ENAGÁS, S.A. and Subsidiaries

Consolidated Annual Accounts for the Year Ended 31 December 2005

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS S.A. AND SUBSIDIARIES-
CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2005 AND 2004
(Figures in millions of euros)

Assets-	Notes	31.12.2005	31.12.2004
Non-current assets		**2,813,503**	**2,619,562**
Intangible assets	5	29,600	30,508
Real estate investments		677	711
Tangible fixed assets	6	2,737,142	2,543,094
Non-current financial assets	8	28,211	26,918
Deferred tax assets	20	17,873	18,331
Current assets		**412,116**	**481,845**
Inventories	10	2,345	2,384
Trade debtors and other accounts receivable	9	402,111	437,309
Other current financial assets	8	3,849	3,919
Current tax assets	9 and 20	51	33,417
Other current assets		2,374	2,789
Cash and other equivalent liquid assets		1,386	2,027
TOTAL GENERAL		**3,225,619**	**3,101,407**

Liabilities-	Notes	31.12.2005	31.12.2004
SHAREHOLDERS' EQUITY	11	**1,110,429**	**997,840**
Share capital		358,101	358,101
Reserves		599,565	512,656
Profit (loss) for the year		190,960	158,118
Interim dividend		(38,197)	(31,035)
Non-current liabilities		**1,588,051**	**1,435,809**
Payable to credit institutions	15	1,495,874	1,330,125
Other financial liabilities	16 and 18	28,917	39,444
Deferred tax liabilities	20	2,374	2,673
Provisions	14	16,607	13,257
Other non-current liabilities	13	44,279	50,310
Current liabilities		**527,139**	**667,758**
Payable to credit institutions	15	22,563	61,967
Other financial liabilities	16 and 18	16,808	18,636
Trade creditors and other accounts payable		394,994	522,151
Current tax liabilities	20	51,873	31,798
Other current liabilities		40,901	33,206
TOTAL GENERAL		**3,225,619**	**3,101,407**

Notes 1 to 34 described in the accompanying notes are an integral part of the consolidated balance sheet as of 31 December 2005.

ENAGÁS, S.A. and Subsidiaries
Consolidated Profit and Loss Accounts for the Year Ended 31 December 2005 and 2004
(Figures in millions of euros)

	Notes	31.12.2005	31.12.2004
Purchase - Sale of gas on the regulated market	21	(6,398)	(8,653)
Revenue from regulated activities	21	652,609	562,495
Revenue from non-regulated activities	21	15,437	14,319
Other operating revenue	21	19,253	30,769
Personnel costs	22	(58,198)	(55,886)
Depreciation and amortisation	5 and 6	(145,601)	(124,053)
Other operating costs	22	(144,278)	(143,918)
OPERATING PROFIT		**332,824**	**275,073**
Financial and similar revenue	23	2,656	2,948
Financial and similar expenses	23	(43,054)	(35,367)
PRE-TAX PROFIT FROM CONTINUED OPERATIONS		**292,426**	**242,654**
Corporate income tax.	20	(101,466)	(84,500)
PROFIT (LOSS) FROM CONTINUED OPERATIONS		**190,960**	**158,154**
After tax profit from discontinued operations		**-**	(36)
PROFIT (LOSS) FOR THE YEAR		**190,960**	**158,118**
Attributable to:			
Parent Company		**190,960**	**158,118**
Net profit per share	**12**	**0.80**	**0.66**
Net profit per diluted share		**0.80**	**0.66**

Notes 1 to 34 described in the accompanying notes are an integral part of the consolidated profit and loss accounts as of 31 December 2005.

Consolidated Cash Flow Statement for the Years Ended 31 December 2005 and 2004
(Figures in thousands of euros)

	2005	2004
CONSOLIDATED PROFIT (LOSS) BEFORE TAXES	**292,426**	**242,654**
Adjustments to consolidated profit (loss)	**140,688**	**124,723**
Fixed asset depreciation	145,601	124,053
Movement in provisions	3,338	5,808
Profit/loss on the disposal of fixed assets	(3,410)	(19)
Changes in deferred revenue	(6,186)	(6,491)
Change in accruals and prepayments	661	1,238
Other adjustments	684	134
Change in working capital	**(58,267)**	**94,564**
Increase / decrease in inventories	39	22
Increase / decrease in debtors	68,318	(68,566)
Increase / decrease in suppliers and creditors	(126,624)	162,591
Increase / decrease in other receivables	-	517
Change in corporate income tax payable	**(81,232)**	**(90,890)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**293,615**	**371,051**
Investments in capital	(358,667)	(462,934)
Capital grants received	18,460	1,076
Cash flow from the sale of capital assets	4,943	-
Increase / decrease in financial assets	(5,073)	11,043
NET CASH FLOW FROM INVESTMENT ACTIVITIES	**(340,337)**	**(450,815)**
Increase / decrease in loans other than overdrafts	128,777	157,133
Dividends paid	(79,063)	(71,010)
Increase / decrease in other payables	(3,633)	(8,909)
NET CASH FLOW FROM FINANCING ACTIVITIES	**46,081**	**77,214**
TOTAL NET CASH FLOW	**(641)**	**(2,550)**
Cash and other equivalent liquid assets at the beginning of the period	2,027	4,577
Cash and other equivalent liquid assets at the end of the period	**1,386**	**2,027**

Notes 1 to 34 described in the accompanying notes are an integral part of the consolidated cash flow statement as of 31 December 2005.

ENAGÁS, S.A. and Subsidiaries
STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY AS OF 31 DECEMBER 2005 AND 2004
(Figures in thousands of euros)

	Share capital and additional paid-in capital	Other reserves	Reserve for revaluation of NEC debt	Cash flow hedge reserve	PRIOR YEARS' PROFIT/LOSS	Profit (loss)	Interim dividend	Total
Balance at 1 January 2004	**358,101**	**460,887**	**(942)**	**(1,629)**	**(690)**	**142,019**	**(28,648)**	**929,098**
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	778	-	-	-	(778)	-	**-**
Parent company voluntary reserve	-	67,174	-	-	-	(67,174)	-	**-**
Consolidated companies' profit (loss)	-	11,847	-	-	-	(11,847)	-	**-**
Other	-	207	-	-	-	-	-	**207**
Dividends paid by the parent	-	-	-	-	-	(71,010)	28,648	**(42,362)**
Dividends received by the parent	-	(8,790)	-	-	-	8,790	-	**-**
Net profit (loss) not recognised in the profit and loss accounts	-	-	-	-	-	-	-	**-**
Changes in the fair value of assets.	-	-	(204)	-	-	-	-	**(204)**
Deferred tax	-	-	71	-	-	-	-	**71**
Hedging transactions	-	-	-	-	-	-	-	**-**
Profit transferred to shareholders' equity	-	-	-	(26,533)	-	-	-	**(26,533)**
Transfer to profit (loss)	-	-	-	1,837	-	-	-	**1,837**
Deferred tax	-	-	-	8,644	-	-	-	**8,644**
Profit (loss) for the year	-	-	-	-	-	158,118	-	**158,118**
Interim dividend	-	-	-	-	-	-	(31,035)	**(31,035)**
Balance at 31 December 2004	**358,101**	**532,103**	**(1,075)**	**(17,682)**	**(690)**	**158,118**	**(31,035)**	**997,840**
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	-	-	-	-	-	-	**-**
Parent company voluntary reserve	-	78,638	-	-	-	(78,638)	-	**-**
Consolidated companies' profit (loss)	-	9,901	-	-	-	(9,901)	-	**-**
Other	-	658	-	-	-	-	-	**658**
Dividends paid by the parent	-	-	-	-	-	(79,063)	31,035	**(48,028)**
Dividends received by the parent	-	(9,484)	-	-	-	9,484	-	**-**
Net profit (loss) not recognised in the profit and loss accounts	-	-	-	-	-	-	-	**-**
Changes in the fair value of assets.	-	-	71	-	-	-	-	**71**
Deferred tax	-	-	(25)	-	-	-	-	**(25)**
Hedging transactions	-	-	-	-	-	-	-	**-**
Profit transferred to shareholders' equity	-	-	-	(4,145)	-	-	-	**(4,145)**
Transfer to profit (loss)	-	-	-	15,145	-	-	-	**15,145**
Deferred tax	-	-	-	(3,850)	-	-	-	**(3,850)**
Profit (loss) for the year	-	-	-	-	-	190,960	-	**190,960**
Interim dividend	-	-	-	-	-	-	(38,197)	**(38,197)**
Balance at 31 December 2005	**358,101**	**611,816**	**(1,029)**	**(10,532)**	**(690)**	**190,960**	**(38,197)**	**1,110,429**

Notes 1 to 34 described in the accompanying notes are an integral part of the consolidated net equity statement as of 31 December 2005.

ENAGÁS, S.A. AND SUBSIDIARIES-

Notes to the Consolidated Annual Accounts for the Year Ended 31 December 2005

1. Group Activity

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

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies which include holdings in business combinations carrying out diverse activities and which comprise, together with Enagás, S.A., the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare Consolidated Annual Accounts for the Group in addition to its own Annual Accounts.

The Consolidated Annual Accounts of the Group for fiscal year 2004, prepared in accordance with Spanish accounting regulations, were approved by the Shareholders' Meeting held on 22 April, 2005. Those Annual Accounts were prepared in accordance with Spanish accounting principles and, accordingly, do not coincide with the amounts for fiscal year 2004 included in these Annual Accounts which have been prepared in accordance with International Financial Reporting Standards (Note 32 includes the reconciliation of net equity and the result for the year, together with a description of the main adjustments).

The consolidated Annual Accounts of the Group and of each of the entities comprising this for fiscal year 2005, which have served as the basis for the preparation of these consolidated Annual Accounts, are pending the approval of their respective Shareholders' Meetings. However, the Directors believe these Annual Accounts will be approved as presented.

These Consolidated Annual Accounts are presented in thousands of euros (unless expressly stated otherwise) as this is the currency of the principal economic area in which the Enagás Group operates.

2. Basis of presentation of the annual accounts and principles of consolidation

2.1. Accounting principles

The consolidated annual accounts of the Enagás Group for fiscal year 2005 have been prepared by the Directors, at a meeting of the Board of Directors held on 22 February 2006, in accordance with the provisions of International Financial Reporting Standards (hereinafter, "IFRS"), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council.

These annual accounts give a true and fair view of the financial position of the Group at 31 December 2005 and of the results of its operations, changes in its net equity and cash flows which have occurred in the Group in the year ending on that date.

The Consolidated Annual Accounts for fiscal year 2005 of the Enagás Group have been prepared from the accounting records kept by the Company and by the other entities comprising the Group.

