your attention to the publication, on 20 January last, of Ministerial Order ECO/31/2004, which establishes the remuneration for the gas-sector activity applicable to 2004.

Under this order, the estimated total remuneration Enagas will receive for regulated activities in 2004 will be up to 9% higher than the year before. This confirms the stability of the regulatory framework defined in 2002 and highlights the profitability and growth of Enagas's strategy.

2004 will be an important year. Some of our major strategic projects are already becoming a reality, and we shall continue to put in place our policy of ongoing improvement.

The positive impact of anticipated investments and remuneration, plus the objective of controlling operational and financial costs, will place us at profit and dividend-growth ratios that are comfortably higher than the average for our sector.

Closing Remarks

Enagas's solid position in its sector and the Company's commitment to independence, transparency and excellence in operations are key to reaching our objectives.

Our strategy will continue to focus on creating value for our shareholders, reinforcing our objectives from a conservative but highly profitable financial standpoint. This strategy is combined with an attractive dividend policy that seeks to provide shareholders with substantial remuneration in a climate of expanding operations.

Lastly, dear shareholder, as the Chairman of Enagas, I would like to thank you in my name and in the name of the Board of Directors for your confidence in us, and I would also like to thank the excellent people who work at Enagas, whose dedication and effort make it possible for our company to be a standard of reference for the whole Spanish energy sector.

Thank you.

Antonio González-Adalid
Chairman


Governing Bodies

Governing Bodies

Board of Directors

Chairman

Antonio González-Adalid
(Controlling Director proposed by Gas Natural SDG, S.A.)
– Chairman of Enagas, S.A.

Directors

Jesús David Alvarez
(Independent)
– Chairman of Prosesa, S.A.
– Joint chairman of the Eulen Group.
– Director of Vega Sicilia, S.A.
– Director of Proinsa, S.A.
– Director of Ionmed Esterilizacion, S.A.

Juan Badosa
(Independent)
– Vice President Fundación Repsol YPF. Fundation.

Ramón Blanco
(Controlling Director proposed by Gas Natural SDG, S.A.)
– COO of Repsol YPF, S.A.
– Director of Gas Natural SDG, S.A.
– Director of Ercros, S.A.
– Director of NH Hoteles, S.A.

Antonio Brufau
(Controlling Director proposed by Gas Natural SDG, S.A.)
– Chairman of the Board and Chairman of the company at Gas Natural SDG, S.A.
– Director of Repsol YPF, S.A.
– Director of Acesa Infraestructuras, S.A.
– Director of Caixaholding.

Carlos Egea
(Controlling Director proposed by Sagane Inversiones, S.L.)
– Director of the Spanish Confederation of Savings Banks (CECA, Confederación Española de Cajas de Ahorros).
– Vice President of Ahorro Corporación.

José Manuel Fernández
(Independent)
– Chairman of the Higher Council of Chambers of Commerce and Industry.
– Chairman of the Ebro-Puleva Group.
– Director of Iberia, S.A.
– Director of Endesa, S.A.
– Member of the Advisory Council of Abengoa, S.A.

Sir Robert Malpas
(Independent)
– Chairman of Evolution PLC.
– Chairman of Core Technology Ventures PPL.

Dionisio Martínez
(Independent)
– Director of Invercaixa.
– Member of the State Codification Commission.

Luis Javier Navarro
(Controlling Director proposed by BP Energia, S.A.)
– Chairman of BP España, S.A.
– Director of CLH.

Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante)
(Controlling Director, represented by José Luis Olivas)
– Chairman of the Bancaja Group.
– Chairman of Banco de Valencia.

José Riva
(Independent)
– Vice President and CEO of the firms in the Suardiaz Group.
– Director of Red Electrica de España, S.A.
– Director of Aldeasa, S.A.
– Director of Logista, S.A.

Caja de Ahorros del Mediterráneo
(Controlling Director, represented by Vicente Salá)
– Chairman of the Board of Directors of Caja de Ahorros del Mediterráneo (CAM).
– Chairman of the Board of Directors of Euroinfomarket.
– Chairman of EBN Banco.

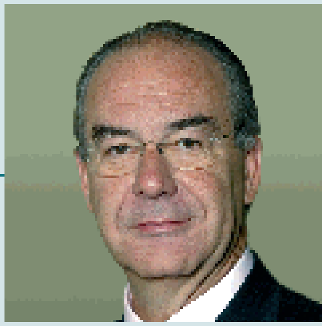
Rafael Villaseca
(Independent)
– General manager and director of the Panrico, S.A., Group.
– Director of Amper, S.A.
– Chairman of Tuneles y Accesos de Barcelona C.S.A.
– Chairman of Tunel del Cadi C.S.A.

Secretary of the Board

Luis Pérez de Ayala

Assistant secretary of the Board

Beatriz Martínez-Falero



ANTONIO GONZÁLEZ-ADALID

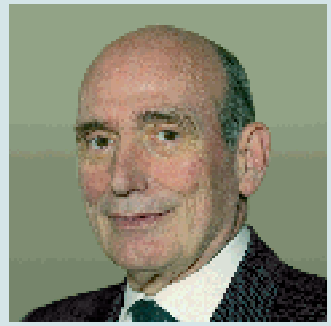
JESÚS DAVID ÁLVAREZ

JUAN BADOSA

RAMÓN BLANCO

ANTONIO BRUFAU

CARLOS EGEA



JOSÉ MANUEL FERNÁNDEZ

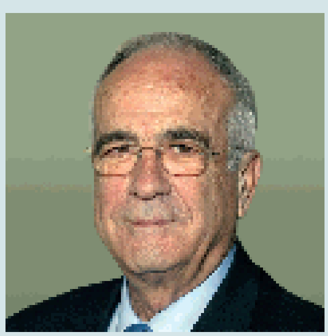
SIR ROBERT MALPAS

DIONISIO MARTÍNEZ

LUIS JAVIER NAVARRO

JOSÉ LUIS OLIVAS

JOSÉ RIVA



VICENTE SALÁ

RAFAEL VILLASECA

Audit and Compliance Committee

Chairman: **Luis Javier Navarro.**
Members: **Juan Badosa.**
Sir Robert Malpas.
Bancaja (Caja de Ahorros de Valencia, Castellon y Alicante).

Appointment and Remuneration Committee

Chairman: **Antonio Brufau.**
Members: **Dionisio Martínez.**
Rafael Villaseca.

Executive Committee

Antonio González-Adalid
(Chairman)

Antonio García
(General Manager of Technology, Engineering and Environment)

Javier González
(General Manager of Infrastructure and Operations)

Juan Manuel Llabrés
(General Manager of Strategy and Regulation)

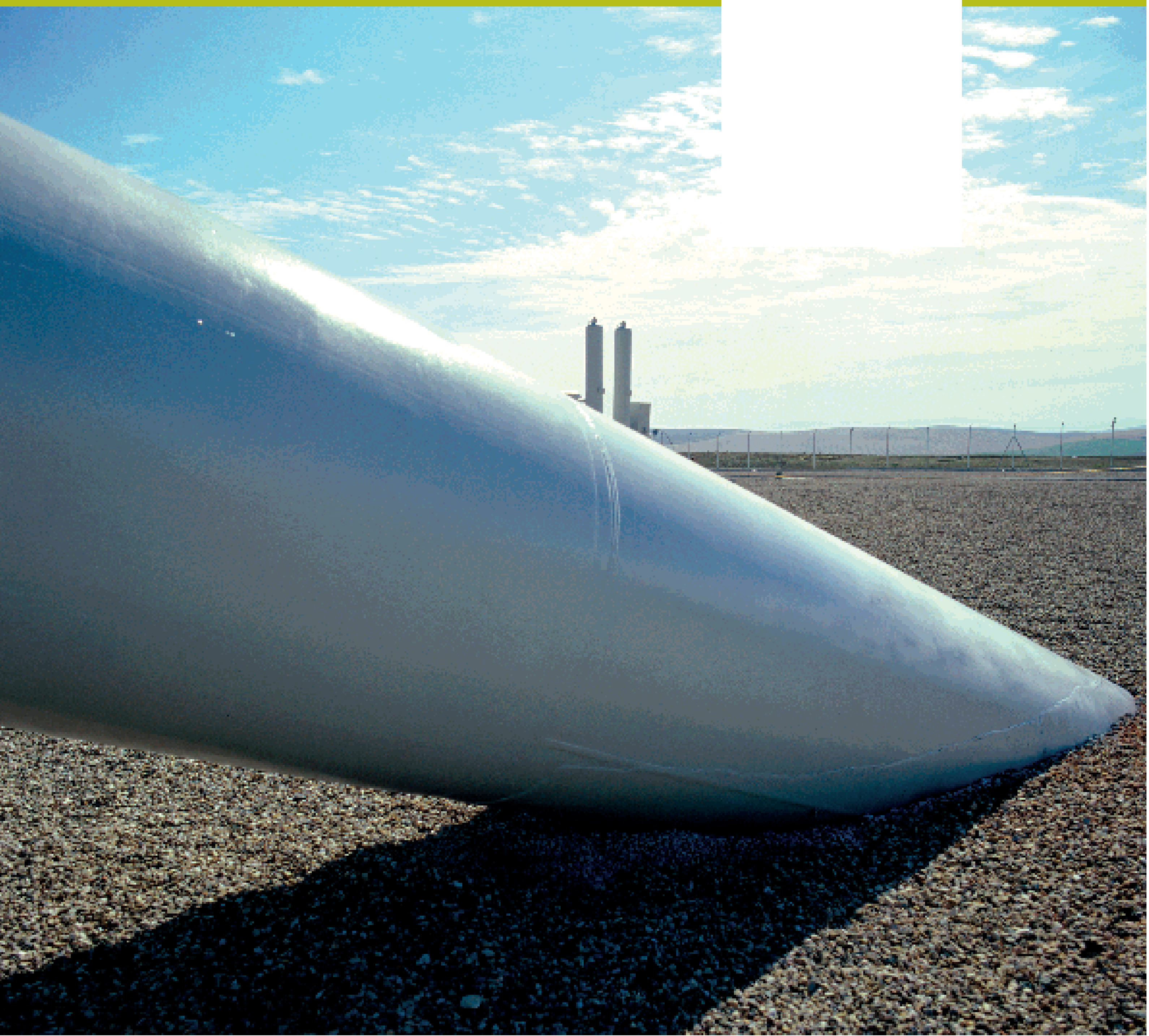
Juan Ignacio Carbonell
(Information Systems)

Diego de Reina
(Finance)

Erundino Neira
(Human Resources)

Luis Pérez de Ayala
(Legal Affairs)

Summary of 2003



Summary of 2003

10th January: Enagas was selected to join the group of stocks that comprise the selective Ibex 35 index because of its liquidity and because high representativity.

17th January: Order ECO/30/2003 was published in the Official National Bulletin, establishing the 2003 remuneration for regulated gas-sector activities. Ministerial Orders ECO/32/2004 and ECO/33/2004 were also published, establishing the transport tariffs for natural gas and manufactured gas and the tolls and fees associated with third-party access to gas facilities.

On the same day, Enagas paid out a gross interim dividend of 0.09 euros per share, charged to the profits for fiscal 2002.

28th February: Enagas signed a Framework Cooperation Agreement with the government of the city of Palos de la Frontera, Huelva, concerning construction to improve the facilities at the Juan Pablo II Senior Citizens' Home, located in the said city.

14th March: Enagas was chosen best new security on the stock exchange in 2003 by La Gaceta de los Negocios in its Fifth Annual Stock-Exchange Awards.

10th April: Enagas refinanced its debt with a 1 billion euro syndicated loan.

25th April: Enagas held its first Shareholders' Meeting at second adjournment, where the ten motions submitted to the shareholders were approved.

After the second motion was approved, Mr Carlos Egea, Caja de Ahorros del Mediterráneo (CAM), Mr Luis Javier Navarro and Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) were appointed to the Board as Controlling Directors, and Mr Jesús David Alvarez, as Independent Director.

3rd July: Enagas paid out a gross final dividend of 0.14 euros per share, charged to the earnings for fiscal 2002, as approved by the General Shareholders´ Meeting of the Company.

2nd September: Enagas arranged for coverage instruments for the 2005-2008 period in order to limit the financial cost of the syndicated loan signed in the month of April.

Additionally, coverage instruments were also contracted in October to limit the financial cost to a maximum of 2.83% in fiscal 2004, applicable to 1 billion euro of the total net debt.

16th October: Enagas won IR Magazine's 2003 award for Best Investor Relations after an IPO, as voted by more than 250 investors and analysts.

24th October: A 61-kilometre section of the pipeline between Madrid and Huelva was inaugurated in Getafe, Madrid. This pipeline will enable the growing demand for natural gas in the central area to be met.

29th October: Enagas, through its Board of Directors, subscribed to the nine principles of the United Nations' Global Compact on Human Rights, labour and environment, with the objective of supporting and promoting those principles in the sphere of the Company's activities.

24th November: The Board of Directors of Enagas approved the payment of a gross interim dividend of 0.12 euros per share, charged to the earnings for fiscal 2003. The dividend was paid out on 8 January 2004.

Development in 2004

16th January: Standard & Poor's upgraded the Company's rating to a long-term 'AA-stable' and short-term 'A-1+', citing Enagas's positive perspectives in terms of results and the Company's strong financial structure.

19th January: Order ECO/31/2004 was published, establishing the scheme of remuneration for gas-sector activities applicable to 2004.

In addition, on that same date, Ministerial Orders ECO/32/2004 and ECO/33/2004 were published, establishing the transport tariffs for natural gas and manufactured gas and tolls associated with third-party access to gas facilities.

23rd February: Enagas signed a long-term loan with ICO (the Spanish Official Credit Institute) for 200 million euros to finance new gas infrastructures.

27th February: The natural-gas demand in Spain rose to 1,198 GWh as a consequence of the country's February cold snap. This consumption rate is the highest ever registered and was 5.4% higher than the peak consumption rate of the winter before.

11th March: Enagas signed a Framework Collaboration Agreement with the European Investment Bank (EIB), in which the Company expresses its interest in having the European institution participating in the financing of its investment projects for the following years.

Development of the Regulatory Framework

The gas sector's current regulatory framework, which was defined in February 2002, continued to be implemented during the course of 2003; allowing the growth of the sector in Spain, it's rapid liberalisation, and the consequent increase in competition.

Order ECO/30/2003, establishing the scheme of remuneration for regulated gas-sector activities applicable to 2003.

The Ministerial Order establishing the scheme of remuneration for gas-sector activities applicable for 2003 was published in January 2003.

The fixed remuneration assigned to Enagas for its regasification, storage and transport activity came to 456.5 million euros, 12% over 2002 figure for the same items.

Also, Enagas received compensation for managing gas sale/purchase for the tariff market, for its activity as System Technical Manager and for the regasification variable.

Orders ECO/31/2003 and ECO/32/2003

These Ministerial Orders set the transport rates for natural gas and manufactured gases. They also approved the tolls and fees associated with third-party access to gas facilities. Tariffs went down 1.25%, while tolls went down 1.68%.

Liberation of Gas-System Capacity after the publication of Royal Decree 1434/2002

This Royal Decree defined the regulation of the gas business, especially in terms of gas transport and supply for the regulated market; the facility-construction authorisations that are needed and what expropriation system is applicable; it modified the third party access system outlined in Royal Decree 949/2001; and it set up a transitional mechanism to free up capacity to attend the existing requirements.

The application of the Royal Decree during 2003 proved to be very important, as it enabled both commercialisation companies and natural-gas distributors to adjust the capacity they had previously contracted from the gas system to fit their real needs more neatly and at no cost, with the object of optimising existing capacity and putting it to its maximum use.

The companies doing business in the system availed themselves of this opportunity at the end of the first quarter of the year. All in all, 15 million m3/day in capacity were freed up. This meant that sufficient accessible capacity appeared, in consonance with the objectives of the Mandatory Planning Document, to make for a reliable system able to easily handle the needs of the next few years.

Liquidation Procedure

2003 was the first year when the new procedure was applied for liquidating payment obligations and collection rights, a procedure necessary for remunerating natural-gas regasification, transport, storage and distribution activities. The procedure, defined in Ministerial Order ECO/2692/2002, enabled the collection system to run in a smooth, orderly fashion in 2003.

Second European Gas Directive

On 26 June 2003 the Second European Gas Directive was published, regulating the liberalisation of the European internal market in natural gas. Its objective was to improve the market's operation by eliminating the shortcomings observed after the experience of applying the first gas directive.

The second directive substituted its predecessor and took force on the first of January 2004.

Amongst other new features, the directive permitted a system of third-party access based on public regulated rates, which is applicable to all eligible customers objectively and without discrimination. Also, it expanded the definition of "eligible customers" to include all customers as of the first of July 2007.

We would like to emphasize the fact that the Spanish gas sector has met both of these requirements since 2003, a fact that highlights Spain's leading position in liberalisation.

Seventh Forum on European Regulation

Since December 2003, after the Madrid Forum on European Regulation, Enagas has been committed to the calendar the Forum established, adapting to the standards set down in the Guidelines for Good Practices.

Development in 2004

Order ECO/31/2004 establishing the scheme of remuneration for regulated gas-sector activities applicable to 2004.

This order's objects are:

- To establish and update the scheme of remuneration applicable to regulated activities, defining their components and establishing the necessary measures to ensure adequately rendered service.
- To develop the procedure for including new gas facilities in the remuneration scheme and to determine the formula for calculating the remuneration for certain types of facilities.
- To find the value of remunerations for regulated activities in 2004.

Under this order, Enagas's estimated total remuneration for regulated activities in 2004 would entail an increase of up to 9% over the year before.

The main reference variables (efficiency factor, ten-year bond differential and regasification usage factor) held steady at the same levels as in years before.

Ministerial Orders ECO/32/2004 and ECO/33/2004

These orders establish the natural-gas tariffs for the tariff market and the tolls and fees associated with third-party access to gas facilities for the year 2004. Tariffs went down 0.8% for domestic consumers and tolls went down 0.6%.

Shareholders and Investors

Share Price Development

In 2003 Enagas's stock rose 48.28% to 8.60 euros per share, outperforming all its reference indices.

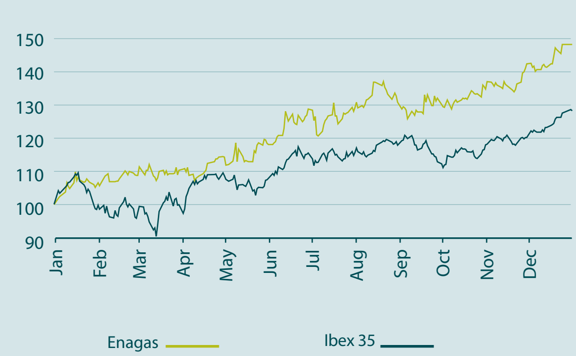
The Madrid Stock Exchange's General Index, where Enagas has been listed since 26 June 2002, was revalued upwards by 27.44% in 2003, and the Ibex 35, which included the Company on 10 January, rose 28.16% over the same period.

As of 31 December 2003, the Enagas share weighted at 0.74% in the selective Ibex 35 index.