The Consolidated Annual Accounts for fiscal year 2004 included for comparative purposes have also been prepared in accordance with the provisions of the IFRS adopted by the European Union consistent with those applied in fiscal year 2005.

The Group companies end their financial 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, because of the date on which these Annual Accounts are approved and the immaterial effect of this, are consolidated on the basis of accounts as at 30 November 2005.

Note 3 includes the main accounting principles and valuation methods used in preparing the Consolidated Annual Accounts of the Group for fiscal year 2005.

2.2. Responsibility for the information and estimates made

The information contained in these annual accounts is the responsibility of the Directors of the Group.

The Consolidated Annual Accounts of the Group for fiscal year 2005 include estimates made by Senior Management of the Group and of consolidated entities – subsequently ratified by their Directors – to quantify certain assets, liabilities, revenues, expenses and commitments recorded therein. Basically, these estimates refer to:

- The useful lives of tangible and intangible assets (Note 3)
- The valuation of assets to determine the existence of losses due to their impairment (Note3-b).
- Forecasts for bills pending execution.
- Provisions for decline in value of spare parts for tangible fixed assets.
- Prior years' accounts pending settlement with the Authorities (Note 9).

Although these estimates were made on the basis of the best information available at 31 December 2005 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, with the effects of the change of estimate being recognised in the relevant Consolidated Profit and Loss Accounts.

2.3 Consolidation principles

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

The Annual Accounts of multigroup entities are consolidated with those of the Company via the proportional consolidation method with the aggregation of balances and subsequent eliminations being carried out in the same proportion as the Group's shareholding in the capital of these companies.

The consolidation was carried out as follows:

a. Using the proportional consolidation method for "multi-group" companies managed jointly with Transgás, S.A. (Portuguese company).

b. Transactions between consolidated companies: During the consolidation process, credits, debits, revenue, expenses and results from operations with other Group companies have been eliminated in the same proportion as Enagás, S.A.'s shareholding in the companies concerned.

c. 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.

d. 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.

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

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

Note 33 includes the most significant aspects of the Group's business combinations in operation at the end of fiscal year 2005.

3. Valuation standards

The main valuation standards used in the preparation of the accompanying Consolidated Annual Accounts are as follows:

a. Intangible assets

Initially intangible assets are booked at cost of acquisition or production, and subsequently are valued at cost less accumulated amortisation and impairment losses.

Criteria for the recognition of impairment losses on intangible assets and, where applicable, of recoveries of previous years' impairment losses are similar to those used for tangible assets (see Note 3c).

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

Costs of purchasing and developing the Group's basic computer systems are booked under the "Other intangible assets" caption of the Consolidated Balance Sheet. The costs of maintaining the computer systems are charged to the Consolidated Profit and Loss Accounts for the year in which they are incurred.

Intangible assets with a defined life are amortised on the basis of this, equivalent to the following percentages of amortisation:

	Annual Percentage	Useful Life
Development costs	50%	2
Concessions, patents, licences, brands and similar	20%-1.28%	5-78
Computer programmes	25%	4

The Group records all research costs and those development costs whose technological and commercial viability cannot be established as expenses in the Consolidated Profit and Loss Accounts. Research and development costs recorded as expenses in the Consolidated Profit and Loss Accounts amounted to 581 thousand euros in 2005 and 1,038 thousand euros in 2004.

b. **Tangible assets**

Goods acquired for use in production, for the supply of goods or services or for administrative purposes, are stated in the balance sheet at acquisition or production cost, less accumulated depreciation and any impairment losses they may have suffered, except for any adjustments arising as a result of fixed asset restatements made by Enagás, S.A. in 1996.

Capitalised costs include:

1. Financial expenses associated with the financing of infrastructure projects accrued during the period of construction if this is over a year, with the average rate of capitalisation used to calculate the amount of the interest expenses to be capitalised being 3.39% in fiscal year 2005 (2.72% in 2004).

2. Personnel costs directly associated with work in progress. The amounts capitalised for these items are recorded in the accompanying Consolidated Profit and Loss Accounts for fiscal year 2005 net of personnel costs for a total of 8,181 thousand euros (7,082 thousand euros in 2004).

3. Future payments which the Group will have to make in relation with the requirement to disassemble certain tangible fixed assets pertaining to the Serrablo storage facility at the end of its useful life. The amount recorded in books for these assets includes an estimate of the present value at the date of acquisition of the costs to the Group of disassembly work, this being credited to the “Long term provisions” caption (Note 15) of the Consolidated Balance Sheet. This provision has been restated in the periods following its constitution.

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

Regular upkeep, maintenance and repair expenses are charged to profit and loss, following the accrual principle, as a cost of the year in which they are incurred.

Assets under construction destined for production, rental or administrative purposes, or other purposes yet to be decided are booked at cost price, after deducting impairment losses. As regards qualified assets, the cost includes capitalised interest expenses in accordance with Group accounting policy. Depreciation of these assets, as for other real estate assets, begins when the assets are ready for the use for which they were envisaged.

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

Depreciation is calculated according to the estimated useful life, using the straight-line method, on the cost of acquisition of the assets less their residual value. The land on which the buildings and other constructions stand is considered to have an undefined useful life and accordingly is not subject to depreciation.

Annual allocations for the depreciation of tangible assets are made with counterparty in the Consolidated Profit and Loss Accounts and are basically equivalent to the following depreciation percentages, based on the years of estimated useful life, on average, of the asset items:

	Annual Percentage	Useful Life
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-3.33%	20-30
Tanks	5%	20
Underground storage facilities	4%	25
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport items	16%	6.25

The Directors of the Group believe that the carrying value of the assets does not exceed their recoverable value which is calculated on the basis of the discounted future cash flows they generate.

Profit or loss from the sale or retirement of an asset is calculated as the difference between the profit from the sale and the amount in books of the asset, and is recorded in the Profit and Loss Accounts under the “Other revenue / operating expenses” caption.

Government subsidies related to tangible fixed assets are considered lower cost of acquisition of the tangible fixed assets and are taken to profit and loss over the expected useful lives of the assets as reduced depreciation.

c. **Loss of value of tangible and intangible assets**

At the end of each financial year, or when deemed necessary, the value of the assets is analysed to see if there is any indication they may have suffered an impairment loss. If such an indication exists, an estimate is made of the amount recoverable from the asset in order to calculate, where necessary, the amount of the required write-down. In the case of identifiable assets which do not generate cash flows independently, the recoverability of the Cash-Generating Unit to which the asset belongs is estimated.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, which is the discounted present value of estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value of tangible fixed assets.

To estimate value in use, the Group prepares projections of future cash flows before tax from the most recent budgets approved by Group Directors. These budgets include the best available estimates of revenue and costs of Cash-Generating Units based on sector forecasts, previous experiences and future expectations.

These projections cover the next five years with estimates of future flows being based on reasonable growth rates which are in no case incremental nor exceed the previous years’ growth rates.

To calculate the present value, these flows are discounted at a pre-tax rate which reflects the cost of capital of the business and of the geographical area in which it is carried out. The discount rate is based on the current cost of money and the risk premiums used by analysts of the business and geographical area.

If the recoverable amount is lower than the net carrying value, a provision for impairment loss is recorded for the difference and charged to the "Depreciations" caption of the Consolidated Profit and Loss Accounts.

Prior years' impairment losses are reversed when there is a change in the estimated recoverable amount. The value of the asset is increased, and this increase recognised as profit, up to the original carrying amount prior to the recognition of the loss in value.

Virtually all tangible fixed assets are associated with the transport, regasification and storage of gas, in addition to those required to carry out the regulated activities of purchase-sale of gas from and to regulated clients and Technical Manager of the System. In application of IAS 36 and considering that there are no indications of loss of value of balance sheet assets, the Company has deemed said impairment analysis to be unnecessary in fiscal year 2005.

d. **Leasing**

Under operating leases, ownership of the leased asset and substantially all risks and advantages associated with the asset, remain with the lessor.

When consolidated companies act as lessees, leasing expenses, including incentives granted by the lessor, are taken to the Consolidated Profit and Loss Accounts on a straight-line basis.

e. **Financial assets**

Financial assets are included on the balance sheet when the Group becomes one of the parties to the contract for the instrument.

Financial assets held by Group companies are classified according to the categories established by IFRS:

- Loans and receivables: Are measured at amortised cost, which is the cash amount lent less repayments of principal plus uncollected accrued interest in the case of loans, and the present value of the payment made in the case of receivables.

- Financial assets held-to-maturity: Those which the Enagás Group intends and is able to hold until maturity and which are also measured at amortised cost.

- Investments available-for-sale: Other investments which do not fit in any of the previous categories. These are measured in the Consolidated Balance Sheet at fair value when this can be reliably determined. Changes in the fair value, net of the tax impact, are credited or debited to the "Net equity: restatement reserve for unrealised assets and liabilities" caption of the Consolidated Balance Sheet until these investments are sold when the accumulated amount in this caption relating to these investments is fully allocated to the Consolidated Profit and Loss Accounts. If the fair value is lower than the cost of acquisition, the difference is directly recorded in the Consolidated Profit and Loss Accounts.

  Available-for-sale investments include a capital-market mutual fund to hedge commitments accrued in respect of the Loyalty award. This fund is carried at fair value in accordance with its market price at each accounting close. Although this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

  Investments held-to-maturity and loans and receivables originated by the companies are carried at amortised cost with accrued interest being recognised in the Consolidated Profit and Loss Accounts at the effective interest rate.

Cash and other equivalent liquid assets

This caption of the Consolidated Balance Sheet includes cash, sight deposits and other highly liquid short term investments which can quickly be turned into cash and which do not carry the risk of a change in value.

Trade debtors and other accounts receivable

Accounts receivable are measured at fair value when recognised in the Consolidated Balance Sheet and are subsequently carried at amortised cost using the effective interest method.

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

f. **Inventories**

Royal Decree 1716/2004 governs the obligation to maintain minimum inventory levels, the diversification of natural gas supplies and la Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). As regards minimum gas inventories, it specifies that all agents must maintain, in ownership or under lease with exclusive use, an amount of gas equivalent to 35 days' consumption of the clients they supply.

In this respect, Enagás, S.A. has a natural gas inventories leasing arrangement with Gas Natural Aprovisionamientos, S.A. giving it immediate access to the amount of gas equivalent to the 35 days' supply required by the aforementioned regulation, located in the underground storage facilities in which Gas Natural Aprovisionamientos, S.A. keeps part of its inventories.

The expense recorded in fiscal year 2005 for this leasing arrangement amounted to 1,971 thousand euros and is recorded under the "Other operating expenses" caption in the accompanying Consolidated Profit and Loss Accounts .

In addition, in order to guarantee the supply of natural gas during the winter, the Regulator, through a Ministerial Resolution of 28 November 2005, approved the "Winter 2005-2006 Plan of Action", whose rule number 5 states that: "*The Technical Manager of the System may undertake, as a supplementary LNG storage service for the regulated market, the charter of methane tankers up to a maximum capacity of 160,000 m^3 of LNG, to be maintained in areas allocated for this purpose. This additional storage capacity may be available from 1 December 2005 until 15 March 2006, or sooner if the start-up of the new infrastructure allows this*".

The first Temporary Provision of Order ITC/4099/2005, of 27 December 2005, recognises in the calculation of the regulated tariffs for 2006, the provision for regulated revenues in respect of this measure, in order to allocate these costs to the regulated market.

At the end of December 2005, Enagás, S.A. had approximately 154,000 m^3 of LNG in the methane tankers Methane Artic and Norman Lady, anchored close to the straits of Gibraltar and available for the purposes envisaged in the aforementioned regulation. Unloading is scheduled for March, unless this becomes necessary before then for operating reasons. These inventories should be considered for all purposes as part of Enagás' supplementary storage capacity of LNG inventories even though the invoicing and booking of these inventories will take place when they are unloaded.

The contracts with the methane tankers resulted in an expense of 1,694 thousand euros in fiscal year 2005, recorded under the "Other operating expenses" caption in the accompanying Consolidated Profit and Loss Accounts . Also, Enagás, by virtue of the stipulations of the first Temporary Provision of Order ITC/4099/2005, of 27 December 2005 mentioned above, has recognised the revenues associated with this measure for an identical amount of 1,694 thousand euros relating to regulated revenues, recorded in the "revenue from regulated activities" caption of the accompanying Consolidated Profit and Loss Accounts.

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

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

The Company owns no inventories at the close of the year. The special situation which arose in December 2005 when the usable capacity of the gas pipeline network was lower than the commercial capacity which agents are entitled to (the two days' supply mentioned above) led the Company, as Technical Manager of the System, by virtue of the provisions of section 2.4.2 of RTMS 2 and the special characteristics of the regulated market as closing agent, to place its operating inventories in other storage facilities in order to respect storage capacity for commercial operations which other agents are entitled to, namely the tankers mentioned above.

Other inventories are valued at the lower of cost of acquisition or production and net realisable value. The cost includes the cost of direct materials and, where appropriate, direct labour costs and general manufacturing costs, also including costs incurred in transferring inventories to their current location and conditions, at the point of sale.

The Company assesses the net realisable value of inventories at the end of the year and makes the appropriate provision when these are overvalued. This provision is reversed when the circumstances which caused the decline in value no longer exist or when there is clear proof of an increase in the net realisable value due to a change in financial circumstances.

g. **<u>Equity and financial liabilities</u>**

Capital and equity instruments issued by the Company are carried at the amount received in equity, net of direct issuing costs.

Financial liabilities are classified according to the substance of the contract and taking into account the financial background.

The main financial liabilities held by group companies are classified as:

- Financial liabilities carried at fair value with changes in net equity, mainly marketable liabilities: Financial liabilities associated with financial assets available-for-sale originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.

- Financial liabilities held-to-maturity: Financial liabilities held-to-maturity are carried at amortised cost as defined above.

The liability instruments held by group companies are:

- *Bank loans:* Bank loans which accrue interest are carried at the amount received, net of direct issuing costs. Financial expenses, including premiums payable on settlement or repayment and direct issuing costs, are booked according to accrual criteria in the Profit and Loss Accounts using the effective interest method and are incorporated to the amount booked for the instrument if not paid during the period in which they accrue.

- *Derivatives and accounting of hedges:* Due to loans with banks the Group is exposed to fluctuations in interest rates. To hedge these risks, the group uses cash flow swaps. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group's risk management policies approved by the chairman of the company.

In the case of hedges which do not generate recognition of an asset or liability, the amounts deferred in equity are recognised in the Consolidated Profit and Loss Accounts in the same period in which the item subject to the hedge impacts net profit.

Fluctuations in the fair value of derivative instruments which do not meet the criteria for hedge accounting are recognised in the Consolidated Profit and Loss Accounts as they occur.

Hedge accounting is discontinued when the hedging instrument expires or is sold, at the end of the year, or no longer meets hedge accounting criteria. Any accumulated gains or losses on the hedging instrument remain in equity until the transaction occurs.

h. **Trade creditors and other accounts payable**

Trade creditors do not accrue interest explicitly and are carried at nominal value.

i. **Classification of debts as current and non-current**

In the accompanying consolidated balance sheet, debts falling due in 12 months or less are classified as current debts and those falling due in over 12 months as non-current.

Loans falling due in over 12 months are revalued at an interest rate. The benchmark interest rate used is 3.39%.

j. **Pension commitments**

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. **Severance costs**

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

l. **Provisions**

At the time the annual accounts of the consolidated companies were prepared, their respective Directors distinguished between:

- Provisions: Credit balances representing obligations existing at the date of the balance sheet arising from past events which may result in losses for the companies; specific as regards their nature but uncertain as regards amount and/or timing of cancellation, and

- Contingent liabilities: possible obligations arising from past events whose materialisation depends on whether one or more future event(s) occur(s) outside the control of the consolidated companies.

The Group's consolidated annual accounts include all significant provisions where it is considered more likely than not that payment will have to be made. Contingent liabilities are not recognised in the consolidated annual accounts but they are disclosed (see Note 30).

Provisions - which are measured on the basis of the best available information about the consequences of the event for which they were originally recognised and re-estimated at each accounting close – are used to settle the specific obligations for which they were originally recognised and are totally or partially reversed when these obligations no longer exist or decrease.

At the end of fiscal year 2005 various lawsuits and demands filed against the consolidated companies originating from their usual business activity were in progress. Both the Group's legal advisors and its Directors consider that the conclusion of these lawsuits and demands will not have a material impact on the annual accounts for the financial years in which they are concluded.

m. **Deferred revenue**

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

n. **Classification of balances as current and non-current**

In the accompanying consolidated balance sheet, balances held for 12 months or less are classified as current and those held for over 12 months as non-current.

Debits held for over 12 months are revalued using a specific interest rate. This interest rate is 3.39%.

o. **Recognition of revenue**

Specifically, revenue is calculated at the fair value of the payment received or to be received and represents the amounts receivable for the goods delivered and the services provided as part of the company's usual activities, less discounts, VAT, and other sales taxes.

Gas sales are recognised when all the risks and benefits have been substantially transferred.

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

Enagás manages gas purchases and sales with regulated clients and receives compensation aimed at covering the costs incurred in this activity. Accordingly, revenue and expenses from gas purchases and sales on the regulated market are eliminated from the Consolidated Profit and Loss Accounts, with an amount of 6,398 thousand euros being recorded for the cost of sales associated with gas shrinkage. Revenue from the regulated compensation of gas purchase and sales management is recorded under the "Revenue from regulated activities" caption in an amount of 15,819 thousand euros.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue subject to the new regulations is recorded in accordance with the methods set out below:

On 15 February 2002 three Ministerial Orders were approved by the Ministry of Economy defining the new compensation 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 access charges 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 receivable in 2002 by all companies carrying out purchase and sale activities, regasification, gas storage and transportation, technical management of the system and gas distribution activities, in addition to formulae and criteria for the restating and fixing of the compensation of these activities in coming years.

On 28 January 2005 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders - ITC/102/2005, ITC/103/2005 and ITC/104/2005- updating these prices for 2005, published in the Official State Gazette of 31 January, and establishing compensation in 2005 for all companies carrying out regasification, storage, transport or distribution activities.

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

- Regasification and loading of LNG tanks
- Transfer of LNG to tankers
- 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 Enagás, S.A. from a revenue point of view are examined in Note 4 below.

Interest revenue is accrued on a time basis according to the principal pending payment and the effective interest rate charged, which is the rate that exactly discounts estimated future cash receipts over the life of the financial asset from the net book value of the asset.

Dividend revenue from investments is recognised when the rights of the shareholders to receive the dividend payment have been established.

p. **Recognition of expenses**

Expenses are recognised in the Profit and Loss Accounts when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

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

q. **Corporate income tax**

Corporate income tax is recorded in the Consolidated Profit and Loss Accounts or in the net equity accounts of the Consolidated Balance Sheet depending on where the gains or losses originating from this have been recorded. Differences between the carrying amount of assets and liabilities and their tax bases generate deferred tax assets or liabilities which are calculated using the tax rates which are expected to be in force when the assets and liabilities are realised.

Changes during the year in deferred tax assets or liabilities which do not come from business combinations are recognised in the Consolidated Profit and Loss Accounts or directly in the equity accounts of the Consolidated Balance Sheet, as appropriate.

A deferred tax asset should only be recognised when it is expected that sufficient future taxable profit will be available to recover deductions for temporary differences.

Tax deductions arising from financial events occurring during the year reduce the accrued tax expense unless doubts exist as to their realization, in which case they are not recognised until they materialise, or they are related to specific tax incentives.

The income tax expense for the year is the sum of the current tax resulting from the application of the tax rate to the taxable income for the year after applying fiscally admissible deductions and the variation in deferred tax assets and liabilities.

r. **Earnings per share**

Basic earnings per share is the ratio between net income for the year attributable to the Parent Company and the weighted average number of ordinary shares outstanding during the period, without including the average number of parent company shares held by Group companies, and coincides with diluted basic earnings (Note 12).

s. **Consolidated cash flow statements**

In the consolidated cash flow statements the following expressions are used with the following meanings:

Cash flows: inflows and outflows of cash and cash equivalents (short term investments with high liquidity and low risk of changes in value).

Operating activities: Typical activities of the company and other activities which cannot be classified as investing or financing.

Investing activities: the acquisition, disposal or use by other means of long term assets and other investments not included in cash and cash equivalents.

Financing activities: are activities that alter the size and composition of net equity and of the liabilities that do not form part of the operating activities.

4. Regulation of compensation

a) Revenue from regasification, storage and transport activities

Ministerial Order 301 (15 February 2002) specifies revenue 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 consumer price index (CPI) 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 revenue for this item. No compensation for depreciation is recorded for fully-depreciated assets.

  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, while for those that imply enlargement the basis for calculating the relating compensation for depreciation will be real cost.

- 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 2004 was 5.64%, while for 2005 it was 5.79%.