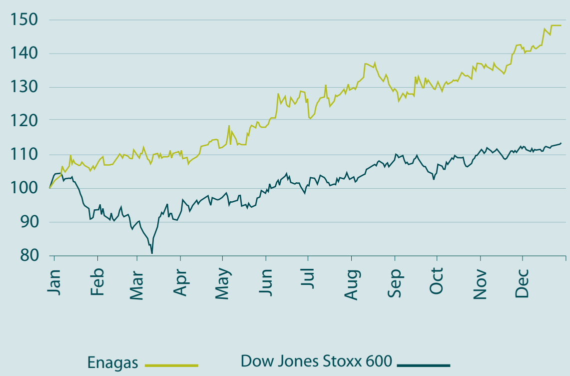
Since 2 January 2003, Enagas is part of the Ibex Utilities sector index, which registered a year-on-year increase of 31.88%.

Enagas's average daily trading volume over the year was 800,287 shares, which means Enagas was one of the most heavily traded medium-capitalisation shares. The total number of shares traded during fiscal 2003 came to 223.3 million, the equivalent of over 1,574.5 million euros in cash trading.

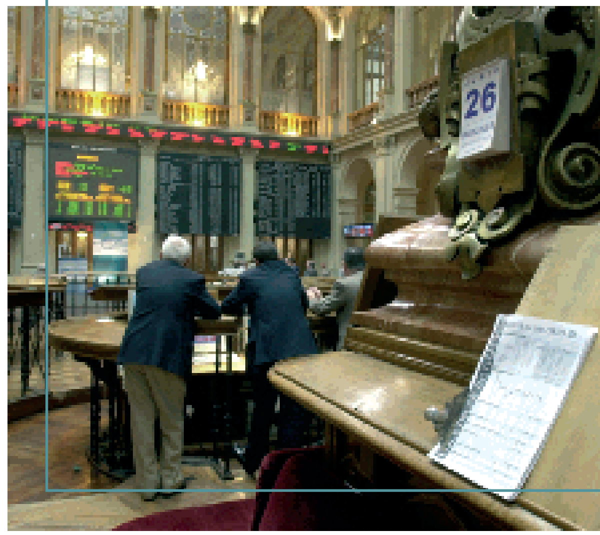
During the year, all ratios continued to improve. Several aggregates, such as earnings per share, performed well, in accoredance with the tendency shown the year before. As of 31 December, the EPS stood at 0.59 euros, up 29% in year-on-year terms; the PER stood at 14.58, and the price/cash-flow ratio was 8.26.



Enagas vs Ibex 35 in 2003



Enagas vs.
Dow Jones Stoxx 600 in 2003



MARKET AND FINANCIAL DATA, PER-SHARE BASIS

	2001	2002	2003
No. shares (millions)	–	238.7	238.7
Capitalisation (millions of euros) *	–	1,384.5	2,053.1
Price at 31 December	–	5.80	8.60
High	–	6.49	8.68
Low	–	5.11	5.79
Average	–	5.73	7.13
Share volume (millions)	–	304.5	223.3
Turnover (millions of euros)	–	1,903.5	1,574.5
Net Earnings per share (EPS)*	0.49	0.46	0.59
Cash Flow per share (CFPS)*	0.59	0.86	1.04
Book Value per share *	3.3	3.6	3.9
PER (price/earning ratio)*	–	12.61	14.58
PCF (price/net cash flow per share)*	–	6.74	8.27
Dividend per share	0.49	0.23	0.30*
Pay out	–	50%	50%**
Dividend yield*	–	4.0%	3.5%

* Data as of 31 December

** Percentage of the Consolidated Net Profit distribute as dividend.

Dividend Policy

The gross total dividend per shave for Fiscal 2003 approved by the General Shareholders' Meeting, was 0.30 euros. This is 29% higher than the one distributed the year before and, considering the price as of 31 December, it means a dividend yield of 3.5%.

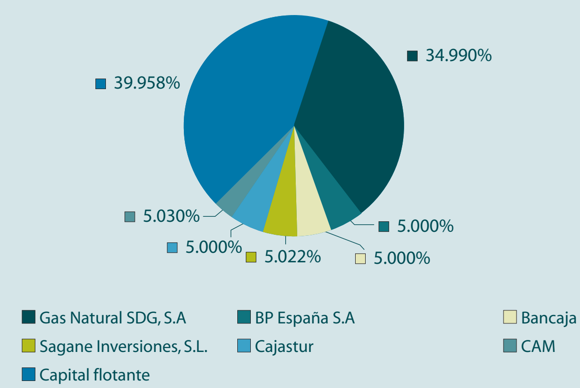
With this dividend, 50% of the consolidated net profit will be distributed amongst the shareholders, in keeping with the Company's policy of creating value.

N.° shares per shareholder (*)	Shareholder	Total shares	Stake
Up to 500	143,970	28,898,447	12%
501 - 2,000	10,816	8,277,807	4%
2,001 - 5,000	653	2,168,525	1%
5,001 - 30,000	458	5,605,608	2%
30,001 - 50,000	58	2,341,113	1%
50,001 - 100,000	45	3,340,634	1%
100,001 - 500,000	59	13,624,271	6%
500,001 - 2,000,000	18	19,064,563	8%
Over 2,000,001	10	155,413,292	65%
Total	**156,087**	**238,734,260**	**100%**

(*) Data provided by Iberclear for the 2003 General Shareholders' Meeting.

Shareholder	Stake
Gas Natural SDG, S.A.	34.990%(*)
Sagane Inversiones	5.022%(*)
Bancaja	5.000%(*)
BP España, S.A.	5.000%(*)
Caja de Ahorros de Asturias (Cajastur)	5.000%(*)
Caja de Ahorros del Mediterráneo (CAM)	5.030%(*)

(*) Percentage published at the CNMV as of 30 April 2004.



2003 Annual Report (Seventh Draft)

Shareholder Structure

As of 31 December 2003, Enagas's fully subscribed, paid-in share capital was 358,101,390 euros. This share capital is divided into 238,734,260 shares of common stock having a par value of 1.5 euros per share and is represented by book-entry securities. Enagas's share-accounting records are kept by Iberclear and its member institutions.

Approximately 42% of the shareholdings identified as free float are Spanish, while the remaining 58% belong to international investors, fundamentally located in the United States and the United Kingdom.

Board of Directors

The Enagas Board of Directors owns a total of 23,952,243 shares in direct and indirect holdings, or 10% of the Company's share capital. As of 31 December, the shareholdings reported to the National Securities Market Commission (CNMV) were the following:

- Caja de Ahorros del Mediterráneo, CAM (Controlling Director): CAM held: 12,002,000 shares.
- Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (Controlling Director): 11,936,713 shares.
- Sir Robert Malpas (Independent Director): 12,000 shares.
- Antonio González-Adalid (Chairman and Controlling Director): 669 shares.
- Juan Badosa (Independent Director): 495 shares.
- Rafael Vilaseca (Independent Director): 356 shares.
- Luis Javier Navarro (Controlling Director): 10 shares.

The other members of the Enagas Board of Directors have no direct or indirect holdings in the Company's capital.

Transparency and Communication

During 2003 Enagas continued its proactive communication policy to shareholders, institutional investors and tfinancial analysts, offering them detailed, constantly updated and transparent information the Company's performance.

During the course of 2003, a total of 33 Spanish and international financial institutions covered the Company; showing the kind of interest that Enagas has been arousing in the financial and investment community since its IPO. At the close of the fiscal year, 57.6% of all recommendations were "Buy".

A list of these recommendations and the average target price are given on the corporate web page (www.enagas.es) and updated with every change.

During the year, Enagas's Investor Relations Direction responded daily to institutional investors and analysts; it held over 190 meetings at the Company's central offices, made over 20 presentations and ran four conference calls to present quarterly results. In addition, the Chairman of Enagas, together with the Investor Relations Director, visited over 500 investors.

Enagas was honoured in 2003 with the award for Best Investor Relations after an IPO. To select the winner of this award, the prestigious IR Magazine conducted surveys with over 250 analysts and investors.

Enagas's Investor Relations Director sits on the Board of Directors of the Spanish investor-relations association AERI and is an honorary member of the European Council on Investor Relations.

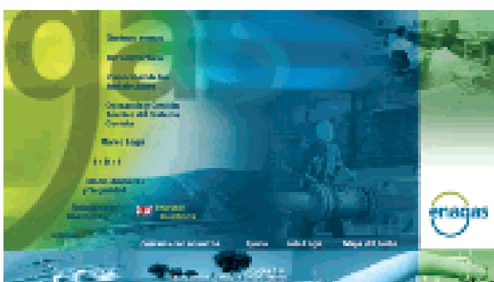
In addition, over 650 e-mail messages were received and answered at the Investor Relations Office's general e-mail address (investors@enagas.es) during the course of 2003.

Another important channel of communications is the toll-free line (900-100-399). During the year, this line registered over 1,800 calls. Through the Shareholders' Office, the Company handled over 700 shareholder messages asking for documents to be sent by post or e-mail via the mailbox at (accionistas@enagas.es).

The Enagas Web Site

The Enagas web site is one of the most important means of communication the Company has at its disposal. The site, which offers general and detailed information about Enagas's organisation, activity, infrastructure and projects, is updated continuously. As of 31 December 2003, the Enagas web site had 2,249,043 hits, and visitors had asked for 309,451 files, the equivalent of 30,320 Gb of downloaded data. In April (the most active month, with a total of 13,506 pages sent), the site received 298,542 requests.

Furthermore, during the course of 2003, the Company handled over 290 e-mail messages in the corporate web page's mailbox (contacta@enagas.es). These messages contained queries and requests for information dealing with matters such as the Company, its activity and the operation and capacity of its facilities.



Consolidated Management Report

Consolidated Management Report

Main Figures

CONSOLIDATED ANNUAL RESULTS (Millions Euros)	2001	2002 (*)	2003	Var%. 02/03
Operating Cash Flow (EBITDA)	249.4	333.7	383.0	14.8%
Operating Profit (EBIT)	138.1	207.2	249.5	20.4%
Profit from ordinary activities	98.1	167.8	217.8	29.8%
Net Icome before extraordinary items	78.7	109.3	142.3	30.2%
Net Income after taxes	117.8	110.1	142.0	29.0%

FINANCIAL FIGURES (Millions Euros)	2001	2002 (*)	2003
Total Assets	2,754.6	2,895.7	3,093.0
Shareholders' Equity	779.6	852.4	932.3
Net Financial Debt	1,062.2	1,253.0	1,278.7
Investments	216.8	192.3	426.3
Net Cash flow	142.3	205.2	248.8
Net Debt/EBITDA	4.26 x	3.75 x	3.33x
Interest cover over EBITDA	6.88 x	8.47 x	12.1x
Net Debt/Total Assets	38.6%	43.3%	41.3%
ROE after tax	9.6%	13.4%	15.9%
ROCE after tax	5.0%	6.9%	7.5%

* The results are not comparable able due to the change in the regulatory framework as of February 19th, 2002.

During 2003, Enagas continued to improve its main economic figures. The Consolidated Net Income was 142.0 million euros, up 29% from the figure for 2002.

This increase was due to the major increase in revenue from the investments made in 2002 and to the Company's containment of operating and financial costs.

Results

Revenues

In 2003 Enagas's **Gross Margin over Revenues** totalled 581.8 million euros.

This figure breaks down as follows:

- Revenues from **sales:** Sales of natural gas by Enagas to distribution or transport companies for subsequent distribution to the tariff market, this was a total of 1,037.6 million euros. Supply for these contracts amounted to 1,030.6 million euros.
- Revenue from **provision of services:** This revenue was earned in regulated and also from non-regulated activities. It came to 531.9 million euros, 23.1% more than the 432.0 million euros posted for 2002.
- **Other operating revenues:** This heading contains two sub-items: first, the subsidies reflected on the balance sheet and applied to revenues according to the useful life of the tangible assets they subsidise, and second, other auxiliary and ordinary trading revenues. The sum reached by the end of the fiscal year was 42.8 million euros.

Expenditure

Enagas's **Net Operating Expenses** registered a slight decline over the fiscal year before, in keeping with Enagas's policy of cost containment and improved operating efficiency.

- **Personnel expenses** came to 58.0 million euros a 9.4% increase over last year figures. The workforce as of 31 December 2003 consisted of 878 persons, as opposed to the 884 employees the Company had in 2002.

  Personnel expenses include a 4.1-million-euro workforce-adjustment provision that was part of an early retirement programme. This provision was put in books in 2003 as a non-recurrent personnel cost.

- **Other operating expenses:** These are basically overhead and the costs of outsourced services. They reached a total of 133.4 million euros, down 4.3% from the figure for 2002.
- **Other external expenses** came to 7.3 million euros, down 15.4% from the figure registered in 2002.

Operating Cash Flow (EBITDA)

As a consequence, the **Operating Cash Flow (EBITDA)** displayed a year-on-year increase of 14.8%, to a total of 383.0 million euros.

Provision for depreciation of fixed assets was 133.6 million euros, up 5.6% from the figure registered in 2002, due fundamentally to the depreciation of the new investments put into operation during fiscal 2003.

Operating Profit (EBIT)

The **Operating Profit (EBIT)** was 249.5 million euros, up 20.4% from the previous fiscal year.

Financial Results

The **Consolidated Result of Financial Transactions** showed a 31.7 million euro loss in 2003. The financial costs stemming from total financing came to 34.1 million euros, up 18.4% from the year before.

Profit from Ordinary Activities

As a result of all of the above, the **Profit from Ordinary Activities** came to 217.8 million euro, representing a 29.8% increase with regard to that obtained in 2002.

Extraordinary Items

During this fiscal year, 0.4 million euros in **non-recurrent extraordinary losses** were put on the books, due to the regularisation of rejected investment projects.

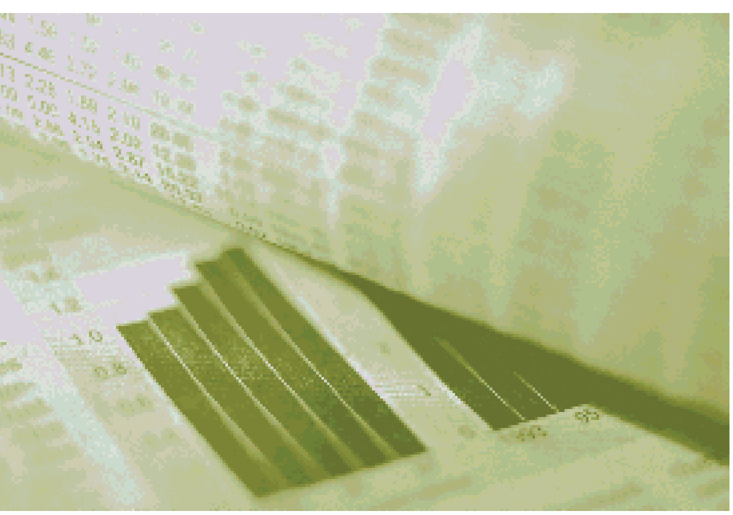
Net Income

The **Consolidated Profit after tax** was 142.0 million euros. Compared to fiscal 2002's 110.1 million euros, this means profits have grown 29%.

Investments

During 2003 157.7 million euros' worth of assets were put into operation, thus expanding the Company's solid infrastructure base.

Also this fiscal year, 426.3 million euros' worth of investments were made as part of the implementation of the investment plan mapped out in the Mandatory Planning Document published last year.



Sixty-one percent of all investments made were devoted to the construction or expansion of the gas-transport network; 29.2%, for regasification projects; 9.8%, for underground-storage infrastructure and other projects.

In addition, Enagas's Board of Directors approved 639.9 million euros' worth of investment projects during the year.

As of 31 December 2003, there were over 122 projects in different phases of completion. Thirty-three of them were large-scale projects with a budgeted investment of over 25 million euros; 20 called for a budgeted investment of between 3 and 25 million euros; and 69 projects had a budgeted investment of below three million euros. As a whole, these projects in progress represented an accumulated sum of over 2,200 million euros at year's end.

Financing

The Net Cash Flow from transactions in fiscal 2003 came to 248.8 million euros, up 21.2% from the figure registered in 2002. These resources were used primarily to finance the investments made during the year.

As of 31 December 2003, the Company's Net Financial Debt was a total of 1,278.7 million euros, while at the end of the previous fiscal year it was 1,253 million euros.

The Net Debt Ratio (calculated as Net Financial Debt over Total Assets) at the end of fiscal 2003 was 41.3%, in keeping with Enagas's policy objective of raising its indebtedness to an optimum level mirroring the regulated nature of its activity and similar to the average for the Company's sector.

In accordance with the objectives the Company announced in its strategy of using predominantly long-term financing, Enagas replaced the bridge loan

signed for its public offering, which was due to mature in June 2003, with a syndicated loan signed in April. This new loan of 1 billion euro, matures in five years and features very competitive conditions. This way, higher returns on investments over the cost of capital are ensured.

The average cost of debt was 2.86%, compared to 3.87% for 2002. The reduction was due fundamentally to the way the Company's financial policy has been steered in an environment of declining interest rates.

During the course of 2003, the Company arranged for coverage instruments that will limit the financial cost of its debt for the 2004-2008 period.

These coverage instruments, which will be applied to a total of 1 billion euro, enable the risk to be minimised by financing investments under the best possible conditions, mainly with long-term, fixed-cost debt.

In 2004 the interest-rate risk will be covered through several underwriting operations that will involve a total financing overhead of 2.83% for the amount concerned for the 2004 fiscal year.

Lastly, interest-rate risk-coverage instruments were also arranged for the 2005-2008 period. They come at zero cost for Enagas, because the terms set a known maximum interest rate of 4.66% and a minimum applicable to the total of 1 billion euro.

These negotiated coverage levels were set bearing in mind the financial remuneration established by the Regulatory System (average for the ten-year Spanish bond + 150 basic points), and they show a balance that is clearly to the Company's advantage.

GROSS DEBT (Millions of Euros)	2001	2002	2003
Short-term Debt with Financial Institutions	83.4	1,016	24.9
Long-term Debt with Financial Institutions	78.6	190.8	1,215.3
Short-term Debt with Group and Associated Companies	323.2	157.0	146.9
Long-term Debt with Group and Associated Companies	862.1	8.5	8.5
Short-term Trade Accounts Payable	82.9	107.2	212.8
Short-term non-Trade Accounts Payable	19.1	49.0	64.6
Long-term Accounts Payable	44.8	36.7	31.7
Total Gross Debt	**1,494.1**	**1,565.2**	**1,704.7**
Standard & Poor's long-term rating	**—**	**A+**	**AA-Stable**
Moody's long-term rating	**—**	**A2**	**A2-Stable**

SHAREHOLDERS' EQUITY (Millions of Euros)	2001	2002(*)	2003
Share Capital	358.7	358.1	358.1
Revaluation Reserve	342.5	342.5	342.5
Legal Reserve	47.0	60.1	70.8
Voluntary Reserves	15.9	2.0	44.0
Reserves in consolidated co's using proportional consolidation method	(0.7)	1.1	3.5
Consolidated Profit and Loss	117.8	110.1	142.0
Interim Dividend	(101.6)	(21.5)	(28.6)
Total Shareholders' Equity	**779.6**	**852.4**	**932.3**

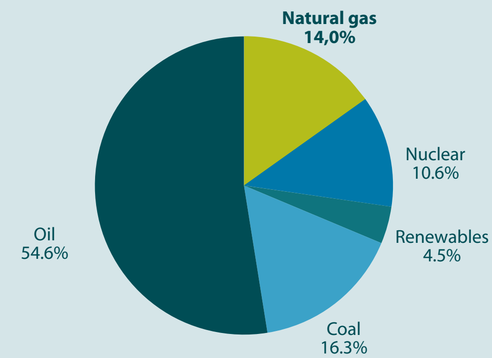
* The results are not comporable due to the change in the regulatory framework as of February 19th, 2002.