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 IPRI average) is applied to the resulting standard value, adjusted by an efficiency factor of 0.85. Revenue for this item is obtained by applying these restated standard figures to physical units.

a.1.3. Given that prevailing regulations compensate Enagás, S.A. for investments made, and the book value of these investments is the yearly depreciation charged to the Profit and Loss Accounts on a straight-line basis, revenue relating to the fixed authorised cost is also taken to the Consolidated Profit and Loss Accounts on a straight-line basis. In this way, a monthly balance is achieved between revenue (compensation) and expenses (depreciation).

a.2) Authorised variable cost for regasification and transfer of LNG to tankers.

a.2.1. The authorised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG tanks in each period and the variable unit regasification cost for the period in question. For 2005, this cost is set at 0.000255 euros per kW/hr regasified.

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

b) Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the authorised cost for each year and is used to compensate Enagás, 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 2005, the quota allocated to compensate GTS to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for access charges and royalties relating to third-party network access rights, was 0.53% for access charges and royalties and 0.25% for prices, while in 2004 these figures were 0.62% and 0.30% respectively. 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 has open for these purposes.

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

The monthly allocation of these revenues (from regasification and technical system management) to the Consolidated Profit and Loss Accounts is carried out on a straight-line basis.

c) Assessment of access charges 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) Revenue from gas purchases and sales

In accordance with the Law on hydrocarbons, as a transport company Enagás, 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). With this sole end in mind, Enagás, S.A. buys gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A.

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

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

- Sale price. The sale price includes the cost of the raw material to be sold on the 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.

This revenue is taken to the Consolidated Profit and Loss Accounts based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. Revenue is therefore taken to the Consolidated Profit and Loss Accounts on an accruals basis.

e) Revenue from Management of gas purchases and sales

This revenue 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 both 2005 and 2004 was 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 underground 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 2005 was 2.60% and in 2004 it was 2.98%.

f) Payment systems

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.

g) Development of the Regulatory Framework

On 3 August 2005 Royal Decree 942/2005 of 29 July was published, which establishes that the Ministry of Industry, Tourism and Trade, subsequent to a report by the National Energy Commission, shall determine prior to 1 January each year the compensation to be received by users operating in the Spanish gas system, so that collection periods for the new tariffs, access charges and royalties coincide with the period for compensation.

On 11 October 2005 Order ITC/3126/2005 of 5 October was published, approving the regulations for the technical management of the gas system.

These regulations develop the basic technical conditions for use of the installations and the procedures to be followed by the parties operating in all stages of the gas system, thereby ensuring the quality, continuity and security of supply and in consequence a more effective functioning of the gas system. In addition, the regulations establish the guidelines for management of the installations and the basic operating procedures of the system, both under normal conditions and in exceptional or emergency situations.

On 19 November 2005 Law 24/2005 of 18 November establishing reforms to boost productivity was published which modified certain aspects of Hydrocarbons Law 34/1998. Among other aspects of this law, the minimum requirement in installations subject to obligatory planning has been abolished and the NEC is empowered to resolve gas settlements.

On 25 November 2005, ITC Order 3655/2005 of 23 November was published, modifying the Ministerial Orders governing compensation, access charges and tariffs, and settlements to adapt these to the principles established in Royal Decree 942/2005.

On **30 November 2005** the Resolution of the Directorate General for Energy Policy and Mines, approved on 28 November was published, approving the "Winter 2005-2006 Plan of Action", for the operation of the gas system. The main provisions of this were:

- To establish maximum inventory fluctuation allowed for transporters and distributors supplying gas to the system during the winter.
- To establish minimum security requirements for all regasification plants' LNG storage tanks during the winter.
- To establish the extraction reserves allowed in underground storage facilities of the various agents that operate in the market.
- To allow the Technical Manager of the System to undertake, as a supplementary LNG storage service for the regulated market, the charter of methane tankers up to a maximum capacity of 160,000 m^3. This storage capacity could be available from 1 December 2005 until 15 March 2006.

On **27 December 2005** the Ministry of Industry, Tourism and Trade approved Ministerial Orders ITC/4099, 4100 and 4101/2005 updating prices, access charges, royalties and compensation for gas industry regulated activities for 2006, published on 30 December 2005 in the Official State Gazette, which establish the compensation to be received throughout 2006 by all companies carrying out regasification, storage, transport or distribution activities.

5. Intangible assets

The breakdown and movements in intangible assets in 2005 and 2004, is as follows:

	Thousands of euros		
	01.01.05	Increase	31.12.05
Development costs	46	-	46
Concessions, patents, licences, brands and similar	33,025	68	33,093
Computer software programmes	12,685	3,080	15,765
Total	**45,756**	**3,148**	**48,904**

	Thousands of euros		
	01.01.04	Increase	31.12.04
Development costs	-	46	46
Concessions, patents, licences, brands and similar	32,878	147	33,025
Computer software programmes	9,222	3,463	12,685
Total	**42,100**	**3,656**	**45,756**

Major items in the Concessions caption in fiscal year 2005 were the Port of Barcelona for 3,676 thousand euros and the Port of Huelva for 2,114 thousand euros.

Increases in development costs in fiscal year 2004 were for the Project for Improvements to the Regulation and Measurement Station and the Measurement Station.

Key expenditure on computer programmes in fiscal year 2005 included the new Enagás computer network model costing 510 thousand euros and migration of the Token-Ring technological data network to Ethernet for 524 thousand euros.

Charges in the Consolidated Profit and Loss Accounts in fiscal year 2005 and 2004 in respect of the amortisation of intangible assets amounted to 4,056 thousand and 3,284 thousand euros respectively. The breakdown and movements of this amortisation were as follows:

	Accumulated amortisation		
Thousands of euros	01.01.05	Increase	31.12.05
Development costs	44	(18)	26
Concessions, patents, licences, brands and similar	9,124	1,320	10,444
Computer software programmes	6,080	2,754	8,834
Total	**15,248**	**4,056**	**19,304**

Thousands of euros	Accumulated amortisation		
	01.01.04	Increase	31.12.04
Development costs	-	44	44
Concessions, patents, licences, brands and similar	7,815	1309	9,124
Computer software programmes	4,149	1,931	6,080
Total	**11,964**	**3,284**	**15,248**

The intangible assets fully depreciated as of 31 December 2005 and 2004, amounted to 4,437 thousand and 2,678 thousand euros respectively.

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

6. Tangible assets

The carrying value of tangible assets at 31 December 2005 and 2004 and their corresponding depreciation is as follows:

	Thousands of euros		
	Cost	Accumulated depreciation	Net total
Land and buildings	79,311	(31,474)	47,837
Plant and machinery	3,667,078	(1,237,930)	2,429,148
Fixtures, fittings, tools and equipment	12,158	(10,255)	1,903
Payments on account and assets in course of construction	450,103	-	450,103
Other fixed assets	21,806	(18,586)	3,220
Capital grants	(539,831)	160,116	(379,715)
Provisions	-	-	(9,402)
Balance at 31 December 2004	**3,690,625**	**(1,138,129)**	**2,543,094**
Land and buildings	80,895	(33,895)	47,000
Plant and machinery	4,130,570	(1,395,988)	2,734,582
Fixtures, fittings, tools and equipment	12,910	(10,961)	1,949
Payments on account and assets in course of construction	337,542		337,542
Other fixed assets	22,057	(19,836)	2,221
Capital grants	(558,291)	184,645	(373,646)
Provisions	-	-	(12,506)
Balance at 31 December 2005	**4,025,683**	**(1,276,035)**	**2,737,142**

The breakdown and movements in tangible assets and accumulated depreciation in 2005 and 2004 were as follows:

	Tangible fixed assets				
Thousands of euros	**Balance at 01.01.05**	**Increases**	**Decreases**	**Transfers and others**	**Balance at 31.12.05**
Land and buildings	79,311	1,508	-	76	80,895
Plant and machinery	3,667,078	216,200	(1,674)	248,966	4,130,570
Fixtures, fittings, tools and equipment	12,158	752	-	-	12,910
Payments on account and assets in course of construction	450,103	136,481	-	(249,042)	337,542
Other fixed assets	21,806	578	(327)	-	22,057
Capital grants	(539,831)	(18,460)	-	-	(558,291)
Total	**3,690,625**	**337,059**	**(2,001)**	**-**	**4,025,683**

	Tangible fixed assets				
Thousands of euros	**Balance at 01.01.04**	**Increases**	**Decreases**	**Transfers and others**	**Balance at 31.12.04**
Land and buildings	74,797	4,514	-	-	79,311
Plant and machinery	3,184,135	204,227	(1)	278,717	3,667,078
Fixtures, fittings, tools and equipment	11,375	783	-	-	12,158
Payments on account and assets in course of construction	479,959	248,861	-	(278,717)	450,103
Other fixed assets	21,893	889	(976)	-	21,806
Capital grants	(538,755)	(1,076)	-	-	(539,831)
Total	**3,233,404**	**458,198**	**(977)**	**-**	**3,690,625**

	Accumulated depreciation			
Thousands of euros	**Balance at 01.01.05**	**Increases**	**Decreases**	**Balance at 31.12.05**
Land and buildings	31,474	2,421	-	33,895
Plant and machinery	1,237,930	158,183	(125)	1,395,988
Fixtures, fittings, tools and equipment	10,255	706	-	10,961
Other fixed assets	18,586	1,574	(324)	19,836
Capital grants	(160,116)	(24,529)	-	(184,645)
Total	**1,138,129**	**162,884**	**(449)**	**1,276,035**

	Accumulated depreciation			
Thousands of euros	**Balance at 01.01.04**	**Increases**	**Decreases**	**Balance at 31.12.04**
Land and buildings	28,978	2,496	-	31,474
Plant and machinery	1,101,745	136,186	(1)	1,237,930
Fixtures, fittings, tools and equipment	9,521	734	-	10,255
Other fixed assets	17,935	1,606	(955)	18,586
Capital grants	(139,752)	(20,364)	-	(160,116)
Total	**1,018,427**	**120,658**	**(956)**	**1,138,129**

93% of total increases in plant and machinery were accounted for by the start-up during the year of:

- The increase in the emission capacity of the Barcelona Plant to 1,500,000 m^3
- The increase in the emission capacity of the Cartagena Plant to 900,000 m^3
- The increase in the emission capacity of the Huelva Plant to 1,050,000 m^3
- A third 127,000 m^3 tank at the Cartagena Plant.
- A fifth 150,000 m^3 tank at the Barcelona Plant.
- The enlargement of the Almendralejo Compression Station.
- Stage II of the Cordoba Compression Station.
- The enlargement of the Dos Hermanas Compression Station in Seville.
- The enlargement of the Tivissa Compression Station.
- Stage II of the enlargement of the Bañeras Compression Station.
- Stage II of the Cartagena-Lorca gas pipeline.
- The Castelnou-Fraga-Tamarite de Litera gas pipeline.
- The second Arbós-Tivissa gas pipeline.
- Section II of the Málaga-Estepona gas pipeline.

Increases in assets under construction include the following plant which accounts for over 79% of total increases in this item for the year:

- The increase in the emission capacity of the Cartagena Plant to 1,200,000 m^3
- The increase in the emission capacity of the Huelva Plant to 1,350,000 m^3
- The increase in the emission capacity of the Barcelona Plant to 1,650,000 m^3
- A fourth tank at Cartagena.
- A fourth tank at Huelva.
- A sixth tank at Barcelona.

The most significant decreases in fiscal year 2005 were the transfer to Desarrollo del Cable, S.A. of part of the surplus fibre-optic network (a total of 636 kms) for 1,674 thousand euros and vehicles in an amount of 320 thousand euros.

Transfers shows the movement from fixed assets in course of construction to permanent of those projects which began operating during the year.

The restatement of tangible assets by Enagás, 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 16,173 thousand euros in the fixed asset depreciation charge for 2006 and of 16,654 thousand euros in 2005.

In 2005 and 2004 group companies capitalised as an increase in the value of tangible assets financial expenses amounting to 9,086 thousand euros and 7,053 thousand euros respectively.

Work carried out by the company on intangible assets caused increases in capex of 8,181 thousand euros in 2005 and 7,082 thousand euros in 2004.

The total amount recorded under decreases in the “Accumulated depreciation” caption basically relates to the disposal of vehicles totalling 320 thousand euros and of the surplus fibre-optic network for 125 thousand euros.

Tangible assets fully depreciated as of 31 December 2005 and 2004 amounted to 308,622 thousand euros and 232,618 thousand euros respectively.

Capital goods are not mortgaged or subject to any other similar encumbrance.

The Group has taken out insurance policies to cover possible risks which various tangible asset items are subject to and possible lawsuits which may be filed against it during the course of its activities and believes these policies sufficiently cover these risks.

Capital grants received in 2005 were for investments in gas infrastructure as follows:

Thousands of euros	Grants received at 31.12.05	Amount taken to accumulated income at 31.12.05	Balance at 31.12.05
Regasification plants	76,840	37,101	39,739
Gas transport infrastructure	465,334	147,545	317,789
Underground storage facilities	16,118	-	16,118
TOTAL	**558,292**	**184,646**	**373,646**

These grants were received from the following Bodies:

Thousands of euros	Grants received at 31.12.05	Amount taken to accumulated income at 31.12.05	Balance at 31.12.05
EU structural funds	396,609	102,814	293,795
Official Bodies of the autonomous regions	47,835	11,147	36,688
Spanish state	113,848	70,685	43,163
TOTAL	**558,292**	**184,646**	**373,646**

Amounts received in 2005 mainly correspond to the Gas Infrastructure Operating Programme with structural funds provided by the EEC.

Capital grants to be taken to profit and loss in 2006 amount to approximately 20,013 thousand euros. The schedule for the allocation of the balance pending at 31 December 2005 is:

	years		
	<1	2-5	>5
Government grants	2,898	11,593	28,672
Grants from the autonomous regions	1,586	6,345	28,756
ERDF grants	15,529	60,932	217,335
Total Grants	**20,013**	**78,870**	**274,763**

7. Holdings in business combinations

There were no changes to shareholdings in subsidiaries in 2005 and 2004 so the balances held by Enagás, S.A. remains as follows:

	Thousands of euros		% shareholding
	2005	2004	
Gasoducto Al-Andalus, S.A. (Spain)	23,744	23,744	66.96%
Gasoducto de Extremadura, S.A. (Spain)	9,732	9,732	51%
Gasoduto Campo Maior - Leiria - Braga, S.A. (Portugal)	3,195	3,195	12%
Gasoduto Braga - Tuy, S.A. (Portugal)	2,546	2,546	49%
Gross total	**39,217**	**39,217**	**-**
Less: impairment losses	-	-	-
Net total	**39,217**	**39,217**	**-**

8. Financial assets

This caption of the Consolidated Balance Sheet breaks down as follows:

	Thousands of euros			
	2005		2004	
	Non-current	Current	Non-current	Current
Financial assets held to maturity	18	-	-	-
Loans and accounts receivable	19,630	3,849	24,012	3,919
Financial assets available-for-sale	7,925	-	2,209	-
Other financial assets	638		697	
Gross total	**28,211**	**3,849**	**26,918**	**3,919**
Impairment losses	-	-	-	-
Net total	**28,211**	**3,849**	**26,918**	**3,919**

Movements in 2005 and 2004 in financial assets belonging to the Group were as follows:

	Thousands of euros				
	Balance at 01.01.05	**Increases**	**Restatement of value against reserves/ income**	**Decreases**	**Balance at 31.12.05**
Financial assets held to maturity	10	8	-	-	18
Loans and accounts receivable	27,931	1,207	-	(5,659)	23,479
Financial assets available-for-sale	2,199	5,059	667	-	7,925
Other financial assets	697	14		(73)	638
Gross total	**30,837**	**6,288**	**667**	**(5,732)**	**32,060**
Impairment losses	-	-	-	-	-
Net total	**30,837**	**6,288**	**667**	**(5,732)**	**32,060**

	Thousands of euros				
	Balance at 01.01.04	Increases	Restatement of value against reserves/ income	Decreases	Balance at 31.12.04
Financial assets held to maturity	517	10		(517)	10
Loans and accounts receivable	30,864	984	-	(3,917)	27,931
Financial assets available-for-sale	1,786	330	85	(2)	2,199
Other financial assets	587	124		(14)	697
Gross total	**33,754**	**1,448**	**85**	**(3,919)**	**30,837**
Impairment losses	-	-	-	-	-
Net total	**33,754**	**1,448**	**85**	**(3,919)**	**30,837**

a) Loans and accounts receivable generated by the company:

Current and non-current loans

This caption of the Consolidated Balance Sheet breaks down as follows:

	Thousands of euros	Interest rate	Due date
Non-current loans:			
Loans to group companies	23,515	3.0737%	Sept.-2011
Other loans	497		
Current loans:			
Loans to group companies	3,919	3.0737%	Dec.-2005
Balance at 31.12.04	**27,931**		
Non-current loans:			
Loans to group companies	19,244	3.5605%	Sept.-2011
Other loans	386		
Current loans:			
Loans to group companies	3,849	3.5605%	Dec.-2005
Balance at 31.12.05	**23,479**		

Current and non-current loans include those granted by the Parent Company to finance the construction of transport infrastructure falling due in the long term and are carried at amortised cost using the effective interest method. These loans accrue interest at variable rates referenced to the EIB rate plus a 90 bp spread for Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and at the average cost of Enagás, S.A. debt plus 32.5 points.

Details are as follows:

Thousands of euros	2005	2004
Non-current loans to group companies:		
Gasod. Al-Andalus, S.A.	11,180	12,951
Gasod. de Extremadura, S.A.	2,721	3,771
Gasod. Campo Maior- Leiria- Braga, S.A.	4,425	5,019
Gasod. Braga-Tuy, S.A.	918	1,774
Total non-current	**19,244**	**23,515**
Current loans to group companies:		
Gasod. Al-Andalus, S.A.	2,236	2,158
Gasod. de Extremadura, S.A.	544	629
Gasod. Campo Maior- Leiria- Braga, S.A.	885	837
Gasod. Braga-Tuy, S.A.	184	295
Total current	**3,849**	**3,919**

b) Financial assets available-for-sale:

Long-term investment securities

This caption of the Consolidated Balance Sheet at 31 December 2005 mainly corresponds to an investment in a BBVA Investment Fund.

This fund is carried at fair value in accordance with its market price at each accounting close. Although, as this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

The carrying value of this fund at 31 December 2005 and 2004 was 7,925 thousand euros and 2,199 thousand euros respectively. At 31 December 2005 the stake in this fund was 100%.

9. Trade debtors and other accounts receivable

The breakdown of the balance of this caption at the balance sheet date is as follows:

	2005	2004
Trade debtors:		
Clients for sales and provision of services	149,411	125,754
Group companies, debtors	1,649	1,686
Associated companies, debtors	52,034	125,573
Sundry debtors	199,017	184,296
Total	**402,111**	**437,309**

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.

The 1,649 thousand euros balance of "Group companies, debtors" relates to Gasoducto Al-Andalus, S.A. in an amount of 737 thousand euros, and to Gasoducto de Extremadura, S.A. for 912 thousand euros. These balances represent gas transport services for Transgás, S.A. pending collection which are consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

The 52,034 thousand euros balance for "Associated companies, debtors" at 31 December 2005, relates mainly to Gas Natural Distribución SDG, S.A. in an amount of 31,633 thousand euros, Gas Natural Comercializadora, S.A. for 16,968 thousand euros, and to Gas Natural Castilla La Mancha, S.A. for 1,724 thousand euros.

"Sundry debtors" includes the balance pending payment in respect of compensation for regulated activities for 2005 in an amount of 141,577 thousand euros. At the beginning of 2006, at the date these Consolidated Annual Accounts were prepared, payment number 11 corresponding to 2005 in an amount of 17,358 thousand euros was received.

Also at the date these Consolidated Annual Accounts were prepared, final payments for 2002, 2003 and 2004 totalling 25,522 thousand euros, 17,394 thousand euros and 10,114 thousand euros respectively were pending receipt. The aforementioned amounts are recorded in the Consolidated Balance Sheets including the financial expenses arising from their discounting. Accordingly, the updated balances pending settlement amount to: 25,089 thousand euros, 16,930 thousand euros and 9,428 thousand euros for 2002, 2003, and 2004 respectively.

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

The Group maintains these balances for 2002, 2003 and 2004 pending settlement because, although the Regulator has taken these into consideration when calculating tariffs, access charges and royalties for the following years, these balances may only be settled once the definitive payments have been received.

The account Taxes and Social Security at 31 December 2004 basically records VAT receivable by Enagás, S.A., the refund of which was requested in January 2005 and paid by the Tax Authorities in that year.

The Directors believe that the carrying amount of the accounts recorded under the Trade debtors and other accounts receivable caption is close to their fair value.

Credit risk

The Group's main financial assets are cash balances, trade debtors and other accounts receivable, and debts on investments which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances record amounts which are all within the stipulated maturity period and relate to companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment with planned scenarios. However, all value adjustments deemed necessary are made to provide for bad debt risks.