Operating Highlights

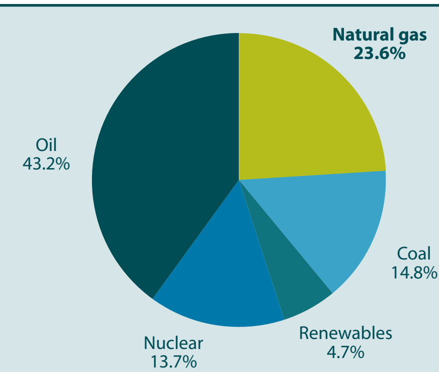
Natural Gas in Figures

At the end of 2002, natural-gas consumption accounted for approximately 14.0% of all primary energy consumed in Spain and was close to becoming the country's second-biggest energy source, after oil.

Although the progress and acceptance of natural gas as an energy source is obvious in Spain, it is still lower than it should be in the European Union, where natural gas made up around 23.6% of the primary-energy matrix in 2002.

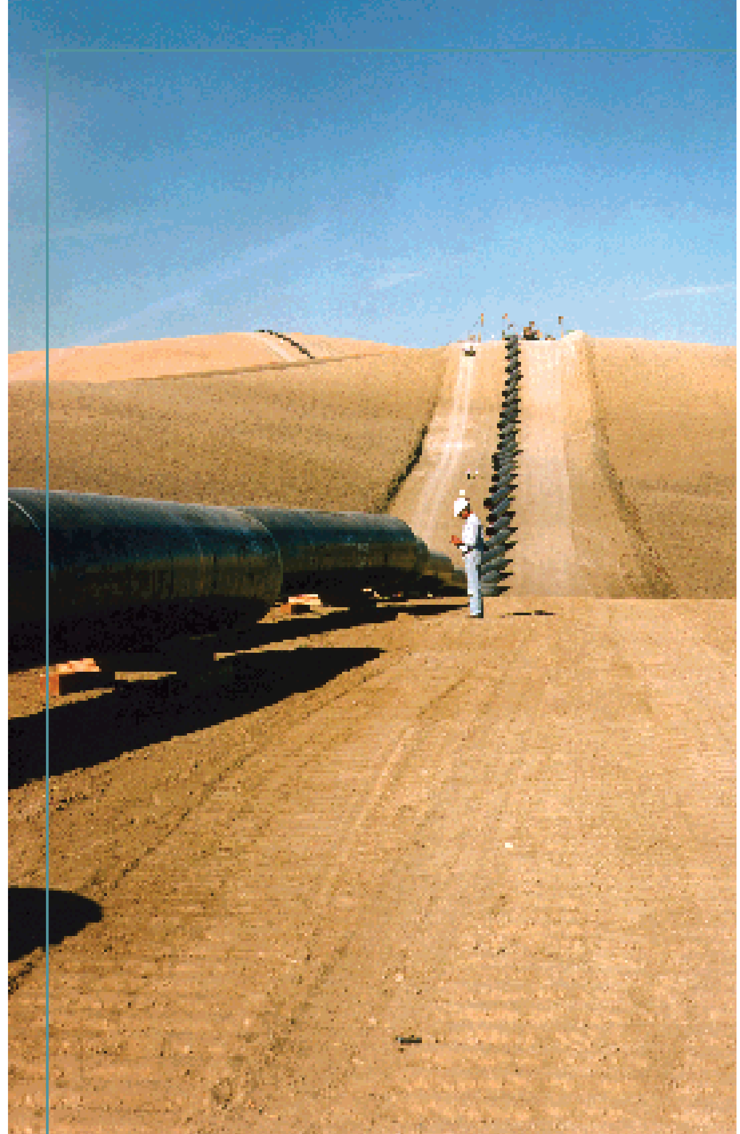


Total Primary-Energy Consumption in Spain in 2002



Total Primary-Energy Consumption in the EU in 2002

Natural Gas Demand



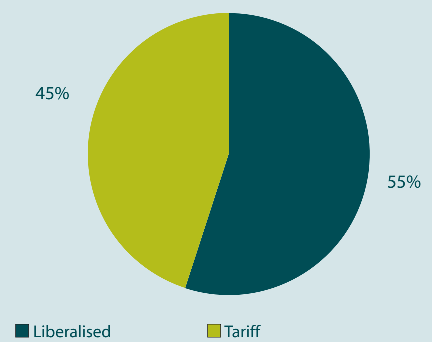
During 2003 the transported gas demand reached 275,238 GWh, up 13.2% with respect to the levels for 2002.

The rise in demand was especially significant in the month of February, when low temperatures made for peaks in demand that were 21% higher than those registered in 2002. On the other hand, the new infrastructure that was put into operation during 2003 enabled natural-gas service to reach out into new areas, with the resulting positive effects for society in terms of quality of life, security of supply and sustainable development.

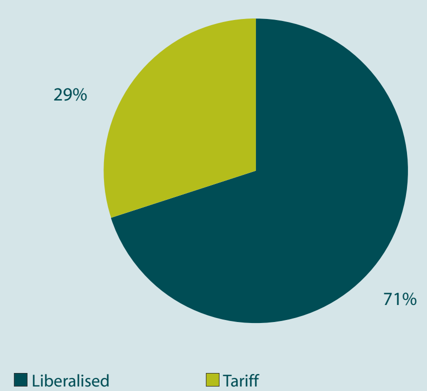
In 2003 29.3% of all natural gas was consumed by the tariff market, while the remainder was consumed by the liberalised market. In this latter segment, a major share of the natural gas consumed was used as an energy source for generating electricity.

GAS DEMAND TRANSPORTED (GWh)

	2002	2003	% Var.
January	23,940	26,004	8.6%
February	19,761	25,520	29.1%
March	19,448	23,349	20.1%
April	19,261	19,756	2.6%
May	19,351	20,189	4.3%
June	18,458	21,262	15.2%
July	20,309	22,923	12.9%
August	15,579	18,666	19.8%
September	20,568	22,343	8.6%
October	22,205	24,583	10.7%
November	22,435	24,636	9.8%
December	21,722	26,007	19.7%
Total	**243,038**	**275,238**	**13.2%**



2002 Market Share



2003 Market Share

Liberalised Market

The growth of the share that the liberalised market had over the total in 2003, makes Enagas a capital part of the natural-gas sector's liberalisation process.

In 2003 194,535 GWh were transported for the liberalised market. 85.1% of that amount went to the industrial sector, and the rest attended the demand for combined conventional-and-gas turbines (CCGT).

As of 31 December 2003, the transported gas demand in the liberalised market for the 12 combined conventional-and-gas turbines (CCGT) operating in Spain accounted for a total of 28,871 GWh of natural gas for generating electricity, which meant consumption was up 158% over the year before.

In 2003 10% of the electricity produced in Spain came from natural gas.

In addition to the growth in the transported gas demand for this segment, there are also environmental advantages to generating power using natural gas as a fuel; a CCGT plant, compared to an equivalent coal-burning power plant, reduces CO_2 emissions by around 40%, cuts nitrogen oxide (NO_x) emissions in half and practically eliminates sulphur dioxide (SO_2) emissions.

Tariff Market

During the course of 2003, a total of 80,703 GWh were transported for the tariff market, down 26.5% over the volume for 2002, as a consequence of the rapid liberalisation of the market.

Of this quantity, 86.4% was transported for the domestic, commercial and industrial sector, while the remainder was for conventional thermal power plants and tests in Bahia de Bizkaia Electricidad's two CCGTs.

LIBERALISED-MARKET DEMAND (GWh)	2002	2003	% Var.
Segments			
Industrial Market	122,000	165,664	35.8%
CCGT	11,192	28,871	158.0%
Total liberalised market	**133,192**	**194,535**	**46.0%**

TARIFF-MARKET DEMAND (GWh)	2002	2003	% Var.
Segments			
Conventional market	93,695	69,545	-25.8%
Electricity generation	16,151	11,158	-30.9%
Total tariff market	**109,846**	**80,703**	**-26.5%**

Natural-Gas Supply

"Supply", explains the purchase of natural gas by marketing companies, distributors or end customers for injection into the Spanish gas system. In 2003 natural-gas supplying added up to a total of 278,770 GWh, up 12.1% over the year before.

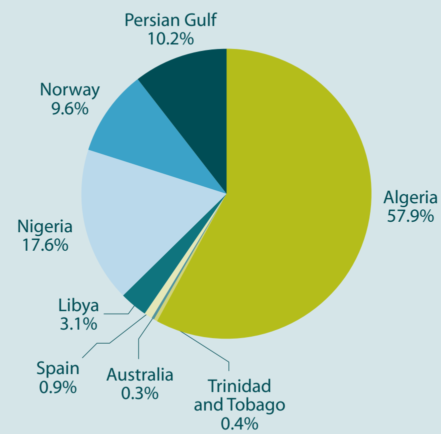
The vast majority of natural-gas supplying is done through imports from other countries. Sixty-two point eight percent of supplies arrive in the form of liquid natural gas (LNG), 36.3% through the international connections at Larrau and Tarifa, while the rest of the supply is produced in Spain in the form of natural gas at the Marismas, Palancares and Poseidón sites, which proved very useful for coping with peaks and modulating the demand.

SOURCE OF SUPPLY (GWh)

Country	2002	2003	% Var.
Algeria	141,813	161,558	13.9%
Persian Gulf	41,548	28,336	-31.8%
Norway	26,433	26,640	0.8%
Nigeria	18,695	49,070	162.5%
Libya	7,341	8,768	19.4%
Spain	5,831	2,529	-56.6%
Trinidad and Tobago	5,342	977	-81.7%
Australia	835	892	6.8%
Malaysia	922	-	-
Total supply	**248,760**	**278,770**	**12.1%**

Compared to previous years, there has been a greater diversification of supply sources, such that Algerian natural gas accounted for 57.9% of the total, and the natural gas consumed in Spain came from ten different countries.

Enagas centralises all natural-gas purchasing for the tariff market's supply, while marketers are responsible for providing for their own customers' needs in the liberalised market.



Sources of supply 2003

Activities

Enagas is respectful of the environment in everything it does and pays special heed to protecting the environment, its customers and the public in general.

Enagas holds environmental-management certificates attesting to its compliance with UNE-EN ISO 14001, issued by the Spanish Standardisation and Certification Association (AENOR) for all the Company's production units. Furthermore, in 2003 the Company presented successfully all the documentation for minimising and controlling the environmental impact stemming from its execution of finished infrastructure projects.

Regasification

Activity

Regasification is the business of converting natural gas in the liquid state, which is stored in tanks at temperatures of around –160ºC, to the gaseous state and pumping it into the National Pipeline Network.

Since Spain has few natural-gas reserves and international pipelines' capacity is limited, a major portion of Spain's gas supply is provided in the form of liquid natural gas (LNG). The Gas and Power Planning Document approved by the Council of Ministers in September 2002 calls for the Spanish supply system to be developped and assigns special importance to regasification terminals, with the goal of making the system extremely flexible in terms of operation and enabling the short-term sources of supply to be diversified.

Enagas owns and operates three of the four regasification plants existing in Spain. During 2003 the Company's regasification activity rose considerably with respect to the year before, and 62.8% of the natural-gas supply that reached the System's intake points came in form of LNG.

During the course of the fiscal year, a total of 383 methane tankers docked at the plants Enagas operates in Barcelona, Cartagena and Huelva, unloading 24.7 million m^3 of LNG, 13.8% more gas by volume than in 2002.

REGASIFICATION PLANT ACTIVITY

	2002		2003		% Var.	
	Ships	Mm³ LNG	Ships	Mm³ LNG	Ships	Mm³ LNG
Barcelona Plant	232	10.5	235	10.5	1.3%	-
Cartagena Plant	86	6.6	94	8.7	9.3%	31.8%
Huelva Plant	50	4.6	54	5.5	8.0%	19.6%
Total	**368**	**21.7**	**383**	**24.7**	**4.1%**	**13.8%**

LNG SUPPLY, TARIFF MARKET (GWh)

	2002	2003	% Var.
Barcelona Plant	37,456	16,748	-55.3%
Cartagena Plant	14,604	11,816	-19.1%
Huelva Plant	3,888	1,918	-50.7%
Total	**55,948**	**30,482**	**-45.5%**

LNG SUPPLY, LIBERALISED MARKET (GWh)

	2002	2003	% Var.
Barcelona Plant	31,905	55,214	73.1%
Cartagena Plant	29,299	45,976	56.9%
Huelva Plant	26,676	34,812	30.5%
Total	**87,880**	**136,002**	**54.8%**

A total of 166,484 Gwh were unloaded at Enaga's plants, 81.7% of which were for the liberalised market, and the remainder, for the tariff market.

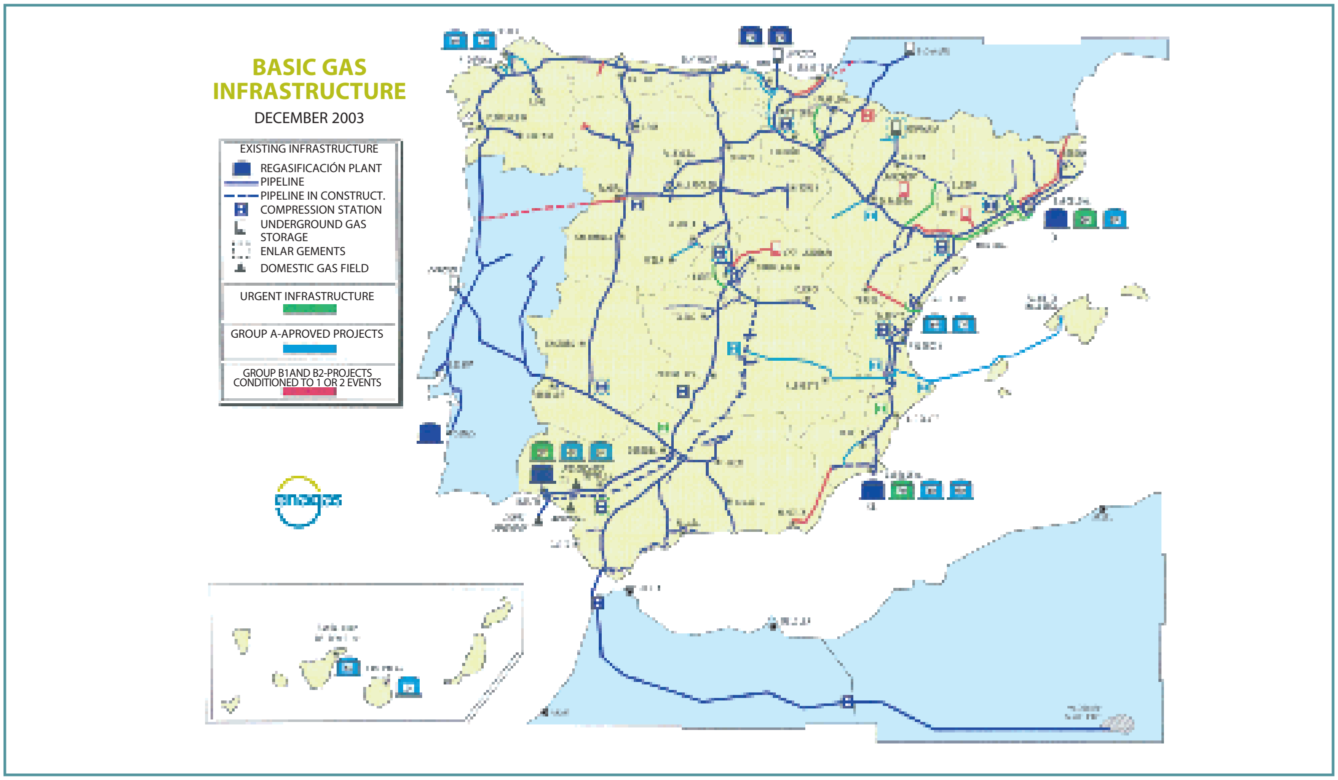
The rise in LNG as a means of supplying the liberalised market is due to the advantages LNG offers, the foremost of which are its flexible sources, its secure supply and its competitive price.

Investments

Of the 426.3 million euros Enagas invested in 2003, 29.2% went to the regasification business.

The most important infrastructure that the Company put into operation in this area was the methane-tanker berth at the Barcelona plant, which can now accommodate ships carrying up to 140,000 m³ of LNG in their holds.

The increase in emission capacity to 600,000 m³/h at the Cartagena plant was also made operational.



REGASIFICATION-PLANT CAPACITY

Regasification plant	Number of tanks	Storage capacity m³ LNG	Vaporisation capacity m³ LNG	Berthing capacity m³ LNG	Loading capacity tank trucks/day
Barcelona	2	40,000	600,000 (72 bars)	80,000	50
	2	80,000	600,000 (45 bars)	140,000	
Total		**240,000**	**1,200,000**		
Cartagena	1	100,000	600,000 (72 bars)	80,000	50
	1	60,000		140,000	
Total		**160,000**	**600,000**		
Huelva	1	105,000	450,000 (72 bars)	140,000	50
	1	55,000			
Total		**160,000**	**450,000**		
Total	**8**	**560,000**	**2,250,000**		**150**

NATURAL-GAS SUPPLY, TARIFF MARKET (GWh)

	2002	2003	% Var.
Tarifa	50,732	47,751	-5.9%
Larrau	—	—	—
Domectic	3,034	1,027	-66.1%
Total	**53,766**	**48,778**	**-9.3%**

NATURAL-GAS SUPPLY, LIBERALISED MARKET (GWh)

	2002	2003	% Var.
Tarifa	21,937	26,758	22.0%
Larrau	26,433	26,640	0.8%
Domestic	2,796	1,502	-46.3%
Total	**51,166**	**54,900**	**7.3%**

Transport

At the end of 2003, Enagas was managing 6,522 km of high-pressure gas pipelines, nine compressor stations with a total installed power of 137,410 HP and 280 regulation and measurement stations.

During 2003, pipelined natural gas accounted for 37.2% of the total supply. The Company's international connections at Larrau and Tarifa transported 101,149 GWh, a 2.1% increase over the year before. The transported natural gas of domestic origin came to 2,529 GWh.

Investments

Sixty-one per cent of the total investments made by Enagas in 2003, went to reinforce the Company´s pipelines network.

The most important transport-related assets that were put into operation in 2003 were:

- Collado-Hermoso-Turegano pipeline.
- Getafe-Cuenca outlet pipeline.
- Tarancon-Cuenca-Fuentes pipeline.
- Pipeline to the wells in Jaca.
- Partial duplication of the Algete-Manoteras pipeline.

Underground Storage

The storage business performs two main functions:

– Modulation and adjustment of supply and demand, smoothing out requirements of gas at consumption peaks caused by seasonal variations.

– Maintenance of certain minimum security stocks. These stocks are to ensure overall continuity and secure supply in case of disruption of supply fromone of the entry points.

Enagas has two underground storage facilities, the Serrablo facility in Huesca, which is owned by the Company, and the Gaviota off-shore platform in Vizcaya, which is owned by Repsol YPF and Murphy Eastern Oil and managed by Enagas.

During the course of 2003, to mould the natural-gas supply to fit the demand and deal with peaks in consumption, 737 million m^3 of natural gas were injected into the two facilities and 925 million m^3 were extracted, to cover all the System's operating needs.