10. Inventories

Inventories at 31 December 2005 and 2004 relate basically to materials used to supply and maintain regasification plants, underground storage facilities and the gas pipeline network (see note 3.f).

11. Net equity

11. 1 Share capital

At 31 December 2005 share capital of the parent company amounted to 358,101 thousand euros and was represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All Enagás, S.A. shares are listed on the four Spanish stock exchanges and are traded on the continuous market. At 30 December 2005, the price of Enagás, S.A. shares stood at 15.80 euros, having reached a high for the year of 16.00 euros per share on 22 December.

The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2005 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	14.958
Inversiones Cotizadas del Mediterráneo, S.L.	5.027
Sagane Inversiones, S.L.	5.022
B.P.España, S.A.	5.000
Caja de Ahorros de Valencia, Castellón y Alicante.	5.000
Cantábrica de Inversiones de Cartera, S.L.	5.000

Inversiones Cotizadas del Mediterráneo, S.L. and Cantábrica de Inversiones de Cartera, S.L., are subsidiaries of la Caja de Ahorros del Mediterráneo (CAM) and la Caja de Ahorros de Asturias (Cajastur), respectively.

The Group has no treasury shares.

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 Enagás, S.A., in terms of share capital or voting rights". This law also establishes a maximum of three 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 9.96% before 31 December 2006.

11.2 Reserves

Revaluation reserve

The balance of this caption is the result of the adjustment made pursuant to Royal Decree-Law 7/1996 of 7 June.

This balance may be used, without accruing tax, to offset future years' losses and to increase capital stock.

From 1 January 2007 it may be allocated to unrestricted reserves.

Legal reserve

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

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Except as mentioned above, until the legal reserve exceeds 20% of

capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.
The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included in the "non-distributable reserves" caption of the accompanying Consolidated Balance Sheet.

Reserve for the revaluation of unrealised assets and liabilities

Movements in this reserve arising from adjustments to the value of assets available-for-sale and derivatives used as cash flow hedges in 2005 and 2004 are as follows:

	Thousands of euros			
	01.01.2005	**Change in market value**	**Allocation to income**	**31.12.2005**
Cash flow hedges				
Collars	(27,103)	(4,152)	15,052	(16,203)
FRAs	(100)	7	93	-
Deferred tax from revaluation of unrealised liabilities	9,521	1,450	(5,300)	5,671
Total	**(17,682)**	**(2,695)**	**9,845**	**(10,532)**

	Thousands of euros			
	01.01.2004	**Change in market value**	**Allocation to income**	**31.12.2004**
Cash flow hedges				
Collars	(2,486)	(24,617)	-	(27,103)
FRAs	(21)	(1,916)	1,837	(100)
Deferred tax from revaluation of unrealised liabilities	877	9,287	(643)	9,521
Total	**(1,630)**	**(17,246)**	**1,194**	**(17,682)**

11.3 Interim dividend

The proposed distribution of Enagás, S.A.'s 2005 net profit that the Board of Directors will submit for approval by the Shareholders' Meeting is as follows:

Dividend	95,480
Voluntary reserve	95,936
	191,416

On 22 December 2005 the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2005 results of 38,197 thousand euros (a gross amount of 0.16 euros per share). The Company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

In accordance with legal requirements, the provisional financial statements prepared by the Group which justify the existence of the funds necessary to pay this interim dividend for 2005 were the following:

	Thousands of euros
Net income at 31 October 2005	168,283
10% Legal reserve	--
Income available for distribution	168,283
Forecast interim payment	(38,197)
Forecast cash at bank and in hand between 31 October 2005 and 31 December 2005:	
- Cash at bank and in hand at 31 October 2005	13,074
- Collections forecast for the period under consideration	142,400
- Credit facilities and loans granted by banks	662,000
- Payments forecast for the period under consideration (including the interim dividend)	(138,400)
Forecast cash at bank and in hand at 31December 2005	**679,074**

The proposed gross supplementary dividend (0.24 euros per share) is subject to the approval of the shareholders at the Shareholders' Meeting and is not included as a liability in these financial statements.

12. Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to the parent company by the weighted average number of outstanding shares during the period, without including the average number of treasury shares held during the period.

The result is shown below:

	2005	2004	Change
Net income for the year (thousands of euros)	190,960	158,118	20.77%
Weighted average number of outstanding shares (thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	0.799886066	0.662318731	20.77%

Diluted earnings per share is calculated as the ratio between the net profit for the period attributable to ordinary shareholders adjusted to take into account the effect attributable to potential ordinary shares which cause dilution and the weighted average number of outstanding ordinary shares during the period, adjusted by the weighted average of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the company. As there are no potential ordinary shares at 31 December 2005, the basic and diluted profit per share are the same.

13. Deferred revenue

The variations in 2005 and 2004 in this caption of the accompanying consolidated balance sheet were as follows:

Thousands of euros	Royalty Gasoducto de Extremadura, S.A.	Royalty Gasoducto Al-Andalus, S.A.	Total
Balance at 1 January 2004	**15,449**	**36,775**	**52,224**
Decreases/Allocation to income	(3,423)	(3,068)	(6,491)
Balance at 31 December 2004	**12,026**	**33,707**	**45,733**
Decreases/Allocation to income	(3,515)	(2,671)	(6,186)
Balance at 31 December 2005	**8,511**	**31,036**	**39,547**

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

Enagás, S.A. allocates and books this revenue on an accruals basis depending on the amount of gas transported by the pipeline in question.

14. Provisions

The variations in 2005 in this caption of the consolidated balance sheet were as follows:

	Thousands of euros					
	Lawsuits-tax proceedings and/or demands	Loyalty award	Abandonment costs	LTI	Others	Total
Balance at 1 January 2005	**1,016**	**7,180**	**2,865**	**2,191**	**5**	**13,257**
Allocations charged to income:						
Interest and similar charges	104	-	-	-	-	104
Allocations to provisions	409	755	-	1,639	-	2,803
Reversal of provisions credited to income:						
Interest and similar revenue	-	-	143	-	-	143
Others (transfers)	300	-	-	-	-	300
Balance at 31 December 2005	**1,829**	**7,935**	**3,008**	**3,830**	**5**	**16,607**

The most significant items in this caption are:

- Loyalty award. Provisions relate to non-consolidated remuneration to reward Enagás' management and Board members for their loyalty in an amount of 755 thousand euros with 88 thousand euros in allocations for the year and 667 thousand euros for the effect of valuation at fair value.

- Long term incentive plan. The pluri-annual remuneration plan proposed by the Appointments and Remuneration committee and approved by the Board of Directors in 2003 remained in force in

2005. This consists of a long term incentive plan linked to the achievement of certain objectives over a three-year period. Top management of the company, including executive directors, are possible beneficiaries of this remuneration system which concludes in June 2006.

- Lawsuits and tax proceedings and/or demands include the civil lawsuit filed by a former employee of Enagás, S.A.

The Directors of the Enagás Group consider the provisions recorded in the accompanying Consolidated Balance Sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and do not expect further liabilities to arise from these in addition to those recorded.

Given the nature of the risk covered by these provisions it is not possible to make a reasonable estimate as to the timing of any payments which may arise, except for the LTI which concludes in 2006.

Discounting of provisions is recorded under the “Financial Expenses” caption of the accompanying Consolidated Profit and Loss Accounts.

15. Bank loans

Balances of bank loans at 31 December 2005 and scheduled repayments are as follows:

	Thousands of euros							
		Loans at 31 December 2005 falling due in the						
		Short term	Long term					
	Balance at 31.12.05	**2006**	**2007**	**2008**	**2009**	**2010**	**Otros**	**Total long term**
Principal	1,512,268	16,394	8,288	74,002	74,002	1,079,246	260,336	1,495,874
Accrued interest pending payment	6,169	6,169	-	-	-	-	-	-
TOTAL	**1,518,437**	**22,563**	8,288	74,002	74,002	1,079,246	260,336	**1,495,874**

At 31 December 2005 group companies had unused credit facilities amounting to 303,894 thousand euros which sufficiently cover any short term commitments of the Group. They also had 350,000 thousand euros in unused loans.

Average annual interest in 2005 on Group loans and credit facilities in euros was 2.3583% without hedges and fees and 3.3932% with hedges and fees (2.9835% with hedges and fees in 2004).

Current loans and credit facilities and policies of the parent company are denominated in euros and accrued average annual interest of 3.3946% in 2005.

The Directors estimate that the fair value of bank loans at 31 December 2005 calculated via the discount of future cash flows at market interest rates amounts to 1,505 thousand euros. The interest rate curve used in this calculation takes into account the risks associated with the sector and with the credit rating of ENAGÁS. The sensitivity of the aforementioned fair value to fluctuations in foreign currency exchange rates and interest rates is as follows:

	Thousands of euros	
	Change in interest rates	
	0.25%	-0.25%
Change in the value of debt	38.1	97.9

The most significant events taking place in the financial area were:

- On 24 November 2004 a new Club Deal Syndicated Loan was signed, also for 1,000 thousand euros, which was paid on 10 January 2005, date on which the Syndicated Loan for 2003 was cancelled. This new loan falls due in April 2010.

- On 10 January 2005 the collar hedges taken out in August 2003 and expiring in 2008 came into force.

- On 21 February 2005 another 125 million euros of the 450 million euros granted by the EIB to Enagás, S.A. was drawn down.

- In March 2005 the Board of Directors of Enagás, S.A. approved the renewal of the credit policies. This renewal came into effect between May and July. Also, new credit policies were signed with Cajastur and Bancaja for 6 million euros each.

- In August 2005 the cost of the guarantees for the financing of the EIB contracts of 1995 was renegotiated, with the average cost of these declining from 43 basis points to 25 basis points and with a term to 2011. Between the second and third quarters all the guarantee contracts expiring in this period were renewed.

- On 21 October the first 50 million euro drawdown of the 200 million euro 15-year loan was made and the drawdown period for the rest of the loan was extended.

16. Other financial liabilities

The detail of the balances of this caption of the consolidated balance sheets is as follows:

	Thousands of euros			
	2005		2004	
	Non-current	Current	Non-current	Current
Financial liabilities at fair value	7,203	12,427	13,856	14,341
Loan from Transgás, S.A. to Gasod. Al-Andalus, S.A.	11,164	2,233	12,879	2,147
Loan from Transgás, S.A. to Gasod. de Extremadura, S.A.	6,130	1,226	7,665	1,278
Loan from Transgás, S.A. to Gasod.Campo Mayor-Leira Braga, S.A.	4,420	922	5,044	870
	28,917	**16,808**	**39,444**	**18,636**

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

These loans are repaid in accordance with the periods envisaged in the contracts and with each company's cash resources.