UNDERGROUND-STORAGE OPERATING FIGURES					
Underground facility	Injection Capacity Mm³/day	Extraction Capacity Mm³/day	Injection 2003 Mm³	Extraction 2003 Mm³	Final Stocks 2003 Mm³
Serrablo	4.5	6.9	350	347	970
Gaviota	3.9	5.7	387	578	2,082
Total	**8.4**	**12.6**	**737**	**925**	**3,052**

Investments

New compressors were put into operation in the Serrablo Underground Facility in 2003, boosting the facility's extraction capacity by two million m³/day, and drilling on the Jaca 18 Well was concluded.

System Technical Management

During 2003 Enagas continued to develop the functions assigned to it as System Technical Manager, with the objectives of ensuring the continuity and security of the supply and smoothly coordinating all entry points, storage, transport and distribution in the gas system, acting always under the principles of transparency, objectivity, independence and non-discrimination. The Company's successful work in this area made that no significant incidents occurred with the other companies in the sector.

In addition, when the Bahía Bizkaia Gas regasification plant went into operation, it posed a significant challenge for Enagas as System Technical Manager, because for the first time the operation of a new plant owned by another gas-transport company had to be integrated into the gas system. The successful achievement of the objectives of this coordination showed just how important technical management is for making the system run smoothly.

Furthermore, there is a growing trend, which began to be seen in recent years, of generating electricity with natural gas. This source, which is expected to account for one third of all domestic demand by the year 2011, increasingly highlights how interrelated the gas system and the power system are. To respond accordingly, over the last year work intensified on coordinating operations between the managers of the gas- and power-transmission networks, Enagas and Red Eléctrica.

Contracting of Transport Services

In an operating climate of substantial growth and sector liberalisation, Enagas took steps in 2003 to ensure that new infrastructure would be in place to provide the best conditions to guarantee competitiveness, the access of new operators and adecuate supply.

The investment effort the Company made in previous years helped boost the Enagas system's capacity by 8% in

2003. In addition, Royal Decree 1434/2002 published on 31 December 2002 allowed the existing capacity to be optimised through the adjustment of contracted capacity to better suit marketing companies' real needs.

The application of Royal Decree 1434/2002 resulted in the liberation of 15 million m^3/day in April 2003, and after an elaborate process, the Company was able to attend to the pending requests for capacity from operators.

Enagas conducts such processes periodically, in compliance with additional provision four of the royal decree; thus, whenever there is not enough capacity available to satisfy a request from any agent, Enagas, in its capacity as System Technical Manager, contacts the holders of current contracts and inquires if they are willing to release capacity that they are not actually using. This way it sees to the real needs of marketing companies and optimises the system's capacity.

During the course of 2003, Enagas provided third-party network-access services to 12 marketers doing business on the liberalised market, under the 83 operations contracts the Company held with them. Of the aforementioned contracts that were good until 31 December 2003, nine were short-term capacity-reservation contracts, while the rest were for long-term capacity.

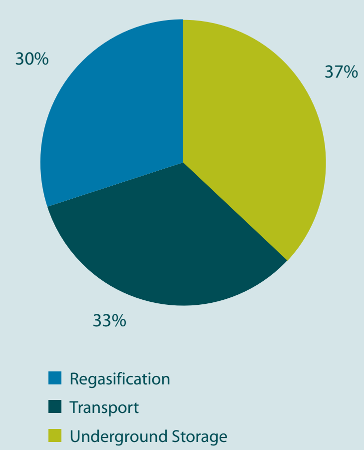
In addition, the Company supplied natural gas for the tariff market to all distributors and transport companies operating in the domestic gas market, so that the end demand of over 5 million users was provided for.

The strong growth of demand and the gradual liberalisation of the market will be key features for the sector again in future. In 2003 Enagas acquired 88 new commitments with different companies. It now holds a total of 141 contracts to render third party access to the network services (ATR) in the upcoming years, with a total of 18 marketers.

Seventy-eight percent of the contracts Enagas has subscribed are short-term capacity reservations, while the remaining 22% are for long-term capacity and account for 75% of the contracted capacity, in accordance with Royal Decree 1434/2002.

All the data on the capacity at Company facilities that is available and contracted by operators within a ten-year time span is posted and updated on a quarterly basis at Enagas' corporate web page.

In late 2003, as a consequence of the measures taken during the re-assignment process, there were no system-access conflicts and no requests for short-term capacity that had not been satisfied.



Contracts in force in 2003 by type

System Operation

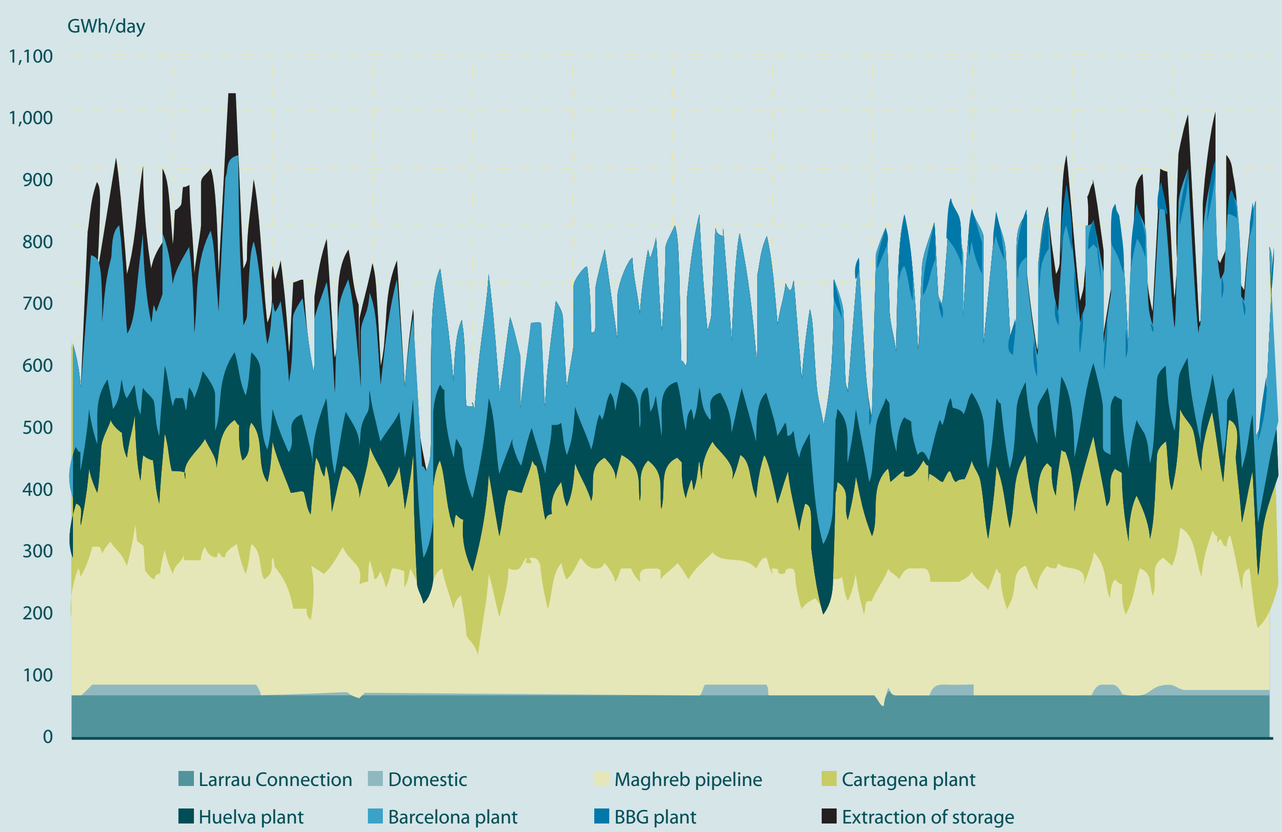
The Spanish gas system is operated, supervised and controlled continuously from Enagas's Main Control Centre.

The Centre receives daily information from all the agents in the system through gas-intake and -outtake programming, and with this information, the monthly operations plan is drawn up, with detailed daily planning for the entire Spanish gas system. With this plan, all the agents in the system are issued with the necessary instructions for the plan's execution.

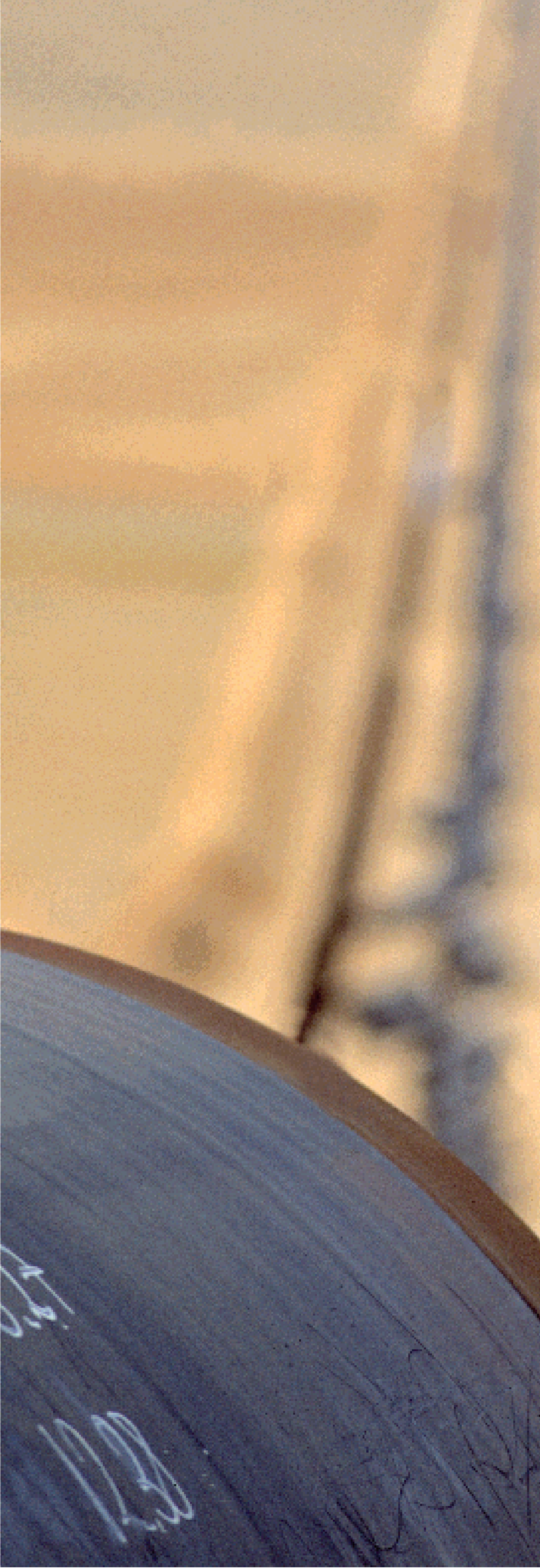
The CPC also receives continuous updates of all information pertaining to the system's operation, which allow it to adjust any deviations between real performance and programming. It detects possible glitches in the infrastructure network's functioning as well and coordinates the steps taken by the agents involved.

Thanks to the operations management the Main Control Centre provides, there was well-guaranteed, secure coverage of the deviations in demand resulting from weather variations in 2003.

Coordination of the natural gas coming into the system and being transported to delivery points was affected in



Structure of production 2003



2003 by two cold snaps that took place in January and February and by more-moderate-than-usual temperatures in the latter months of the year.

New historical peaks in demand were reached in 2003. The highest took place on 18 February, when 1,137 GWh were consumed, 21% more than on the highest day of the winter before. In addition, a record peak in demand was registered during the summer months, due to the major increase from electricity produced with natural gas and the higher consumption of this energy from air conditioners.

The higher growth in demand and the seasonal peaks mentioned above were successfully dealt with thanks to an optimal infrastructure management and the new assets put into operation during the year, which increased the total system's rated intake capacity to approximately 19% more than the fiscal year before (includes all the investments of the system, by Enagas or by others).

Thus, the average usage factor of the gas system, calculated as the quotient of the average volume of transported gas (gas sold plus gas injected in storage for later consumption) divided by the average rated transport capacity in 2003 was 75% in 2003.

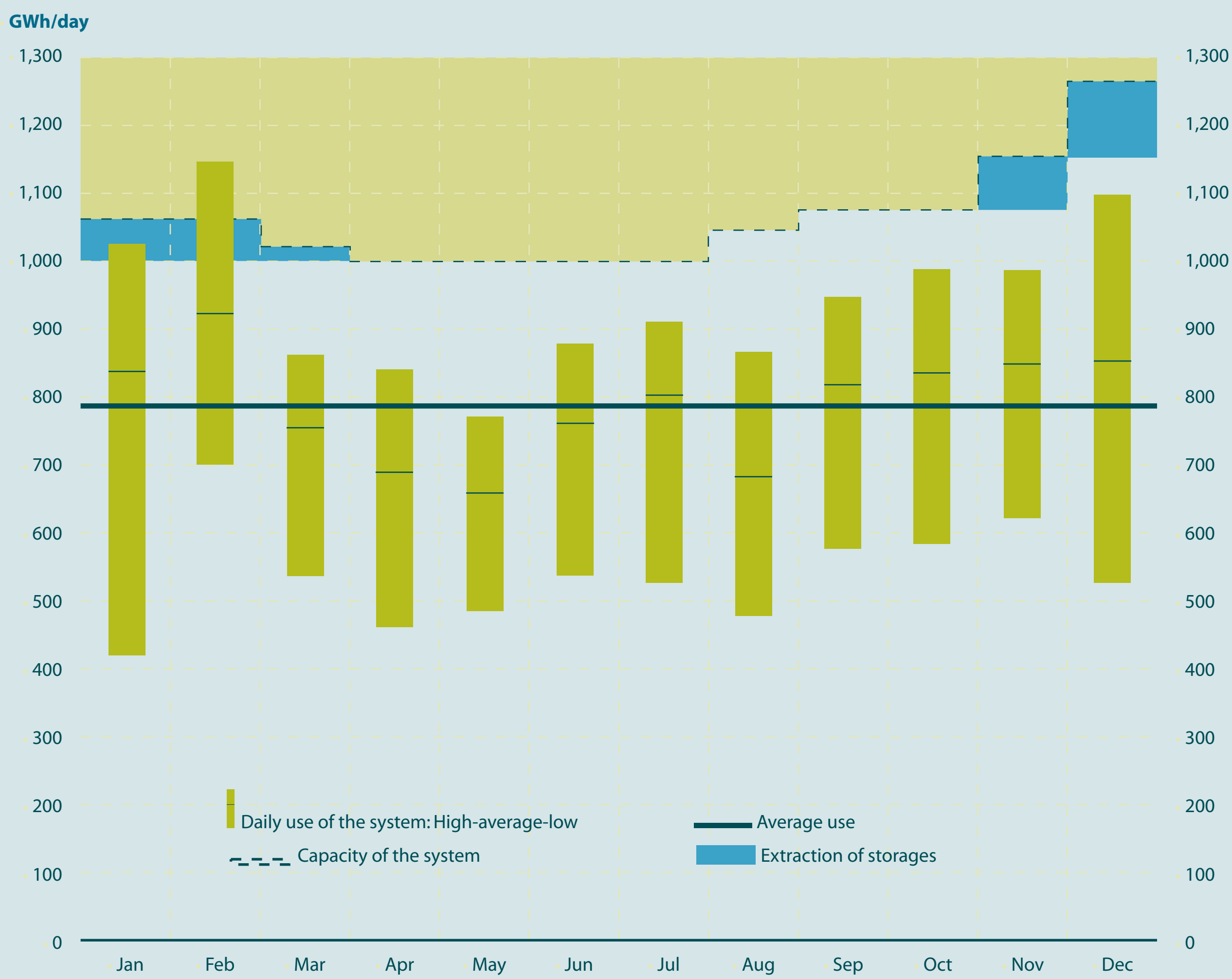
The evolution of system usage each month shows that new highs were reached. In February, when a cold snap hit and consumption spiked, vaporisers and turbocompressors that had been held in reserve were used, allowing the system to work in perfect conditions.

Purchase and Sale of Natural Gas

Enagas continued attend the needs of the tariff market during the last year.

In 2003 the Company purchased natural gas from suppliers for a total of 80,703 GWh, 26.5% less than in 2002, and sold it to the distribution and transport companies, that in turn serve those end customers who remain in the tariff market, as they did not opt to choose a marketer in 2003.

The selling or assignment price, which is set by the administration, reflects the cost of raw materials, the average cost of regasification and the cost of managing gas sales for the tariff market. This is therefore, a pass-through priced activity, in which Enagas holds no risk of raw material pricing, and for which it receives a regulated compensation.



Use of gas system 2003

Commitment to Society and Sustainability

Human Resources

In 2003 Enagas's activity in the human-resources area focused fundamentally on the responsible management of human capital, caring for employees' personal development in both operations and technological training, with the goal of responding to the gas sector's needs and the Company's strategic objectives.

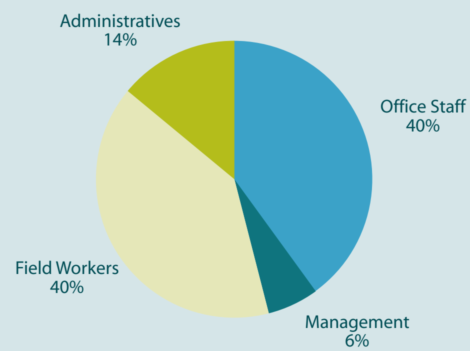
A number of specific programmes were started up in 2003 aimed at identifying and aligning human resources with the Company's objectives and strategy for both the long and the short term.

Organisation

The new organisational model approved by the Board of Directors in July 2003 for the General Manager of Technology, Engineering and the Environment office was introduced in 2003, in continuation of the drive to adapt the organisational structure to meet the fresh challenges facing Enagas.

No. of Employees by activity	2001	2002	2003	% Var.
Transport	335	338	327	-3.2%
Regasification	212	217	213	-1.8%
Storage	26	27	23	-14.8%
System management	35	39	41	5.1%
Gas sales	16	15	15	-
Corporate structure	189	206	216	4.8%
Other	44	42	43	2.4%
Total	**857**	**884**	**878**	**-0.7%**

The importance of this area, which is responsible for infrastructure development, is obvious, given the important Investment Plan that the Company's strategy calls for, which will enable the established path of growth to continue.



Workforce's composition by level 2003

Workforce

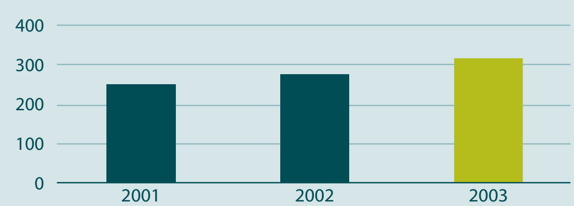
By late 2003 the Company had 849 permanent employees and 29 temporary employees. The temporary ranks had therefore been reduced by 0.7% over the year before.

As a result of the signing of the Thirteenth Collective Agreement in January 2003, Enagas undertook a workforce adjustment plan that included the early retirement of the 60-and-over employee group.

The average employee age in 2003 was 44.

The table below shows the distribution of the workforce by Company activity areas.

Enagas's management is comprised of mostly university graduates who have forged a long professional career, and most of whom have postgraduate titles. Ninety-three percent of the senior staff and technical staff are engineers or hold licentiate or mid-level degrees.

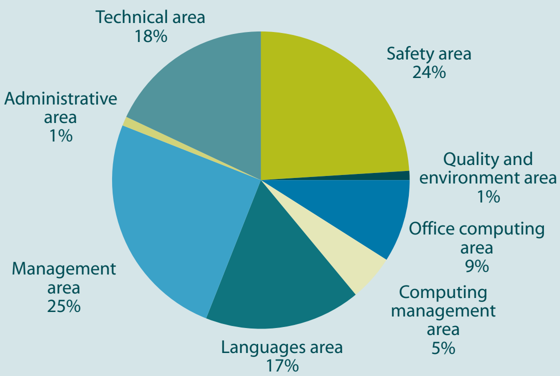


GWh Transported / No. of Employees

Operational Cash Flow per Employee

Efficiency

In 2003 the Company's efficiency ratios rose significantly. For example, the average employee-productivity ratio, measured in terms of transported demand, was 314 GWh



Distribution by training activities 2003

Training was an integral part of that. A total of 27,050 hours of training were provided under the Annual Training Plan, up 5.5% from the year before. This training was given in 192 courses and training activities designed for both groups and individuals.

Over the course of the year, 52 internships were given, 41% more than in 2002. The number and type of cooperation agreements involved remained the same as the year before.

Enagas also drew up and coordinated the Technical Assistance and Training Plan for Bahía Bizkaia Gas's new regasification plant in 2003.

per employee, 14.2% higher than in the previous fiscal year. The ratio of operating cash flow per employee went up to 15.8% over the figure for 2002.

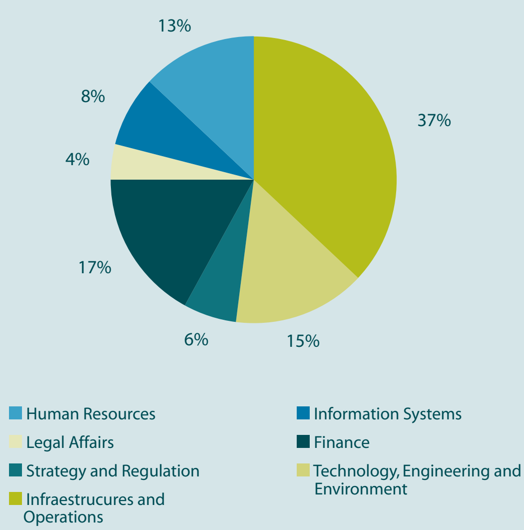
Training

All throughout 2003, the Company endeavoured to seek adequate means of development for all its employees.

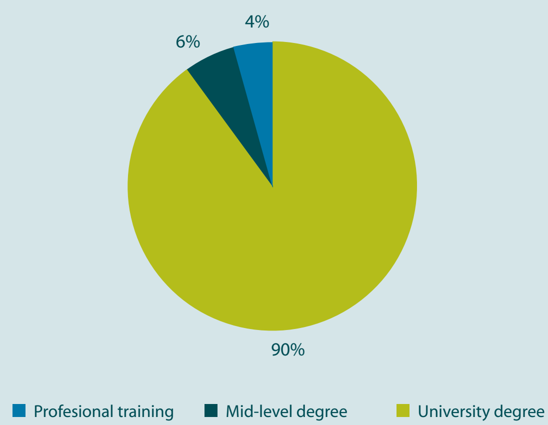
Commitment and initiatives by Human Resources

Ever since it was created in 1972, Enagas has upheld a firm commitment to be respectful of employees' human rights, in accordance with the Spanish Constitution, the rest of Spanish law and all international recommendations.

Aware of its social responsibility, Enagas is committed to supporting and respecting the rights of its employees, re-



Distribution of internships for Directions 2003



Distribution of workforce by degree

specting their freedom of association and their right to engage in collective agreements, and supporting the elimination of all kinds of forced, obligatory labour, the effective eradication of child labour and the elimination of all kinds of discrimination in employment and occupation.

Since 10 April Enagas belongs to the group of companies that signed the "Family-Accountable Company Certificate". This letter of intentions, promoted by the FEFN (Spanish Federation of Large Families) and by the Ministry of Social Affairs, distinguishes enterprises that have engaged in activities in support of the family and have taken measures to favour the reconciliation of family life and work.

Health and Risk Prevention

The introduction of Enagas's SIGPRI Risk-Prevention Management System was consolidated and expanded in 2003. The System pulls together all the items pertaining to employee safety and health dictated by the Occupational-Risk Prevention Act, activities concerning prevention and safety in regard to serious accidents (SGS), and management of the traditional industrial-security requirements set by regulation.

Thus the risk-prevention policy approved by the Steering Committee achieves across-the-board implementation and encompasses the entire organisation as a whole.

The new facilities put in operation throughout the year were designed in compliance with the applicable set of regulations, regulations that are becoming increasingly like those of the rest of Europe and are implemented through domestic and European technical and industrial-security standards.

In the realm of serious-accident prevention (Seveso II/CORAG Guidelines), the Company's regasification plants successfully passed their mandatory regulation inspections in 2003.

Frequency Index
Number of accidents leading to injuries and leave, per million manhours

The Self-Protection Plan and the Emergency Plan, which guarantee permanently updated maintenance of the procedures that are to be followed where necessary, are put into practice and subjected to annual review in the light of an activation measure group conducted for each. These are turned in to the proper authorities, who even witness or participate in the simulation.

The Direction of Human Resources manages in-house training in matters of security and prevention in coordination with the Risk-Prevention Department. In 2003, seizing the advantages posed by new technologies, the Company incorporated a prevention and security application in the Enagas Intranet. All employees can use this application to gain access to detailed information on how to prevent the risks involved in different occupational activities.

Formal employee participation in matters of safety and health continued to function through Enagas Prevention Officers, the four local committees set up under the applicable legislation and an Intercentre Committee on Safety and Health, set up under the aegis of the collective agreement.

Employee health is kept under constant medical surveillance; all employees are offered specific medical examinations that watch for the risks associated with their jobs, and there is close collaboration between occupational medicine and the other prevention specialities that make up the Company's own Prevention Service.

Specific expenditure on matters of safety and risk prevention during 2003 came to 1.5 million euros, up over 10% since the previous fiscal year. This expenditure was used mainly to maintain and improve safety systems, adapt job equipment, purchase individual protective gear, improve collective protection systems and put up signs and indicators.

Independently of that, all new facilities and improvements of existing facilities have intrinsic passive or active safety components built in. These components are factored right in to the cost of the investment in question.

Environment

Enagas's activities in 2003 ratified the Company's commitment to make current economic development compatible with the conservation of natural resources, so as to guarantee that resources will be there for future generations.

For this reason, the Company publicly subscribed in 2003, through the United Nations' Global Compact, the principles of respect and preservation of the environment as one of its basic criter a on which to ground its decisions and action.

This commitment is embodied in the Company's environmental policy, which comprises a set of principles whose primary mission is to guarantee that any activity or facility that Enagas is involved in will be completely environmentally friendly throughout its useful life.

Environmental management at Enagas

Putting into practice each and every one of the principles in the environmental policy requires an organisational structure. At Enagas, this structure has two fundamental levels. First, there is the Environment Committee, made up of the Company's executive management, which defines the basic guidelines of operation. Second, there are the Environment Groups, which are the bodies in charge of carrying out the guidelines.

The Quality and Environment Unit coordinates between these two levels, ensuring at all times that the requirements defined in the environmental policy are met.

This structure plans and coordinates all efforts of an environmental nature, making management a responsibility that is shared by everyone in the organisation.

The outcome of environmental management is a series of rules and procedures that guarantee an awareness and exhaustive supervision of environmental aspects and measures to minimise and correct adverse effects on the environment.

During the course of 2003, 1,880.2 tons of hazardous wastes were handled under the Company's waste-supervision scheme and 240.6 tons of recyclable wastes were recovered.

Furthermore, strong efforts were made during the year to consolidate the supervision of two key aspects of Enagas's activity: emissions of natural gas into the air and consumption of energy-producing resources.

During 2003, the emissions of CO_2 for every GWh of gas transported were 1.27 tons, which means a 8.3% decrease with respect to the same figures for 2002, indicating a higher energy efficiency in the whole transportation facilities of the Company.

Methane emissions are produced in some activities of Enagas facilities. In 2003 these emissions represented 0.07% over the total gas transported, which means a considerable reduction with respect to the same figures for 2002.

The effort that went into introducing environmental-management techniques at each and every one of the Company's facilities earned outside acknowledgement with the certification of the applicable environmental-management by AENOR for compliance with ISO 14001 standards.

Environmental management in projects

Enagas paid close attention to the planning and design of all projects in 2003, orienting their development and execution towards environmental protection. The foremost objective was to achieve full integration of construction activities with the environment.

While works are in progress, they are kept under environmental surveillance to ensure compliance with the measures taken in the design stage, by means of techniques for tracking and controlling the different environmental variables, returning the landscape to its original state, replanting the area and improving the affected habitats.

The end result of this entire process is to minimise environmental impact at all stages of the project, which results in greater environmental integration of works and guarantees that the land in question remains as if untouched.

During the course of 2003, these techniques were applied to 422 kilometres of pipelines and their concentrated facilities. A total of 7,071,328 m^2 of land was returned to its original state.

Environmental investments

The sum of 0.86 million euros was invested in the introduction and tracking of the Environmental-Management System in 2003, while investments in the environmental area came to 8.9 million euros. These investments were fundamentally put into construction activities, such as returning landscape to its original state, replanting vegetation, conducting environmental impact studies, and others.

Participation in National and International Organisations

Enagas regards it as very important to participate in gas-sector associations, entities and organisations, both directly and through national and international associations, so as to expand and round out the Company's knowledge and have the opportunity of participating in the kinds of decisions such institutions take.

SEDIGAS (Spanish Gas Association)

SEDIGAS is made up of enterprises (companies doing business in gas transport, distribution, marketing, installation, etc.) and professionals holding an interest in the development of the natural-gas sector in Spain.

It represents the Spanish gas industry in dealings with a range of public and private organisations and international institutions. In addition, it is involved in activities in the areas of standardisation, training, professional certification, publications and support for the administration in the drafting of legislation related with the sector.

ENERCLUB (Spanish Energy Club)

Made up of over 150 energy firms, similar firms and individuals. Its foremost objective is to facilitate the dissemination and formation of ideas concerning the transformation, production, transport, consumption and storage of the different types of energy, the more rational use of energy and its influence on environmental preservation and sustainable development. ENERCLUB's activities focus fundamentally on the management of energy knowledge and specialised, sector-specific training.

GTE (Gas Transmission Europe)

GTE is an organisation of the leading European natural-gas transport companies.

This association works to promote the security and reliability of transport systems, and hence to facilitate cross-border gas transport. It contributes actively to the establishment of a stable regulatory framework for the sector and represents the interests of transport-network operators in European institutions.

EASEE-GAS (European Association for the Streamlining of Energy Exchange-Gas)

Made up of some 80 members (producers, retail suppliers, transport companies, distributors, service providers and end users), EASEE-GAS was created and driven by the GTE to promote common codes of good practice, to simplify and streamline the processes involved in gas transactions amongst members and, as its ultimate objective, to achieve an efficient, effective gas market.

GERG (Groupe Européen des Recherches Gazières)

Made up of the leading European gas enterprises, GERG coordinates research and technological development in the field of gas in order to hone competitiveness, ensure the supply of gas, protect the environment, boost energy efficiency and safety and reduce the costs of gas production, transport, storage, distribution and use.

e-GASGRID

Made up of nine European partners, all gas-transport firms, consultancies, engineering firms and research institutes, e-GASGRID was founded under the auspices of the European Commission with the object of performing research and providing technical support in activities related with the management of security in European gas networks.

MARCOGAZ

Marcogaz's objective is to follow up and participate in the drafting of legislation, standards and European certification processes that involve safety, rational energy use and protection of human beings and the environment in the fields of gas transport, distribution and use.

EUROGAS

Made up of the leading European gas associations and enterprises, Eurogas pursues the objective of promoting the scientific, economic, legal and technological development of the natural-gas industry in Europe through co-operation amongst gas industries and the taking of positions on issues of common interest.

GII GNL (Groupe International d´Importateurs de Gaz Naturel Liquifié)

A group of over forty enterprises from around the world, all directly involved in the LNG (liquid natural gas) industry. GII GNL's primary objective is to promote activities related with LNG, such as purchasing, importing, transport by sea and regasification.

IGU (International Gas Union)

Made up of the gas associations representing the national industries of some 60 countries around the world, IGU studies problems related with the gas industry. Its goal is to boost the industry's development both technologically and economically by fostering cooperation and the sharing of experience by the gas technicians of the countries in the Union.

UNECE

This organisation is made up of representatives of the governments of over 40 countries belonging to the UN Economic Commission for Europe and gas technicians acting in an advisory role.

Enagas engages in the UNECE's Gas Working Groups, where it works with technicians from other countries in specific gas-industry matters.

In addition to participating in associations that focus specifically on its sector, Enagas belongs to many other institutions and groups involved in quality, maintenance, occupational-risk prevention, standardisation and other issues.

Technological Innovation

Enagas requires sizable technological capacity and untiring innovation in its business. The Company laid down a general R+D policy framework for boosting technological innovation, so as to increase service quality, reducing the costs of building, operating and maintaining facilities while making the gas-transport business run smoothly with the environment.

In 2003 the Company's laboratories successfully earned ISO17025 accreditations from ENAC.

Investments in R+D+I projects totalled 0.9 million euros in 2003.

Projects

Liquid Natural Gas

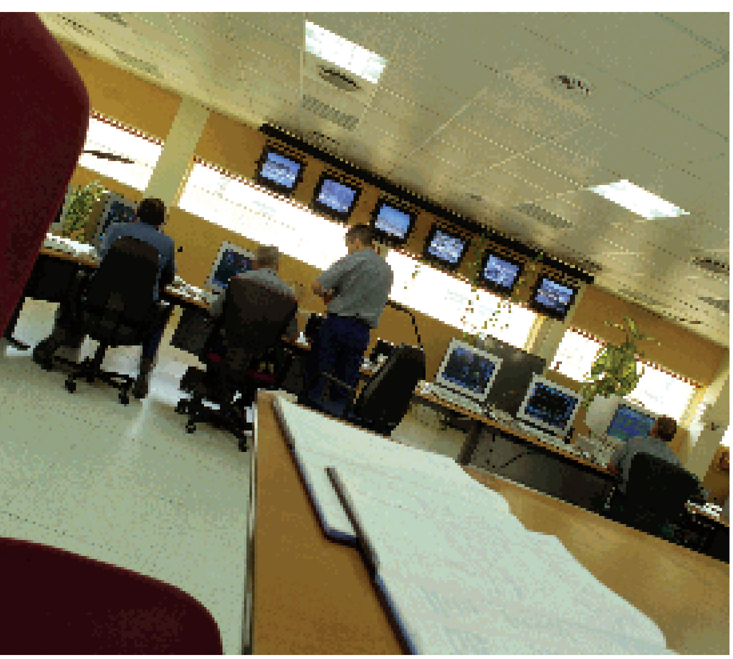
Two thousand and three was the end year for the project entitled “Operational Safety of Liquid Natural Gas Tanks”, whose object was to develop a tool to simulate the behaviour of LNG in storage tanks. This computerised tool was tailored to mimic the characteristics of the Barcelona plant.

Operations Area

The “Patrones” (Patterns) and “Nivel-1” (Level 1) programs were successfully finished. These programs enable predictions of demand to be made taking into account economic factors, and the results to be grouped geographically.

General Studies Area

Two projects were finished during the year, “Calorific Properties of Natural Gas” and “Trace Components of Natural Gas”, aimed at calculating the thermal and caloric properties of natural gas or LNG and quantifying their components.



A new version of the Progas software was developed in 2003 as well. Progas is a computer application for calculating the physical and chemical properties of natural gas and LNG. This new version boasts four independent modules that incorporate methods and rules for calculating properties related with metering, transport, quality and LNG.

Flow-Metering Area

Enagas participated in two projects in new technologies as a member of GERG during the year: Metering by Ultrasound and Metering by the Coriolis Effect. These two technologies stand at different stages of development, and expectations are good with regard to their gradual application to metering the flow of gas in transport.

Information Systems

In 2003 the Company’s information systems were put through an audit stemming from the application of the Organic Act on Data Protection, as dictated by that same law.

A new outsourcing contract went into production during the year for the supervision, operation and maintenance of the entire Enagas information-systems infrastructure, plus the infrastructure’s user support.

The outsourcing move is wide in scope, including optimum management of service quality, and it will enable the Company to achieve an important cost savings, make services faster and more flexible by tailoring them to suit its needs, and at the same time significantly augment productivity and security.

Also during 2003, the new CPD Information-Systems Data-Processing Centre was started up, and the old centre moved into its new facilities, making it possible to boost the security, productivity and availability of computer systems.

Systems for the liberalised market and measure management

Given the gradual liberalisation of the gas market and the new requirements for information about invoice liquidation and the movement of gas through the system as a whole, Enagas made a serious effort in 2003 to adapt its Business Systems accordingly, fundamentally focusing on its ATR Logistics System.

Tests were also got underway on the connection between the ATR Logistics System (in the Technical Manager function) and the equivalent Distribution Systems (SCTD), for the electronic exchange of information (contracting, appointments, deliveries, etc.).

Automatic converter- and chromatograph-reading applications were developed in 2003 that make for improved data-gathering; with their use, errors in manual data entry are avoided, and data are made available to the Company more quickly.

Mention must also be made of the start-up of the SLM Reading and Metering System, which feeds the Business Systems the figures on gas volume and quality for all Enagas infrastructures.

Intranet

Another important step forward in 2003 was the introduction of the Intranet in Enagas.

One of the things available on the Intranet is an employee self-service function that reduces administrative costs by providing electronic approval procedures together with a document data base that contains all the company-wide and departmental rules and procedures.

Control panel

An executive-level corporate-information application called "Cuadro de Mando" ("Control Panel") attained first-stage implementation. This application gives monthly tracking of the Company's basic management indicators.

Technological renovation of systems

A healthy pace of investment was maintained in 2003, with the objective of endowing the Company with the right technical and systems infrastructure to face the challenge of modernisation and growing activity. Forty-one percent of the microcomputer pool was therefore renewed, in view of technical and economic criteria.

The corresponding versions of the operating systems and software for managing support systems were also updated.

Enagas clearly believes in open systems and, whenever functionally advisable, the use of packages. It has greatly extended its utilisation of modules from the SAP solution.

Social Action

Enagas is aware of the importance of orienting its activities with an entrepreneurial thought that allows economic results to be compatible with respect for the environment and social responsibility.

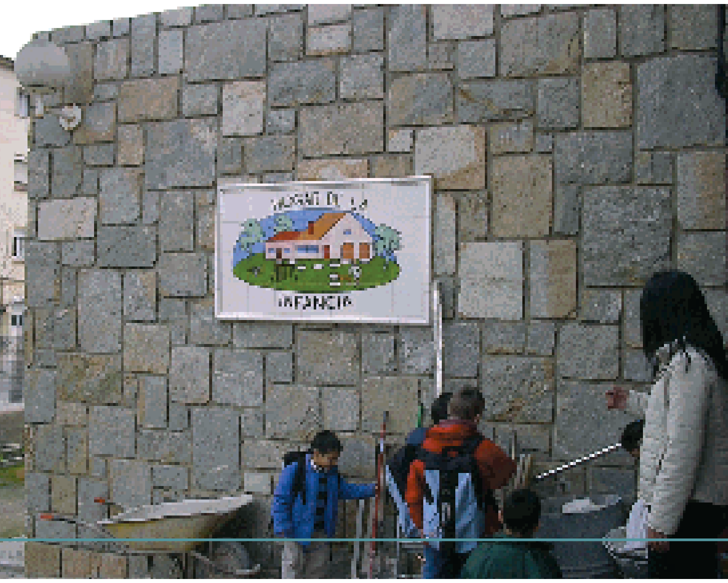
Therefore, in 2003 Enagas put in place some actions related to cultural Sponsorship, social action and the conservation of the environment.