17. Risk management policy

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

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

- To comply with rules of good corporate governance.
- To strictly comply with all the regulatory system of Enagás.
- Each business and corporate area defines:

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

  b) Counterparty criteria.

  c) Authorised operators.

- For each market where they operate the various businesses and corporate areas establish the extent of the risk exposure they are prepared to accept in line with their strategy for that market.

- These limits are approved by the respective Risk Committees and when these are non-existent by the Enagás Risk Committee.

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

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

<u>Interest rate risk</u>

Fluctuations in interest rates alter the fair value of those assets and liabilities that accrue fixed interest and the future flows of those assets and liabilities that accrue a variable interest rate.

The target of interest rate risk management is to reach an equilibrium in the structure of debt that minimises the cost of this over the long term and reduces Profit and Loss Accounts volatility.

In line with Enagás Group estimates and debt structure targets, hedging operations are carried out via the use of derivatives to reduce these risks.

<u>Liquidity risk</u>

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

Credit risk

The Group has no significant credit risk as the average client collection period is very short and placements of cash or the purchase of derivatives is carried out with highly solvent entities.

18. Derivatives

At 31 December 2005 the Group held derivatives for a notional and/or contractual value of 1,000 million euros with a residual term to maturity of 2 years.

In 2005 and 2004 the Enagás Group charged 15,143 thousand euros and 1,837 thousand euros respectively to the accompanying Consolidated Profit and Loss Accounts under the "Cash flow hedge reserve" caption as hedging for the impact on the Profit and Loss Accounts of those operations subject to hedging.

The notional and/or contractual amount of these contracts does not represent the real risk assumed by the Group as the net position in these instruments results from their offsetting and/or combination.

Cash flow hedges

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

Interest rate risks for 2004 were covered by several hedging operations. These operations represented a total fixed financing cost of 2.98% for the year and amount mentioned previously and expired in January 2005.

Also, for the period 2005-2008, cash flow hedges using various collars, with a cap at 4.12% and floor of 3.67% (on average), were taken out. The hedges commence in January 2005 and mature in April 2008 and the known maximum fixed cost is 4.32% which includes the impact of the refinancing carried out in November compared to 4.66% prior to this.

The estimated fair value of the swaps executed at 31 December 2005 is 15,832 thousand euros (27,101 thousand euros in 2004). These amounts are based on the market values of equivalent instruments at the balance sheet date. All interest rate collars are designed to be effective as cash flow hedges and their fair value is deferred and recorded under net equity. As already mentioned, 15,144 thousand euros (1,837 thousand euros in 2004) were offset against hedged interest payments made during the period.

19. Defined contribution plans

The Group has defined contribution pension plans covering the commitments acquired by the Company with respect to current employees. The associated assets are held separately from Group assets in funds under the control of trustees. If an employee leaves the plan before having fully accrued their contributions, the amount payable by the Group is reduced by the amount of the lost contributions.

20. Tax situation

20.1 Tax return

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

20.2 Years open for tax inspection

The tax returns filed by Enagás, 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 income tax for which the years 1999 to 2005 are open to inspection and the revision of VAT on imports for which the years 2003, 2004 and 2005 are pending inspection.

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

Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A., are open to tax inspection for the years 2002, 2003, 2004 and 2005 respectively.

At 31 December 2005 Enagás, S.A. had open an additional tax assessment in respect of VAT on imports in 2002, for a total of 2,684 thousand euros of which 2,358 thousand euros correspond to the tax charge (deductible VAT) and 326 thousand euros to arrears interest, signed in disagreement, against which the relevant appeals have been made. At this date, other consolidated companies had no additional tax assessments open.

Due to the possible varying interpretations which can be made of tax regulations, future inspections by the tax authorities may give rise to tax liabilities that cannot be objectively quantified. However, in the view of the tax advisors of the Enagás Group and of its Directors, the possibility of significant liabilities arising in this respect additional to those recorded is remote.

20.3 Taxes payable and receivable

The detail of "*Taxes Receivable*" and "*Taxes Payable*" as of December 31, is as follows:

	Thousands of euros	
	2005	**2004**
Taxes payable:		
VAT	51	33,417
Total	**51**	**33,417**
Taxes receivable:		
Income tax	33,471	29,973
VAT	15,627	278
Others	2,775	1,547
Total	**51,873**	**31,798**

At the year end, 71,724 thousand euros had been paid on account of the final corporate income tax charge by Enagás, S.A., 66,509 thousand euros, Gasoducto Al-Andalus, S.A., 2,848 thousand euros and Gasoducto de Extremadura, S.A., 2,367 thousand euros.

20.4 Reconciliation of accounting and tax results

Corporate income tax expense as at 31 December 2005 breaks down as follows:

	Thousands of euros	
	2005	2004
Enagás, S.A.	97,002	79,186
Gasoducto Al - Andalus, S.A.	2,628	3,282
Gasoducto de Extremadura, S.A.	1,150	1,379
Gasoduto Campo Maior - Leiria - Braga, S.A.	443	371
Gasoduto Braga - Tuy, S.A.	243	282
Total	**101,466**	**84,500**

The reconciliation of the income tax resulting from applying the corporate income tax rate prevailing in Spain to “pre-tax profit” and the charge recorded for this tax in the Consolidated Profit and Loss Accounts and the reconciliation of this with the amount of this tax payable for 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
Consolidated pre-tax income	**301,675**	**252,569**
Permanent differences	(1,198)	(1,178)
Taxable income	300,477	251,391
Tax rate	35%	35%
Income after applying tax rate	105,167	87,987
Effect of applying different tax rates	(185)	(178)
Tax credits	(3,516)	(3,309)
Income statement tax charge	101,466	84,500
Taxes recorded directly in equity	1,425	9,358
Total tax charge	102,891	93,858
Timing differences	(3,336)	798
Tax payable	**99,555**	**94,656**

20.5 Taxes recognised in net equity

Aside from the income tax charge recognised in the Consolidated Profit and Loss Accounts, in 2005 and 2004 the Group booked the following amounts for the following items in consolidated net equity.

	Thousands of euros	
	2005	2004
For cash flow hedges	5,671	9,521
For discounting of taxes payable	554	579
	6,225	**10,100**

20.6 Deferred tax

Under prevailing tax legislation in the various countries where consolidated companies are located, certain timing differences arose in 2005 and 2004 which should be taken into account when quantifying the relevant income tax charge.

The origins of the deferred taxes recorded in these two years are:

Deferred tax assets originating from:	Thousands of euros 2005	Thousands of euros 2004
Deferred tax asset originating from adoption of IFRS	7,120	10,735
Capital grants	1,557	1,687
Loyalty fund provision	2,322	2,291
LTI provision	1,340	767
Fixed asset provisions	2,586	1,527
Others	2,948	1,324
	17,873	**18,331**

Deferred tax liabilities originating from:	Thousands of euros 2005	Thousands of euros 2004
Deferred tax liability originating from adoption of IFRS	512	259
Accelerated depreciation	1,862	1,898
Others	-	516
	2,374	**2,673**

The table below shows the main deferred tax assets and liabilities recognised by the Group and changes to these during the year:

Thousands of euros	Balance at 01.01. 2005	Charge / credit in the income statement	Charge / credit in the asset and liability valuation reserve	Balance at 31.12. 2005
Deferred tax assets:				
- Adoption of IFRS	10,735	(5,040)	1,425	7,120
-Capital grants	1,687	(130)	-	1,557
-Loyalty fund provision	2,291	31	-	2,322
-LTI provision	767	573	-	1,340
-Fixed asset provisions	1,527	1,059	-	2,586
-Others	1,324	1,624	-	2,948
Total deferred tax assets	**18,331**	**(1,883)**	**1,425**	**17,873**
Deferred tax liabilities:				
- Adoption of IFRS	259	253	-	512
- Accelerated depreciation	1,898	(36)	-	1,862
- Others	516	(516)	-	0
Total deferred tax liabilities	**2,673**	**(299)**	**-**	**2,374**

Thousands of euros	Balance at 01.01. 2004	Charge / credit in the income statement	Charge / credit in the asset and liability valuation reserve	Balance at 31.12. 2004
Deferred tax assets:				
- Adoption of IFRS	1,965	(588)	9,358	10,735
-Capital grants	1,817	(130)	-	1,687
-Loyalty fund provision	435	1,856	-	2,291
-LTI provision	248	519	-	767
-Fixed asset provisions	1,682	(155)	-	1,527
-Others	2,179	(855)	-	1,324
Total deferred tax assets	**8,326**	**647**	**9,358**	**18,331**
Deferred tax liabilities:				
- Adoption of IFRS	210	49	-	259
- Accelerated depreciation	2,098	(200)	-	1,898
- Others	-	516	-	516
Total deferred tax liabilities	**2,308**	**365**	**-**	**2,673**

21. Revenue

Group revenue breaks down as follows:

	2005	2004
Gas sales on regulated market	843,783	711,898
Cost of gas sales on regulated market	(850,181)	(720,551)
Purchase-Sale of regulated market gas	**(6,398)**	**(8,653)**
Revenue from regulated activities	652,609	562,495
Revenue from non-regulated activities	15,437	14,319
Other revenue	19,253	30,769
Sales of materials	729	1,616
Auxiliary and ordinary trading revenue	18,502	29,117
Capital grants	22	36
Total	**680,901**	**598,930**

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

	2005	2004
Regulated activities:		
Enagás, S.A.	652,609	562,495
Non-regulated activities:		
Enagás, S.A.	-	22
Gasoducto Al - Andalus, S.A.	7,252	6,635
Gasoducto Extremadura, S.A.	5,568	5,155
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,466	2,176
Gasoduto Braga - Tuy, S.A.	151	331
Total	**668,046**	**576,814**

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to satisfy the regulated market. Details by supplier are as follows:

	Thousands of euros	
	2005	2004
Sagane, S.A.	668,492	582,171
Gas Natural Aprovisionamientos, S.A.	165,130	138,089
Gas Natural Comercializadora, S.A.	15,948	-
Others	611	291
	850,181	**720,551**

22. Expenses

Group expenses break down as follows:

	Thousands of euros	
	2005	2004
Personnel costs	58,198	55,886
Other operating costs	144,278	143,918
	202,476	**199,804**

22. 1 Personnel costs

Personnel costs are as follows:

	Thousands of euros	
	2005	2004
Wages	44,576	41,346
Severance indemnities	5,274	1,638
Social Security	10,153	9,265
Other personnel costs	4,466	8,866
Contributions to external pension funds	1,910	1,853
Work on PPE	(8,181)	(7,082)
	58,198	**55,886**

The Group has capitalised personnel costs directly related to investment projects in progress in an amount of 8,181 thousand euros at 31 December 2005 and 7,082 thousand euros at 31 December 2004.