Sponsorships and cooperation

Enagas worked with a number of organisations and institutions to address the requirements of especially needy groups during 2003.

The Company gave donations to improve the facilities at the Cartagena Children's Home run by the Congregation of the Daughters of Charity of San Vicente de Paúl, and it signed a Framework Cooperation Agreement with the government of the city of Palos de la Frontera, Huelva, to help out with work to improve the living conditions of the elderly in the Juan Pablo II Senior Citizens' Home.

Enagas is aware of the importance information technologies have in the education and integration of new gener-



ations and persons with disabilities, and that is why it made a number of donations of computer equipment in 2003. Some of the leading work the Company did in this area was with Aspanis (a Palencian association that works to favour the mentally handicapped), the Polibea, S.L., Special Employment Centre in Madrid for adults with cerebral palsy and two public schools in the Madrid region (La Cigüeña in Rivas Vaciamadrid and María Auxiliadora in Majadahonda).

As a company that feels itself to be a part of society, Enagas continues to support initiatives aimed at improving economic development and introducing the social values of respect and defence of human rights in the community. For that reason, in September Enagas cooperated with the ASE association (Acción Social Empresarial, or Social Action by Business), which fosters the development of a business structure that is better, socially speaking, for human beings.

In the realm of culture, Enagas lent its cooperation to the Royal Theatre of Madrid's Lyric Theatre Foundation and gave economic support for cultural activities to the local governments of Alumbres (in Murcia) and Yela (in Guadalajara).

Sustainable Development

In 2003 Enagas signed on to the United Nations' Global Compact, whose objective is to foster a series of universal principles in the realm of human rights, labour standards and the environment. These are the nine principles:

Principle No. 1: Enagas should support and respect the protection of internationally proclaimed human rights within its sphere of influence.

Principle No. 2: It must make sure that it is not complicit in human-rights abuses.

Principle No. 3: Enagas upholds the freedom of association and the effective recognition of the right to collective bargaining.

Principle No. 4: It upholds the elimination of all forms of forced and compulsory labour.

Principle No. 5: Enagas upholds the effective abolition of child labour.

Principle No. 6: Enagas upholds the elimination of discrimination in respect of employment and occupation.

Principle No. 7: Enagas will support a precautionary approach to environmental challenges.

Principle No. 8: Enagas will undertake initiatives to promote greater environmental responsibility.

Principle No. 9: Enagas will encourage the development and diffusion of environmentally friendly technologies.

Corporate Governance

Enagas, faithful to its commitment to comply and advance beyond the current good-governance standards and recommendations that bear on listed companies, taking all the measures laid down by the new laws. It has reformed its internal regulations and, even before this measure became mandatory, Enagas crafted a demanding self-regulation as an embodiment of its commitment to transparency, equal treatment for all shareholders and its concept of information as an extremely valuable asset.

Enagas delivered the financial-system reform measures called for in Act 44/2002 in two phases:

- First, the Annual General Meeting of Shareholders of 25 April 2003 resolved to amend the Company Bylaws by adding two new regulatory articles, one on the Audit and Compliance Committee (as established in article 47 of Act 44/2002, settling points such as the Committee's organisation and operation, composition and assigned powers) and the other on the Appointment and Remuneration Committee (to make the criteria used in the rules regulating the two committees more uniform, and to put those rules in the same place in the Bylaws).
- Second, in its meeting of July 2003, the Board of Directors approved a new Internal Code of Conduct on matters relating to the securities market. The new code incorporates the terms set down in the provisions of Act 24/1988 on the securities market, amended by Act 44/2002.

The following are the most significant amendments:

a) Incorporation of a chapter on the regulation of privileged information and relevant information, on standards of conduct in relationship with such information and on the standards for action prescribed in relationship with the free formation of prices.

b) Exhaustive regulation of the related parties, conflicts of interest and the duty that binds the Company and affected persons to act whenever related operations may involve conflicts of interests. Also the functions of the committees of the Board in relationship with these matters.

c) Obligations to provide the market with periodic information.

Act 26/2003 on transparency of listed corporations took force on 18 July 2003, but the event merely highlighted the head start Enagas had got on most of the obligations dictated by the new law before it rendered mandatory.

- General Shareholders' Meeting Regulation. The General Meeting of Shareholders in Enagas held on 25 April 2003 resolved to approve a regulation for the General Meeting so that all shareholders could familiarise themselves with the basic rules the Meeting is subject to, for a better exercise of the information and voting rights to which they are entitled.

  Many of the measures contained in the regulation approved at that General Meeting in 2003 were actually got underway earlier, when the Meeting was being prepared and organised. For example, the announcement of the Meeting was published with more in-depth publicity than the law calls for; the full contents of the motions scheduled to be submitted to the General Meeting were made available to the shareholders, along with an explanation and justification of the motions.

  Minority shareholders were encouraged to participate by putting questions to the Board of Directors; and a corporate-governance report was drawn up and included in the Annual Report for fiscal 2002, containing detailed information about how the Company's governing bodies function and about transactions that the Company had engaged in with related parties or that could imply conflicts of interest.

  The announcement of the General Meeting, the full text of the motions submitted to the General Meeting and the Corporate-Governance Report were reported to the National Securities Market Commission as relevant facts.

- Board of Directors Organisation and Operation Regulation

  The Board of Directors approve in its meeting of July 2002, a new Board of Directors Organisation and Operation Regulation, which was also reported as a relevant fact to the National Securities Market Commission.

  The Board of Directors Regulation was written following the recommendations given in the Olivencia Code and the Aldama Report. Certain aspects were accorded special weight, such as the establishment of certain demanding duties for directors, the regulation of the Board of Directors' committees, the assignment to the committees of a series of functions and powers designed to reinforce the guarantees of objectivity with which the Board should approach certain questions, and a regulation on the remuneration of the members of the Board of Directors that is in accordance with the times.

  In this respect, Enagas is again getting a head start on legislation: In the chapter on corporate governance in its 2002 Annual Report, the Company gave quantified information on the overall remuneration received by the Board of Directors during that fiscal year.

- Web Page

  Before it became mandatory by law, the Enagas web page (www.enagas.es) already posted all information required by the ECO/3722/2003 Order, in the chapters denominated as " Who we are" and " Investor Relations".

But Enagas does not merely comply with the terms of the rules mentioned above; it strives to offer its shareholders closer and better tracking of all good-governance recommendations. That is why it has taken the series of measures detailed below.

- On February 2004 a new Board of Directors Organisation and Operation Regulation was approved, which replaces the text approved on 9 July 2002, introducing all the improvements dictated by law and advocated by existing

recommendations on the subject. The novel features that the new text incorporated are fundamentally these:

a) Adaptation of the regulation governing the Audit and Compliance Committee and the Appointment and Remuneration Committee, so that it abides by Act 44/2002 reforming the financial system and more recent trends in the corporate-governance area.

b) Rewriting of the sections concerning the duties of directors, to adapt the text to the modifications introduced by Act 26/2003 on transparency.

c) Redefinition of the types of directors.

d) Systematic organisation of the definition of the functions of the Board, differentiating between objectives and functions, and grouping functions according to their nature.

e) Rewriting of the regulation governing relations with shareholders, to adapt it to the terms set down in Act 26/2003 regarding public applications to represent shares and the information to be furnished to shareholders. This was all addressed with the proposal of the new General-Meeting Regulation.

- Furthermore, the Audit and Compliance Committee's own Organisation and Operation Regulation was approved on February 2004, to make the committee's operation vis-à-vis the Board of Directors even more independent. This regulation includes detailed rules on the composition and functions of the Audit and Compliance Committee.

- The Enagas Board of Directors will propose to the General Meeting of Shareholders scheduled for 30 April 2004 a new text for the General-Meeting Regulation, so as to adapt the existing regulation to the latest new terms established in Act 26/2003 of 17 July.

  The main changes the new text introduces involve a reorganisation and an implementation of shareholders' rights of information, attendance, voting and representation, for the sake of greater transparency in the Company.

  The intention in that as of the upcoming General Meeting scheduled for 2005, Enagas shareholders will be able to exercise their vote or give their proxy by post, e-mail, in the Shareholder Attention Office or through any other means of remote communication that meets security requirements.

  Similarly, shareholders will have more and better means at their disposal for obtaining information about the business on the agenda for the General Meeting, because the directors' obligation to provide information is extended to include the days following the General Meeting.

- The Annual Corporate-Governance Report for fiscal 2003 was approved by the Board of Directors and was put together according to the guidelines established in Order ECO 3722/2003.

  It contains data and information concerning the ownership structure of the Company, the structure of the Company's administration, transactions with related parties, risk-control systems, the General Meeting of Shareholders and the amount of tracking done on good-governance recommendations, in keeping with legal and regulatory requirements.

The effort made by the Board of Directors of Enagas (and its Appointment and Remuneration Committee and Audit and Compliance Committee), by the executive management and by all the Company's staff to pursue the primary objectives of inspiring shareholder confidence, striving to inform shareholders with the greatest transparency and fairness possible and increasing the Company's value on the markets, and the achievements made in this direction encourage Enagas to continue adapting to new recommendations and rules as they emerge, true to the commitment it shouldered when it joined the ranks of listed companies.

Annual Accounts

PRICEWATERHOUSECOOPERS

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A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Enagas, S.A.

We have audited the consolidated annual accounts of Enagas, S.A. and its subsidiaries consisting of the consolidated balance sheet as at 31 December 2003, the consolidated profit and loss account and the related notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the parent Company's Directors has presented, for comparative purposes only, for each item of the consolidated balance sheet, the consolidated profit and loss account and the consolidated statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2003. Our opinion refers exclusively to the consolidated annual accounts for 2003. On March 3, 2003, we issued our audit report on the 2002 consolidated annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for the year 2003 present fairly, in all material respects, the consolidated financial position of Enagas, S.A. and its subsidiaries at December 31, 2003 and the consolidated results of its operations and its source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying consolidated Directors' Report for 2003 contains the information that the parent company's Directors consider relevant to the Enagas, S.A. and its subsidiaries position, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the consolidated annual accounts for 2003. Our work as auditors is limited to checking the Director's Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the group companies' accounting records.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

R. Oscar Yebra Cemborain
Partner

February 20, 2004

CONSOLIDATED BALANCE SHEETS FOR ENAGAS GROUP AT 31 DECEMBER 2003 AND 2002
(Thousand euros)

Assets	31.12.03	31.12.02
FIXED ASSET	**2,649,442**	**2,363,043**
Formation expenses	**5**	**5**
Intangible fixed assets	**10,898**	**9,724**
Research and development expenses	13,684	12,739
Concessions, patents, licenses, brands and similar items	7,892	7,267
Software	9,439	6,944
Amortisation	(20,117)	(17,226)
Tangible fixed assets	**2,603,170**	**2,316,647**
land and buildings	75,924	73,708
Plant and machinery	3,181,862	3,029,109
Other installations, tooling and furnishings	11,375	10,948
Prepayments and assets in course of construction	479,959	220,229
Other fixed assets	21,893	21,464
Provisions	(9,845)	(11,352)
Depreciation	(1,157,998)	(1,027,459)
Investments	**35,369**	**36,667**
Loans to group companies	26,477	29,398
Long-term investment portfolio	1,338	1,500
Other loans	604	757
Long-term deposits and guarantees	587	616
Provisions	—	(312)
Public entities, long-term	6,363	4,708
DEFERRED EXPENSES	**20,181**	**20,752**
CURRENT ASSETS	**423,423**	**511,940**
Inventories	**2,407**	**2,427**
Raw materials and supplies	2,407	2,427
Debtors	**403,967**	**501,089**
Trade debtors for sales and services rendered	98,571	99,098
Group companies, debtors	1,575	1,382
Associated companies, debtors	100,828	91,324
Sundry debtors	159,822	284,818
Staff costs	216	212
Public entities	44,499	25,866
Provisions	(1,544)	(1,611)
Current asset investments	**6,776**	**3,625**
Loans to group companies	3,782	3,625
Other loans	2,994	—
Cash in hand and at bank	**2,100**	**875**
Prepayments and deferred income	**8,173**	**3,924**
TOTAL	**3,093,046**	**2,895,735**

CONSOLIDATED BALANCE SHEETS FOR ENAGAS GROUP AT 31 DECEMBER 2003 AND 2002.
(Thousand euros)

Liabilities	31.12.03	31.12.02
CAPITAL AND RESERVES	**932,359**	**852,363**
Share capital	358,101	358,101
Revaluation reserve	342,505	342,505
Legal reserve	70,842	60,060
Voluntary reserves	43,997	1,992
Rsrvs at companies cons, using the proportional method	3,543	1,120
Consolidated profit	142,019	110,071
Interim dividend	(28,648)	(21,486)
DEFERRED INCOME	**451,227**	**476,140**
Capital grants	399,003	415,636
Other deferred income	52,224	60,504
PROVISIONS FOR LIABILITIES AND CHARGES	**4,737**	**2,087**
Other provisions	4,737	2,087
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YR	**1,255,467**	**235,921**
Bank loans	**1,215,311**	**190,775**
Loans from group and associated companies	**8,469**	**8,469**
Loans from associated companies	8,469	8,469
Other creditors	**31,687**	**36,677**
Other loans	29,589	34,350
Public entities, long-term	2,098	2,327
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YR	**449,256**	**1,329,224**
Bank loans and overdrafts	**24,945**	**1,015,975**
Loans from group and associated companies	**146,845**	**156,977**
Group companies	2,801	2,031
Associated companies	144,044	154,946
Trade creditors	**212,837**	**107,254**
Amounts payable for purchases and services received	212,837	107,254
Other non-trade debts	**64,629**	**49,018**
Taxes and social security payable	28,623	20,622
Other debts	5,820	4,973
Dividend payable	28,648	21,486
Outstanding wages and salaries	1,442	1,841
Short-term wages and salaries	96	96
TOTAL	**3,093,046**	**2,895,735**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(Thousand euros)

Expense	31.12.03	31.12.02
EXPENSES		
Raw materials and supplies	**1,037,913**	**1,344,959**
Consumption of raw materials and other consumables	1,030,569	1,336,275
Other external expenses	7,344	8,684
Staff costs	**58,014**	**53,034**
Weages, salaries and similar	42,681	39,657
Social welfare expenses	15,333	13,377
Fixed asset depreciation/amortisation	**133,612**	**126,499**
Change in trade provisions	**(67)**	**62**
Other operating expenses	**133,369**	**139,422**
External services	131,365	137,720
Taxes	2,004	1,702
OPERATING PROFIT	**249,562**	**207,193**
Financial and similar expenses	34,060	41,801
Losses on exchange	3	13
FINANCIAL INCOME	—	—
PROFIT FROM ORDINARY ACTIVITIES	**217,830**	**167,828**
Change in provisions for tangible and intangible assets and controlling portfolio	473	(1,056)
Losses from tangible and intangible assets and controlling portfolio	10	116
Extraordinary expenses	1	3
EXTRAORDINARY PROFIT	—	**1,219**
PROFIT BEFORE TAXES	**217,376**	**169,047**
Corporate income tax	75,357	58,976
PROFIT FOR YEAR	**142,019**	**110,071**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(Thousand euros)

Income	31.12.03	31.12.02
INCOME		
Net turnover	**1,569,555**	**1,821,792**
Sales	1,037,623	1,389,785
Services rendered	531,932	432,007
Own work capitalised	**170**	**208**
Other operating income	**42,678**	**49,169**
Auxiliary and ordinary trading income	22,184	27,826
Capital grants	20,494	21,343
Income from shareholdings	**181**	**384**
Income from other securities and long-term loans	**1,948**	**1,818**
Other interest and similar income	**125**	**227**
Gains on exchange	**77**	**20**
FINANCIAL EXPENSE	**31,732**	**39,365**
Gain on disposal of tangible and intangible assets and controlling portfolio	25	282
Extraordinary income	5	—
EXTRAORDINARY LOSS	**454**	**—**

Notes to the Consolidated Annual Accounts of the Enagas Group for the Year Ended 31 December 2003

1. Basis of presentation and consolidation principles

a) Basis of presentation

The annual accounts are presented in accordance with the provisions of current mercantile legislation and the rules laid down in the General Accounting Plan and Royal Decree 1815/1991, which approved the rules governing the preparation of consolidated annual accounts, so as to give a true and fair view of the consolidated Group's net worth, financial situation and results. The Group companies end their year on 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo-Maior Leiria Braga, S.A. which, due to the date their accounts are approved and the resulting absence of data, are consolidated on the basis of accounts as at 30 November 2003.

The figures set out in the balance sheet, profit and loss account and these notes to the accounts are stated in thousands of euros.

As a result of the new legislation applicable to the gas industry in Spain, as from 19 February 2002 figures recorded under Net turnover in Enagas, S.A.'s profit and loss accounts at 31 December 2003 and 2002 are not comparable (see Note 2m).

b) Consolidation principles:

Enagas, S.A. investee companies included in the scope of consolidation are engaged in the transport of gas, except for the finance company Enagas International Finance, S.A. Enagas, S.A.'s shareholdings in these companies are set out below:

Company	% Interest
Gasoducto Al – Andalus, S.A. (Spain)	66.96
Gasoducto de Extremadura, S.A. (Spain)	51.00
Gasoduto Campo Maior - Leiria - Braga, S.A. (Portugal)	12.00
Gasoduto Braga – Tuy, S.A. (Portugal)	49.00
Enagas International Finance, S.A. (Luxembourg)	99.99

The Company records other direct and indirect shareholdings that have not been included in the consolidation process as they are deemed insignificant with respect to presenting a true and fair view of the consolidated financial statements.

The consolidation was carried out as follows:

– using the proportional consolidation method for "multi-group" companies managed jointly with Transgás, S.A. (Portuguese company) and the full consolidation method for Enagas International Finance, S.A.

– Transactions between consolidated companies:

During the consolidation process, credits, debits, income, expenses and results from operations with other Group companies have been eliminated in the same proportion as Enagas, S.A.'s shareholding in the companies concerned.

– Consistency.

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

– Translation of financial statements denominated in foreign currencies.

All the companies included in the scope of consolidation prepare their accounts in euros and therefore no foreign currency translation process has been necessary.

2. Accounting policies

The most significant accounting policies applied during the preparation of the consolidated financial statements are set out below:

a) Formation expenses. Formation, start-up and capital increase expenses for Gasoductos Al-Andalus, S.A., Extremadura, S.A and Enagas International Finance, S.A. are written off over a period of five years and a period of four years for Gasoduto Braga–Tuy, S.A.

b) Intangible fixed assets. This heading states assets at acquisition or production cost and the amounts are amortised over five years. Concession rights are amortised over the concession period, while 95% of the expense for investments in R&D is amortised in the first year and the remainder over the subsequent four years.

c) Tangible fixed assets. Tangible fixed assets are stated at acquisition or production cost, except for any adjustments arising as a result of fixed asset restatements made by Enagas, S.A. in 1996.

Tangible fixed assets include financial expense on financing obtained for infrastructure projects when construction periods exceed one year.

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

Amounts relating to own work capitalised consist of direct investment costs.

Non-extractable gas assets necessary to exploit natural gas subterranean storage facilities are recorded under tangible fixed assets and depreciated over the useful life of the gas field, or over the lease period if shorter.

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives.

The depreciation rates applied are as follows:

d) Investments. Unlisted securities are stated at acquisition cost, less any provisions necessary to reflect a decline in their value.

e) Deferred expenses. Under deferred expenses Enagas, S.A. includes payments that fall due in future years and are taken to profit and loss in the year concerned. Gasoduto Campo Mayor Leiria – Braga, S.A. and Gasoduto Braga-Tuy, S.A. record the gas transport rights and financial expenses that are directly related, which are amortised on a straight-line basis until 2020.

	Annual percentage
Buildings	2 - 3
Plant (transport network)	3.33 - 5
Tanks	5
Subterranean fields	4
Other plant and machinery	5-12
Tools and tooling	30
Furniture and fixtures	10
Data-processing equipment	25
Vehicles	16

f) Inventories. The Company does not maintain ownership of the gas traffic. As a natural gas transport organisation the Company is responsible for measuring entries and exits from the system and managing any losses.

The remaining materials are stated at average acquisition cost, also resulting in a value which is equal to or lower than market value. Provisions for depreciation are recorded as necessary to cover obsolete inventories.

g) Trade and non-trade debtors and creditors. Debtor and creditor balances, regardless of whether or not they arise in the normal course of business, are recorded at their nominal value and classified as short or long-term depending on whether they fall due within or after more than one year.

All value adjustments deemed necessary are made to provide for bad debt risks. Credit lines are stated at the amount drawn down.

h) Reserves in companies consolidated using the proportional method. These reserves relate to the difference between the book value of the interest held in the consolidated companies and their theoretical book value.

i) Deferred income. Outright grants are released to income on a straight-line basis over the depreciation period of the fixed assets they finance. In order to give a true and fair view, capital grants released to profit and loss for the year are recorded under Other operating income in order to associate them with the depreciation charged on related assets.

Prepayments received relating to natural gas transport agreements are taken to profit and loss in accordance with the number of therms transported or contracted over the term of these agreements.

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

k) Other provisions. Future payment commitments relating to probable or certain liabilities are reflected in the relevant provision for liabilities and charges. Provision is made when these circumstances arise based on the estimated amount of the risk.

l) Corporate income tax. The consolidated profit and loss account records the corporate income tax expense for each of the consolidated companies since they all file individual tax returns. The calculation of the tax includes the tax accruing during the year, the effect of the deferral of differences arising between the tax base and reported profits before taxes reverting in subsequent years and any tax credits or deductions to which the Company is entitled.

The Company's policy is to record deferred tax assets only if there is no doubt as to their future recovery.

m) Income and expense

Income and expenses are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

Following the publication of new rules which affect Enagas, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), income subject to the new regulation recorded before and after that date is recorded in accordance with the methods set out below.

Up to 18 February 2002

Gas sales are recorded based on billing for consumption. Consumption of gas distribution companies is recorded through monthly readings of their meters.

Income from storage, transport and regasification services (third-party access to the network) on the regulated market is recorded based on invoicing for these services and calculated based on monthly readings of therms stored, processed and transported.

As from 19 February 2002

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 payments for regulated gas-related activities, these Orders fix natural gas prices and tolls and royalties for third-party access to gas installations published in the Official State Gazette of 18 February. Effective the day after publication, the Official State Gazette stipulates the total payment companies may receive in 2002 for purchase and sale activities, regasification, gas storage and transportation, technical management of the system and gas distribution. The publication also provides criteria and methods for restating and fixing payments for these services in the coming years.

On 16 January 2003 the Ministry of Economy approved four Ministerial Orders updating prices and establishing remuneration in 2003 for all companies carrying on regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 17 January.

In accordance with the new legislation, Enagas, S.A. is entitled to compensation for the following activities:

- Regasification
- Storage
- Transport
- Management of gas purchases and sales on the regulated market
- Technical system management

The most relevant aspects of the regulations covering the activity carried out by Enagas, S.A. from an income point of view are examined in Note 3 below.

n) Exchange differences. Creditor and debtor balances denominated in foreign currency are converted to euros applying the exchange rate in force at the date of the transaction. At the year end balances denominated in foreign currency are adjusted to the year-end exchange rate.

3. Regulation of compensation

a) Income from regasification, storage and transport activities

Ministerial Order 301 (15 February 2002) specifies income for regulated regasification, storage and transport activities, based on the authorised cost of these activities. In particular, the Order stipulates that the authorised cost of these activities includes fixed and variable components.

a.1) Authorised fixed cost. Calculated based on assets in course of production. This fixed amount compensates investment and operating costs relating to assets used in the gas system.

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

- Compensation for depreciation of assets used in the system. Compensation is calculated based on the book value of the assets after the restatement of 1996 (Royal Decree Law 7/1996), less capital grants received to finance these assets. An annual restatement rate based on the adjusted average of the retail price index (IPC) and the industrial price index (IPRI) is applied to the difference. The depreciation rate relating to the useful life of the asset is applied to the resulting value, thereby obtaining the amount of income for this item. No compensation for depreciation is recorded for fully-depreciated assets. The resulting amount relating to fixed assets used as a basis for the calculation of compensation in 2003 totals K_ 2,905,000.

  With respect to new infrastructures being brought into service, the standard value of each investment set by the regulator will be used as a basis for calculating the relating compensation for depreciation.
- Financial compensation for the investment. This figure is calculated by applying a financial compensation rate equal to the annual average for 10-year Government bonds or a replacement interest rate plus 1.5% to the value obtained in the previous paragraph. For fully-depreciated assets the financial compensation rate is applied to 50 % of the value obtained in the previous paragraph. The resulting rate in 2003 stands at 6.51 %.

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

a.1.3. Given that the new system compensates Enagas, S.A. for investments made, and the book value of these investments is the yearly depreciation charged to profit and loss on a straight-line basis, income relating to the fixed authorised cost is also taken to profit and loss on a straight-line basis. In this way, a monthly balance is achieved between income (compensation) and expenses (depreciation). In the future, monthly changes forecast for additions and disposals in the system must be taken into consideration to the extent that these changes effect compensation for the activity.

a.2) Authorised variable cost. The authorised variable cost is calculated based on the number of kW/hr actually regasified and the variable unit regasification cost for the period in question. For 2003, this cost is set at 0.000246 euros per kW/hr regasified. The authorised variable cost is taken to profit and loss monthly on an accruals basis in accordance with the amount of gas actually regasified.

b) Income from System Technical Manages (STM)

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

In 2003, the quota allocated to compensate STM to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for tolls and royalties relating to third-party network access rights, stands at 0.59 % for tolls and royalties and 0.28 % for prices. This quota will be recorded by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission will open for these purposes.

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

This monthly income is taken to profit and loss on a straight-line basis.

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

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

d) Income for gas purchases and sales

In accordance with the Law on hydrocarbons, as a transport company Enagas, S.A. purchases and sells gas to distribution companies and other transporters that in turn sell the gas on the regulated market in accordance with Royal Decree 949/2001 (3 August). Strictly for this purpose, Enagas, S.A. purchases gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A. Consumption by gas distribution companies is recorded through monthly readings of their meters.

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

- Gas purchase cost. This raw material cost (CMP) is calculated based on the CIF prices of crude and oil products on international markets paid by the carrier, for sale on the regulated market, including the necessary costs for positioning gas in the basic network. This cost is calculated on a three-monthly basis in January, April, July and October of each year.
- Selling price. The selling price includes the cost of the raw material to be sold on the regulated market, natural gas purchase and sale management expenses and the average regasification cost. The selling price will change when raw

material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

Given that this income is not subject to tax, it is taken to profit and loss based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. Income is therefore taken to profit and loss on an accruals basis.

e) Income from Management of gas purchases and sales

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

- Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The coefficient fixed for 2003 is 0.005.
- A breakdown of gas shrinkage costs arising during regasification processes, storage and transport of gas to be sold on the regulated market is set out below:
  - Regasification: 0.5% of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.
  - Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in subterranean gas storage facilities to be sold on the regulated 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 regulated market.
- Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the regulated market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. The rate for 2003 is 3.87%.

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

4. Formation expenses

Set out below is an analysis of movements in Formation expenses during the year:

	Balance as at 01.01.03	Increases	Depreciation	Balance as at 31.12.03
Start-up costs	5	—	(1)	4
Share capital increase expenses	—	2	(1)	1
	5	**2**	**(2)**	**5**

5. Intangible assets

Movements in the accounts included under Intangible assets are as follows:

	Balance as at 01.01.03	Increases	Balance as at 31.12.03
Research and development expenses	12,739	945	13,684
Concessions, patents, licences, trademarks and similar items	7,267	625	7,892
Computer applications	6,944	2,495	9,439
Accumulated depreciation	(17,226)	(2,891)	(20,117)
Net Balance	**9,724**	**1,174**	**10,898**

6. Tangible fixed assets

Balances and movements during the year in the items making up tangible fixed assets are as follows:

	Balance as at 01.01.03	Increases	Decreases	Transfers	Balance as at 31.12.03
Land and buildings	73,708	2,216	—	—	75,924
Plant and machinery	3,029,109	82,548	(1,751)	71,956	3,181,862
Fixtures, fittings, tools and equipment	10,948	427	—	—	11,375
Payments on account and assets in course	220,229	331,686	—	(71,956)	479,959
Other fixed assets	21,464	614	(185)	—	21,893
Net balance	**3,355,458**	**417,491**	**(1,936)**	**0**	**3,771,013**

Decreases basically includes variances – K€ 1,751 for the Madrid Semi-ring- invoiced during the year and K€ 182 for the disposal of vehicles.

The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of K€ 16,914 in the fixed asset depreciation charge for 2004.

Movements in restated tangible fixed assets are set out below:

Balance as at 1 January 2003	230,651
Depreciation charge for the year	(16,914)
Balance as at 31 December 2003	**213,737**

Plant and machinery includes non-extractable gas assets located in subterranean gas storage facilities totalling K€ 118,720.

The financial costs applied during the year to infrastructure being constructed totalled K€ 3,557 and as at 31 December 2003 K€ 148,065 was recorded as an increase in gross tangible fixed assets.

Movements in accumulated depreciation during the year are as follows:

	Balance as at 01.01.03	Increases	Decreases	Balance as at 31.12.03
Buildings	26,753	2,609	—	29,362
Plant and machinery	975,574	125,628	(23)	1,101,179
Other installations, tooling and fixtures	8,709	812	—	9,521
Other fixed assets	16,423	1,671	(158)	17,936
Net balance	**1,027,459**	**130,720**	**(181)**	**1,157,998**

The total amount recorded under decreases (K€ 181) basically relates to the disposal of vehicles totalling K€158.

The breakdown of provisions for fixed assets involved in discontinued projects and obsolete warehouse materials and movements during the year are set out below.

	Balance as at 01.01.03	Increases	Decreases	Reclassification	Balance as at 31.12.03
Provisions	(11,352)	(473)	211	1,769	(9,845)
Net balance	**(11,352)**	**(473)**	**211**	**1,769**	**(9,845)**

Increases includes the allocation made during the year to discontinued investment projects.

Decreases includes disposals of stored obsolete investment materials.

Reclassifications record the transfer to Provisions for liabilities and charges, as described in Note 13.

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

The Company takes out all insurance policies it deems necessary to cover any possible risks that could affect tangible fixed asset items.

7. Investments

The amounts and movements recorded during the year in Investments are as follows:

	Balance as at 01.01.03	Increases	Decreases	Balance as at 31.12.03
Loans to Group companies	29,398	2,607	(5,528)	26,477
Long-term securities portfolio	1,500	150	(312)	1,338
Other loans	757	26	(179)	604
Long-term deposits and guarantees	616	16	(45)	587
Government debentures – long term	4,708	1,901	(246)	6,363
Provisions	(312)	—	312	—
Net balance	**36,667**	**4,700**	**(5,998)**	**35,369**

Loans to Group companies fall due in 2011 and bear market interest rates. The balances relate to the interest held by Transgas, S.A. in the loans to Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior – Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A.

These loans are repaid in accordance with each company’s cash resources.

The K€ 5,528 decrease relates to the amortisation of the loans totalling K€ 4,682 granted to Gasoductos Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and the K€ 846 loan granted to Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A.

8. Deferred expenses

Balances and movements recorded during the year for the items making up Deferred expenses are as follows:

	Balance as at 01.01.03	Decreases	Balance as at 31.12.03
Enagas, S,A,	500	(66)	434
Gasoduto Campo Maior - Leiria - Braga, S,A,	11,248	(272)	10,976
Gasoduto Braga - Tuy, S,A,	9,004	(233)	8,771
Net balance	**20,752**	**(571)**	**20,181**

The balance for Enagas, S.A. records the royalty paid in advance to Gas de Euskadi, S.A. for the use of the latter's gas pipelines for 13 years, of which 7 remain.

Gas transport rights and directly related financial costs relate to Gasoduto Campo Maior - Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A.

9. Inventories

Inventories at 31 December 2003 relate basically to materials used to maintain regasification plants and gas pipeline networks.

10. Debtors

Amounts owed by Group and associated companies basically relate to natural gas sales and gas transport services. The balances record amounts which are all within the stipulated maturity period and relate to companies of recognised prestige and solvency.

Enagas, S.A. records amounts pending payment with respect to compensation for regulated natural gas industry activities and payments with a specific destination under Sundry debtors. The latest interim payment of debt relating to 2002 was made in March 2003 and the definitive payment for this year is still pending. As is indicated in Ministerial Order 2692/2002 (28 October 2002), as from march 2003 all payments have been made on a monthly basis and in 2003 settlements have included up to Payment No. 9 for 2003. At 31.12.03 the composition of the payment accounts reflect a balance of K€ 159,178, of which K€ 25,521 relate to 2002 amounts yet to be settled by the government, together with K€ 133,657 for 2003.

On the days these annual accounts were prepared payments 10 and 11 for 2003 were received, for a total of K€ 13,501 and K€ 18,780, respectively.

The account Taxes and Social Security basically records VAT receivable by Enagas, S.A., the refund of which was requested in January 2004.

The balances relating to Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoduto Campo Maior Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A. reflect gas transport services rendered to Transgas, S.A.

11. Capital and reserves

Balances and movements during the year recorded under this heading are as follows:

	Balance as at 01.01.03	Distribution of 2002 profit/(loss)	Other	2003 profits Ejercicio 2003	Balance as at 31.12.03
Share capital	358,101	—	—	—	358,101
Revaluation reserve	342,505	—	—	—	342,505
Legal reserve	60,060	10,782	—	—	70,842
Voluntary reserve	1,992	42,005	—	—	43,997
Reserve in consolidated companies	1,120	2,249	174	—	3,543
Consolidated profit and loss account	110,071	(110,071)	—	142,019	142,019
Interim dividend	(21,486)	21,486	—	(28,648)	(28,648)
	852,363	**(33,549)**	**174**	**113,371**	**932,359**

a) Share capital is represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of € 1.50 each.

b) All Enagas, S.A. shares are listed on the Spanish stock exchange and are traded on the continuous market.

At the 2003 year-end, the price of Enagas, S.A. shares stood at 8.60 euros.

c) The most significant shareholdings in the share capital of Enagas, S.A. at 31 December 2003 are as follows:

	Shareholding %
Gas Natural, SDG., S.A.	39.552
Sagane Inversiones, S.L.	5.022
B.P.España, S.A.	5.000
Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja)	5.000
Caja de Ahorros de Asturias (Cajastur)	5.000
Caja de Ahorros del Mediterraneo (C.A.M.)	3.003

After the publication of Law 62/2003 on tax, administration and social order measures on 31 December 2003, of which Article 92 amends Law 34/1998 on the Hydrocarbon sector, and stipulates that "no individual or company may directly or indirectly hold more than a 5% interest in Enagas, S.A., in terms of share capital or voting rights". This law also establishes a maximum of 3 years after 1 January 2004 to adapt shareholdings to meet this new limit.

As a result, the company Gas Natural Sdg, S.A. must reduce its shareholding by 34.5% before 31 December 2006.

d) During the year Enagas, S.A. approved the dividend relating to the 2002 profit in the amount of K€ 55,035, of which K€ 21,486 was paid in January 2003 and K€ 33,549 was paid in July 2003.

On 20 November 2003 the Board of Directors of Enagas, S.A. resolved to pay an interim dividend out of 2003 profits in the amount of K€ 28,648. The Company has prepared the following liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

	Amount
Reported net profit at 31 October 2003	123,068
10% legal reserve	(12,307)
Profit available for distribution	110,761
Forecast interim dividend	(28,648)
Forecast cash at bank and in hand between 31 October 2003 and 31 December 2003:	
– Cash at bank and in hand at 31 October 2003	1,044
– Collections forecast for the period under consideration	385,400
– Credit facilities and loans granted by banks	410,000
– Payments forecast for the period under consideration (including interim dividend)	(331,000)
Cash at bank and in hand at 31December 2003	465,444

In January 2004 the approved interim dividend was paid.

e) The revaluation reserve accepted by the tax authorities is not available for distribution. The account balance may be used to offset losses, increase share capital or, after 31 December 2006, taken to unrestricted reserves.

f) The legal reserve has been set up in accordance with the provisions of Article 214 of the Spanish Companies Act, which stipulates that at least 10% of profit for the year must be set aside in this reserve until it represents at least 20% of share capital. This percentage was reached by the proposed distribution of 2003 results (Note 3). The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

g) The following reserves recorded by Enagas, S.A. consolidated Group companies are included in consolidated reserves:

Gasoducto Al-Andalus, S.A.	2,888
Gasoducto de Extremadura, S.A.	406
Gasoduto Campo Maior-Leiria-Braga, S.A.	119
Gasoduto Braga-Tuy, S.A.	90
Enagas International Finance, S.A.	—
Adjustments on consolidation	40
Consolidation reserves	**3,543**

12. Deferred income

Balances and movements recorded during the year for the items making up Deferred income are as follows:

	Balance as at 01.01.03	Increases	Applications	Balance as at 31.12.03
Capital grants	415,636	3,716	(20,349)	399,003
Canon Gasod, de Extremadura, S,A,	20,985	—	(5,536)	15,449
Canon Gasod, Al-Andalus, S,A,	39,519	—	(2,744)	36,775
Net balance	**476,140**	**3,716**	**(28,629)**	**451,227**

The K€ 145 difference between the amount of capital grants (K€ 20,349) released to income and the amount recorded on the profit and loss account (K€ 20,494) relates to operating grants.

13. Provisions for liabilities and charges

The balance in Other provisions as at 31 December 2003 relates to provisions set up for probable liabilities arising from identified contingencies. Movements in this account are set out below:

	Balance as at 01.01.03	Appropriations	Applications	Reclassification	Balance as at 31.12.03
Other provisions	2,087	972	(91)	1,769	4,737
Net balance	**2,087**	**972**	**(91)**	**1,769**	**4,737**

The reclassification records the transfer made to Provisions for tangible fixed assets, as described in Note 6.

14. Bank loans

These items break down as follows:

	Long term	Short term
Enagas, S.A. credit facilities and bank loans	1.210.950	12.197
Gasoduto Braga-Tuy, S.A. credit facilities and bank loans	4.361	—
Accrued interest	—	12.748
	1.215.311	**24.945**

Long-term loans and credit facilities accrue interest at a variable market rate (referenced to the Euribor and Libor) and fall due as follows:

2005	8,629
2006	8,629
2007	12,991
2008	1,038,629
In more than four years	146,433
	1,215,311

In line with its strategy to obtain predominantly long-term financing Enagas, S.A. replaced the bridge loan obtained due to the IPO and which was to fall due in June 2003, with a syndicated loan for K€1,000,000 which was completed in April and falls due in five years.

15. Other creditors

The most significant item recorded under Other creditors relates to long-term amounts owed to Transgas, S.A. as set out below:

	Long term
Loan from Transgas, S.A. to Gasoducto Al-Andalus, S.A.	15,236
Loan from Transgas, S.A. to Gasoducto de Extremadura, S.A.	9,359
Loan from Transgas, S.A. to Gasoduto Campo Maior-Leiria-Braga, S.A.	4,994
	29,589

Loans from Transgas, S.A. bear interest at variable market rates and fall due in 2011.
These loans are repaid in accordance with each company's cash resources.

16. Tax situation

a) Both the company Enagas, S.A., and the companies Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A., Gasoduto Braga-Tuy, S.A. and Enagas International Finance, S.A. file individual tax returns.

b) The tax returns filed by Enagas, S.A. for the main taxes to which it is liable are open to inspection for all years that have not become statute-barred, with the exception of VAT on imports, with respect to which only 2002 and 2003 are open to inspection.

The company Gasoducto AL-Andalus, S.A. is open to inspection for 2000, 2001, 2002 and 2003.

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

Gasoduto Campo Maior – Leiria – Braga, S.A.'s returns are open to inspection for 2002 and 2003.

Gasoduto Braga – Tuy, S.A.'s returns are open to inspection for 2000 and subsequent years.

Enagas International Finance, S.A., incorporated on 25 October 2002 in Luxembourg, has been dormant in 2003.

c) Corporate income tax expense as at 31 December 2003 breaks down as follows:

Company	
Enagas, S.A,	70,185
Gasoducto Al - Andalus, S,A,	3,077
Gasoducto de Extremadura, S,A,	1,376
Gasoduto Campo Maior - Leiria - Braga, S,A,	452
Gasoduto Braga - Tuy, S,A,	267
Enagas International Finance, S,A,	—
	75,357

The reconciliation of the difference between the reported profits of Enagas, S.A. and the corporate income tax base is set out below:

Reported profit before taxes	**209,147**
Permanent differences:	
• Double taxation exemption	(1,428)
• Other	38
Timing differences	
• Free depreciation R.D.-L. 3/1993	653
• Other	4,729
INITIAL TAX BASE	**213,139**

Tax credits for double taxation applied to the tax base in 2003 amount to K€ 7,271.

With respect to the remaining consolidated companies, the differences between reported profit and the corporate income tax base applied to the Group are set out below:

	Gasoducto Al-Andalus S.A.	Gasoducto Extremadura, S.A.	Gasoducto Campo Maior-Leiria-Braga, S.A.	Gasoducto Braga-Tuy, S.A.
Reported profit	13,114	7,707	1,607	920
Permanent differences	15	2	—	—
Taxable income	**13,129**	**7,709**	**1,607**	**920**

d) At the year end a total of K€ 52,789 in corporate income tax was paid by Enagas, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A.

e) Balances and movements in Enagas, S.A. for prepaid and deferred corporate income tax are set out below:

	Balance as at 01.01.03	Variation	Balance as at 31.12.03
Tax paid in advance			
• Capital grants	1,948	(131)	1,817
• Other	2,760	1,786	4,546
	4,708	**1,655**	**6,363**
Deferred tax			
• Accelerated depreciation	2,327	(229)	2,098
	2,327	**(229)**	**2,098**

17. Net turnover

Details of net turnover are as follows:

	2003	2002
Gas sales	1,037,194	1,387,542
Services rendered	531,932	432,007
Other sales	429	2,243
	1,569,555	**1,821,792**

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

Company	2003	2002
Enagas, S.A.	517,580	418,071
Gasoducto Al - Andalus, S.A.	6,361	6,256
Gasoducto Extremadura, S.A.	5,504	5,266
Gasoducto Campo Maior - Leiria - Braga, S.A.	2,331	2,247
Gasoducto Braga - Tuy, S.A.	156	167
	531,932	**432,007**

18. Raw materials and consumables

This heading relates mainly to gas purchases made during the year by Enagas, S.A.

19. Average number of employees

The average number of employees during the year, by category, is as follows:

	2003	2002
Executives	46	44
Technicians	363	351
Administrative staff	129	129
Workers	350	344
	888	**868**

All personnel are employed by Enagas, S.A. as the other companies do not have any employees. At 31.12.03 the Company had 878 employees. As a result of the signing of the XIII Collective Wage Agreement, job posts were reorganised. This resulted in 29 early retirements from among employees 60 years of age or older.

In terms of efficiency, the average productivity ratio for employees, measured in terms of energy transported per employee, was 314 GWh, 14.2% higher than the figure attained the previous year.

20. Other operating charges

This heading consists mainly of structural costs, relating mainly to: repairs and maintenance, computer equipment, advertising, leases for subterranean storage facilities, external services and taxes.
A breakdown of external services as compared to the previous year is set out below:

	2003	2002
Leases and royalties	56,938	57,897
Repairs and maintenance	20,818	21,657
Independent professional services	8,952	9,205
Transport	15,556	17,000
Insurance premiums	6,749	4,414
Banking and similar services	211	208
Advertising and public relations	1,251	3,959
Supplies	14,209	10,502
Other services	6,681	12,878
	131,365	**137,720**

21. Contribution of Group companies to consolidated results

A breakdown is as follows:

	Contribution of Group companies to consolidated results
Enagas, S.A.	131,689
Gasoducto Al - Andalus, S.A.	5,954
Gasoducto de Extremadura, S.A.	2,587
Gasoduto Campo Maior - Leiria - Braga, S.A.	1,155
Gasoduto Braga - Tuy, S.A.	654
Enagas International Finance, S.A.	(20)
	142,019

22. Transactions with associated companies

The most significant transactions effected during the year with associated companies are set out below:

Income	
Gas sales	824,793
Maintenance of fibre optics for Desarrollo del Cable, S.A.	1,455
	826,248

Expenses	
Gas purchases	1,025,706
Rental of minimum security stocks (35 days)	6,247
Leases and maintenance	38,041
Electricity supplies	7,807
	1,077,801

23. Other information

a) Royal Decree 949/2001 which regulates third-party access to gas installations and establishes an integrated economic regime for the natural gas industry, has established the remuneration of regulated activities, general criteria for calculating and structuring tariffs, tolls and royalties, a cost-based tariff system and a settlement procedure. This Royal Decree has been developed by the Ministerial Orders mentioned in Note 2m).

b) In accordance with Law 34/1998 on the hydrocarbons industry, the parent Company has made the necessary arrangements to maintain, under lease agreements, minimum safety stocks for up to 35 days' supply at a regulated price.

c) In 2003 remuneration accruing to the Members of the Board of Directors amounted to K€ 1,716. This amount includes per diems and other amounts received by Directors due to their positions on the Board of Directors and Commissions and their attendance at meetings, in accordance with the Resolution adopted by shareholders at a general meeting held on 25 April 2003 (and the limits established by the Resolution in terms of the amounts received by Directors were respected and met), and it also includes the salary and remuneration amounts received by those executive members of the Board of Directors who have management responsibilities. These latter amounts are independent of the remuneration that is set on an annual basis by shareholders at a general meeting to compensate the members of the Board of Directors. Finally, this amount also includes reimbursements for expenses incurred by Board members deriving from attendance of Board and Commission meetings.

Pension contributions made during the year total K€ 8.78 and the premiums paid for life insurance amounted to K€ 35.3.

At 31 December 2003, loans granted to Board members total K€ 423.

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

Shareholdings in companies that have the same, similar or supplementary corporate purpose that have been reported to Enagas, S.A. by Directors (dated 31 December 2003) are as follows:

Director	Shares
Juan Badosa	Gas Natural SDG 170
Ramón Blanco	Gas Natural SDG 9,166
Antonio Brufau	Gas Natural SDG 9,601
Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja)	9% Gas Natural Cegas, S.A. (sold on 5/2/04)
Caja de Ahorros del Mediterraneo (CAM)	Gas Natural SDG 100,000
Rafael Villaseca	Gas Natural SDG 1,000

Positions held or duties fulfilled by Company Directors at companies that have the same, similar or supplementary corporate purpose that have been reported to Enagas, S.A. by Directors (dated 31 December 2003) are as follows:

Director	Shares
Ramón Blanco	Director of Gas Natural, SDG
Antonio Brufau	Executive Chairman of the Board of Directors, Chairman of the Executive Committee and Chairman of the Appointment and Remuneration Committee at Gas Natural, SDG.
Luis Javier Navarro	CEO and Director of BP Gas España S.A.
Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja)	Chairman of the Board of Gas Natural Cegas, S.A.

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

d) At 31 December 2003 gas transportation rights amount to 1,283,381,000 thousand therms for the period 2004 to 2020. All contracts include "ship or pay" clauses.

e) Enagas, S.A. has furnished a guarantee of K€ 8,900 for the loan Banco Santander Central Hispano, S.A. has granted to Gasoduto Braga – Tuy, S.A.

f) On 1 August 2001 the Company entered into agreements with Gas Natural Aprovisionamientos SDG., S.A. and Sagane, S.A. for the purchase of natural gas. These agreements will be terminated when Enagas, S.A.'s legal obligation to supply the regulated market has completely expired. The agreement does not include "take or pay" clauses.

g) In 2003 PricewaterhouseCoopers billed the Company K€ 71.4 for audit fees and K€ 68.9 for other non-audit related services.

h) Enagas, S.A. contracted hedging instruments to limit the financial cost of its long-term financing. This instruments limits the company's costs in the period 2004-2008 and are applicable to a total of € 1 billion, which allows risks to be minimised, investments to be financed under the best conditions possible, mainly through long-term fixed cost financing arrangements.

Interest rate risks for 2004 have been covered by several hedging operations. These operations represent a total fixed financing cost of 2.83% for the year and amount mentioned previously.

Interest rate hedges have also been obtained for the period 2005-2008. This gives rise to zero cost for the company as a maximum and minimum interest rate is established for the total of € 1 billion. The hedges commence in January 2005 and mature in April 2008 and the known maximum fixed cost is 4.66%. These levels of hedging facilities have been set bearing in mind the financial yield established by the regulatory system, (average Spanish 10 year bond rate plus 150 basis points).

These operations have not given rise to any accounting entries since they are hedging arrangements.

g) In 2003, and as a result of the signing of the XIII Collective Wage Agreement, job posts were reorganised. This resulted in 29 early retirements from among employees 60 years of age or older.

24. Environment

During 2003, the Company has continued to perform activities aimed at minimising the environmental impact. In addition to other improvements, the renewal, obtainment and maintenance of AENOR ISO 14001 environmental management certificates, landscaping, controlled drilling and archaeological conservation are worthy of note.

In 2003, these environmental activities have involved investments totalling K€ 8,857, which are recorded on the balance sheet.

Environmental expenses totalled K€ 862 in 2003 and are recorded under the heading Other operating expenses.

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

The Company has not received any capital grants or income relating to environmental activities.

25. Post-balance sheet events

a) On 8 January 2004 an interim dividend was paid against 2003 profits. The dividend totalled €0.12 per share and was approved by the Board of Directors of Enagas, S.A. at a meting held on 20 November 2003.

b) On 15 January 2004 the Ministry of Economy approved three Ministerial Orders updating prices, tolls, royalties and remuneration in 2004 for gas industry regulated activities, applicable to all companies carrying on regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 19 January.

c) On 16 January, the rating agency Standard & Poor´s raised Enagas' long-term rating from "A+" to "AA-", and the short-term rating from "A-1" to "A-1+". It its report, Standard & Poor´s notes the improved perspective of generating profits and the strengthening of the Company's financial position. In turn, it also notes the reduction of risk as a more level investment process is expected in the coming years, the Company's low risk profile and the solidity of its activity. It positively notes the advances made with respect to the regulatory framework, which it calls "stable and favourable" in an environment of high-growth and strong investments.

26. Statement of source and application of funds

Set out below is the Statement of source and application of funds for the year:

	Thousand euros	
APPLICATION OF FUNDS	31.12.2003	31.12.2002
Formation expenses	2	5
Purchases of fixed assets	426,256	192,273
Prior-year dividends	33,549	16,044
Interim dividend	28,648	21,486
Provision for liabilities and charges	91	—
Debts falling due after one year	(1,019,546)	749,592
From banks	(1,024,536)	(112,163)
From associated companies	—	853,603
Other amounts owed	4,990	8,152
Total applications of funds	**(531,000)**	**974,400**
Surplus of sources over application of funds (increase in working capital)	**791,451**	

	Thousand euros	
SOURCES OF FUNDS	31.12.2003	31.12.2002
Funds generated from operations	248,791	205,237
Capital grants	3,716	26,317
Other reserves	174	179
Proceeds from disposal of fixed assets	7,770	15,152
Total sources of funds	**260,451**	**246,885**
Surplus of applications over sources of funds (reduction in working capital)		**732,515**

Change in working capital	31.12.2003 Increases	Decreases	31.12.2002 Increases	Decreases
Inventories	—	20	—	5,693
Debtors	—	97,122	92,353	—
Creditors	879,968	—	—	820,641
Current asset investments	3,151	—	1,678	—
Cash at bank and in hand	1,225	—	—	3,227
Accruals, prepayments and deferred income	4,249	—	3,015	—
TOTAL	**888,593**	**97,142**	**97,046**	**829,561**
Change in working capital	**791,451**			**732,515**

Consolidated funds generated from operations	31.12.2003	31.12.2002
Profit for the year	**142,019**	**110,071**
Increases:	**106,772**	**95,166**
• Depreciation and amortisation	133,612	126,499
• Deferred expenses	571	(854)
• Deferred income	(28,629)	(29,730)
• Net application of the provision for liabilities and charges	972	797
• Change in provision for tangible fixed assets	261	(1,380)
• Profit on disposal of fixed assets	(15)	(166)
Funds generated from operations	**248,791**	**205,237**

Appendix I. Information regarding companies included in the scope of consolidation:

In compliance with company law, set out below are details of companies included in Enagas's scope of consolidation at 31 December 2002. None of these companies are listed on an organised secondary market.

Name	Country	Consolidation method	%	Book value libros	Share capital	Reserves	Result for 2003 (*)	Dividend recevied 2003
Gasoducto Al-Andalus, S.A.	España	I.P.	66.96	23,744	35,459	4,312	8,519	4,093
Gasoducto de Extremadura, S.A.	España	I.P.	51	9,732	19,082	797	5,009	1,751
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	I.P.	12	3,195	26,946	675	9,627	893
Gasoduto Braga-Tuy, S.A.	Portugal	I.P.	49	2,546	5,254	126	1,334	535
Enagas International Finance, S.A.	Luxemburgo	I.G.	99.99	124	124	—	(20)	—
Net balance				**39,341**				**7,272**

Full: Full consolidation method.
Prop.: Proportional consolidation method.
(*) Data relating to Gasodutos Campo Mayor- Leiria- Braga, S.A. and Gasoduto Braga-Tuy, S.A., as indicated in Note 1 a), relate to the 30 November 2003 close.

DIRECTORS' REPORT FOR THE ENAGÁS GROUP.

Evolution of the Group in 2003

Net profit totalled K€ 142,019, representing a 29% increase over the previous year.

Net turnover amounted to K€ 1,569,555. 66.1% of turnover relates to gas sales and the remaining 33.9% to services rendered.

Resources generated by operations total K€ 248,791. These resources have partially financed the tangible fixed asset investment plan totalling K€ 417,491, aimed basically at extending and improving the transportation network to 6,522.4 km at 31 December 2003.

The Group's capital and reserves total K€ 932,359.

On 16 January 2003 the Ministry of Economy approved the Ministerial Orders on prices, tolls, royalties and remuneration for regulated activities in the gas industry, establishing the remuneration for 2003 for all companies engaged in regasification, storage, transport or distribution activities.

On 1 November 2002, Ministerial Order 2,692/2002 (28 October) was published, regulating compensation payment procedures for regulated activities and defining the information system to be used by the companies.

Within the deregulation framework of the Law on Hydrocarbons, in 2003 new companies have joined the system and made use of the possibility of third party access to the network afforded by the Law. There are twelve companies engaged in the trading of gas in the market and eighteen that have an access contract.

During 2003, the Company has continued to extend and improve its regasification installations and transport and storage facilities in order to prepare for forecast demand. The following actions are worthy of note:

- The most relevant infrastructure put into operation and recorded under this heading was the docking facility at the Barcelona plant for gas ships carrying more than 140,000 m3 of LNG.
- Increase in the total nominal regasification capacity at the three plants. The resulting capacity is as follows:
  - Barcelona plant: 1,200,000 m3(n)/h.
  - Cartagena plant: 600,000 m3(n)/h.
  - Huelva plant: 450,000 m3(n)/h.
- At the end of 2003 Enagás was operating 6,522.4 km of pipelines designed to operate at maximum bar pressures of 72 and 80, having a positive effect on the supply security and development of areas not previously served with natural gas.
- The most significant transport assets brought into use in 2003 are: the gas pipelines Loeches-Rivas, Loeches-Arganda-Alcalá, Gajano-Treto-Laredo, Puente Genil-Málaga, an extension to the Cartagena-Lorca phase I gas pipeline, Málaga-Estepona gas pipeline section I and the split section of the Manoteras branch line. Gas pipeline to the Jaca wells, Getafe pipeline – Delivery to Cuenca, Tarancón – Cuenca – Fuentes pipeline, Collado – Hermoso – Turégano pipeline and the first stage of the duplicate Algete – Manoteras pipeline.
- During 2003 15 new regulating and measuring stations have been brought into service in relation to the new gas pipelines.

At the end of 2003, Enagás's gas structure, consisting of the basic natural gas network, is as follows:

Regasification plants in Barcelona, Huelva and Cartagena have a total LNG storage capacity of 560,000 m3 and an issue capacity of 2,250,000 m3 (n) /h.

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

Gas pipeline network with a total length of 6,522.440 Km., comprising the following main lines:

Central line: Huelva-Córdoba-Madrid-Burgos-Cantabria-País Vasco.

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

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

Spanish-Portuguese west line: Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga) –Tuy-Pontevedra-A Coruña-Oviedo.

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

Gas pumped into the system through pipelines:

North: Spanish-French Calahorra-Lac gas pipeline, connecting Spain and Portugal with the European network of gas pipelines.

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

Post-balance sheet events

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Research and development activities

Technology innovation activities carried out by the Company in 2003 related to the evaluation, development and demonstration of new gas technologies, with the aim of increasing and improving the competitiveness of natural gas in different applications, focusing technological efforts on projects with strategic value for the Company.

In the gas transport area, work has been performed to ensure the continuity of supplies and technical and economic efficiency while guaranteeing maximum security levels and respect for the environment.

ENAGAS GROUP

On 19 February 2004, the Board of Directors of Enagas, S.A. drew up the consolidated annual accounts for the year ended 31 December 2003, consisting of the accompanying documents, in accordance with Article 171 of the Spanish Companies Act and Article 37 of the Code of Commerce.

Chairman

Mr. Antonio González-Adalid García-Zozaya

Board members

Mr. Antoni Brufau

Mr. Juan Badosa

Mr. Rafael Villaseca

Mr. Robert Malpas

Mr. Dionisio Martínez

Mr. José Manuel Fernández

Mr. Jesús David Álvarez

Mr. José Riva

Mr. Luis Javier Navarro

Mr. Ramón Blanco

Mr. Carlos Egea

Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja
(Represented by Mr. José Luis Olivas)

Caja de Ahorros del Mediterráneo - CAM
(Represented by Mr. Vicente Salá)

Secretary to the Board

Mr. Luis Pérez de Ayala

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