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

	Average headcount	
	2005	2004
Executives	56	52
Technicans	389	373
Clerical staff	119	122
Workers	353	344
Total	**917**	**891**

At 31 December 2005, the Company had 907 employees.

As a result of the signing of the XIV Collective Wage Agreement, job posts were reorganised. This resulted in 29 early retirements from among employees 60 years of age or older. These early retirements cost 3,724 thousand euros which is recorded in the accompanying Profit and Loss Accounts.

22. 2 Other operating costs

The detail of the balance of this caption in the Consolidated Profit and Loss Accounts is as follows:

	Thousands of euros	
	2005	**2004**
External services:		
R+D expenses	581	1,038
Leases and royalties	59,256	57,747
Repairs and maintenance	19,431	20,654
Professional services	10,332	9,605
Transport	14,315	15,714
Insurance premiums	4,720	5,302
Banking and similar services	208	375
Advertising and public relations	1,670	1,544
Supplies	16,161	13,865
Other services	7,516	8,242
External services:	**134,190**	**134,086**
Taxes	**1,992**	**1,630**
Other external expenses	**8,096**	**8,614**
Change in trade provisions	**-**	**412**

The Group has a lease contract with the Repsol-YPF Group to operate the “Gaviota” hydrocarbon concessions, owned by the Repsol-YPF Group. These installations are used by the Group for the regulated activity of natural gas storage as are its own “Serrablo” installations. The current contract ends in 2018.

Other information

“Other general operating costs” includes the fees paid by consolidated companies for the audit of their annual accounts and for other accounting verification work. In 2005, these expenses amounted to 220 thousand euros as follows:

Thousands of euros	**2005**
Audit of annual accounts	126
Other audit related services	94
Other non-audit related services	165

In addition, various consolidated companies engaged audit firms in 2005 for non-audit services. Specifically, PriceWaterHouseCoopers billed Enagás, S.A. 63 thousand euros for the conversion of its financial statements to International Financial Reporting Standards.

23. Net financial profit

The detail of the "net financial profit" caption of the accompanying Consolidated Profit and Loss Accounts is as follows:

Thousands of euros	2005	2004
Revenue from shareholdings		887
Revenue from long term loans	1,091	1,536
Other interest and financial revenue	1,565	525
Financial revenue	**2,656**	**2,948**
Financial and similar expenses	388	1,099
Interest on loans	42,523	34,132
Revenue attributable to provisions	143	136
Financial expenses	**43,054**	**35,367**
Net financial income (loss)	**(40,398)**	**(32,419)**

The Group has capitalised financial expenses in an amount of 9,086 thousand euros at 31 December 2005 and 7,053 thousand euros at 31 December 2004.

24. Business and geographical segments

24.1 Segmentation criteria

Information about segments is structured in accordance with the Group's various business lines (main business segments).

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

24.2 Main business segments

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

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

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

- **Regasification:** The gas is transported from producer countries in methane tankers at 160 ºC below zero in liquid form (LNG) and is unloaded at the regasification plants where it is stored in cryptogenic tanks. The temperature of the LNG is increased using saltwater vaporisers transforming this into gas. The natural gas is then injected into gas pipelines and transported throughout Spain.

- **Storage:** Enagás, S.A. operates two underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca) and owned by the Company, and Gaviota, -an off-shore storage facility located near Bermeo (Vizcaya), owned by Repsol YPF and Murphy Eastern Oil and operated by Enagás via a long term lease contract.

b) Technical system management

In 2005, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it by Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct co-ordination of points of access, storage, transport and distribution.

c) Purchase-sale of gas on the regulated market

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

d) Non-regulated activities

This refers to all non-regulated activities and transactions related to Group companies.

24.3 Basis and methodology of business segment information

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

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

Information by segments of these activities is presented below.

	Thousands of euros									
	Infrastructure		Purchase-sale of gas		Technical System Management		Non-Regulated Activities + Consolidation		Group total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
P/L										
Operating income	312,936	255,748	5,884	-1,321	420	700	13,583	19,947	332,823	275,073
After tax income	180,992	148,765	4,098	-1,299	202	388	5,668	10,263	190,960	158,118
Balance sheet										
Total Assets/Liabilities	2,904,077	2,726,542	189,835	242,138	6,891	8,368	124,815	124,359	3,225,618	3,101,407

25. Subsequent Events

On 12 January 2006 an interim dividend was paid against 2005 results. The dividend totalled 0.16 euros per share and was approved by the Board of Directors of Enagás, S.A. at a meeting held on 22 December 2005.

26. Related party transactions

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

Significant aspects to take into account in relation with information about related party transactions are:

a) Material related party transactions in excess of Enagás' ordinary activities are approved by the Board of Directors of the Company subsequent to a report by the Appointments and Remuneration Committee.

b) According to Order EHA/3050/2004, it is not necessary to disclose transactions which are part of the Company's ordinary activities, are carried out under normal market conditions and are not material. In this respect, and taking into account the amounts included in Enagás' financial statements, transactions taking place during the period for which information is provided are deemed not to be material when they fail to exceed the sum of three million euros.

c) Year closes for certain transactions are not available, especially those whose amounts depend on the close of gas balances. This means that at times amounts are provisional or figures are included for the first eleven months of the year, in which case this circumstance is expressly stated.

Unless otherwise indicated, transactions are for contracts signed prior to the reference period. New relationships, arising from contracts or commitments entered into in 2005, are expressly indicated.

26.1 Enagás, S.A. transactions with group companies, core shareholders and companies which exert a significant influence on Enagás (section A of Point 4.1 of Order EHA 3050/2004).

26.1.1 Subsidiaries of Enagás, S.A.

- Transactions with Gasoducto Al-Andalus

  Enagás S.A. has granted this company a loan for 40,605 thousand euros.

  Gasoducto Al-Andalus, S.A. has paid Enagás, S.A. dividends for fiscal year 2004 in an amount of 5,486 thousand euros.

  Enagás S.A. has paid this company 16,013 thousand euros for transport rights, and has collected 4,263 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoducto de Extremadura

  Enagás S.A. has granted this company a loan for 6,663 thousand euros.

  Also, Enagás S.A. has paid Gasoducto Extremadura 8,358 thousand euros for transport rights, for services provided by Gasoducto Extremadura, and has collected 4,524 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoducto Campo Maior–Leiria–Braga

  Enagás S.A. has granted this company a loan for 6,035 thousand euros.

Enagás, S.A. has also paid this company 3,361 thousand euros for the provision of transport services.

- Transactions with Gasoducto Braga–Tuy

  Enagás S.A. has guaranteed a loan granted by a Portuguese bank to Gasoducto Braga-Tuy S.A. for 8,900 thousand euros.

  In addition, Enagás, S.A. has paid this company 3,409 thousand euros for the provision of transport services.

26.1.2 Enagás S.A. transactions with companies which exercise a significant influence on Enagás and with companies on which Enagás, S.A. exercises a significant influence.

- Transactions with Gas Natural SDG and group companies

  1.- Enagás S.A. paid Gas Natural SDG, S.A. 16.7 million euros in dividends.

  2.- Enagás S.A. has entered into 11 contracts with Gas Natural Comercializadora S.A. 11 for third party network access (TPNA), of which two are short term and nine long term. Also in 2005, 26 TPNA contracts were signed of which only two remained in force at 31 December 2005. TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.

  3.- Between 1 January and 31 December 2005 the following services were provided: Regasification of 67,620 GWh, 34% of total TPNA, billing 47.55 million euros for these services; 136,764 GWh were transported, which represents 51% of total TPNA, billing 60.94 million euros for these services; and finally an average of 7,556 GWh were stored which represents 58.29% of total TPNA, billing 20.67 million euros for these services.

  4.- Enagás S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to satisfy regulated market demand. In 2005 Enagás S.A. acquired 59,341 GWh of natural gas, for 853,071 thousand euros. The acquisition price corresponds to the cost of the raw material which serves to fix the sale price to distributors. In this same period, Enagás S.A. transported 49,588 GWh of natural gas to Gas Natural Group distributors for 703,232 thousand euros. The terms and conditions and price of these operations are regulated by the authorities.

  5.- In June 2005, Enagás S.A. and Desarrollo del Cable S.A., a Gas Natural Group company, signed a fibre optic purchase-sale agreement by virtue of which Enagás S.A. recovers 215kms of fibre optic transferred to Desarrollo del Cable S.A. in October 2002, and at the same time, Enagás, S.A. transfers 635 kms of surplus fibre optic to Desarrollo del Cable S.A. under market terms and conditions. The transaction totalled 4,943 thousand euros and generated 3,393 thousand euros in capital gains.

  6.- Desarrollo del Cable S.A. leases Enagás part of the fibre optic cable necessary for its telecoms services, by virtue of a long term contract signed in 1999. The annual cost to Enagás of this service is 15,587 thousand euros.

  7.- In turn, Enagás provides maintenance services for Desarrollo del Cable S.A. under market terms and conditions and prices, by virtue of a contract signed in 2005. The amount involved for these services is 823 thousand euros.

  8.- Gas Natural Comercializadora supplied electricity to Enagás’ installations for 7,807 thousand euros.

9.- Enagás, S.A. paid Grupo Natural Group companies 3,664 thousand euros for inventory rental and the storage of LNG in tankers.

- Transactions with BP España, S.A.

  1.- Enagás S.A. paid BP España S.A. 3.9 million euros in dividends.

  2.- Enagás S.A. has entered into nine short term contracts with BP Gas España S.A. for third party network access (TPNA) all of which are currently in force. Also in 2005, 44 TPNA contracts were signed of which only six remained in force at 31 December 2005. TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.

  3.- Between 1 January and 31 December 2005 the following services were provided: Regasification of 19,795 GWh, 10% of total TPNA, billing 12.17 million euros for these services; 18,817 GWh were transported, which represents 7% of total TPNA, billing 5.20 million euros for these services; and finally 1,087 GWh were stored which represents 8.39% of total TPNA, billing 3,012 thousand euros for these services.

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

  1.- Enagás S.A. paid INCOMED 3.9 million euros in dividends.

  2.- Enagás S.A. renewed a credit line with la CAM for 6 million euros, and has signed a guarantee line for 12 million euros.

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

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

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

  1.- Enagás S.A. paid Bancaja 3.9 million euros in dividends.

  2.- In 2005 Enagás S.A. opened a credit line with Bancaja for 6 million euros, and signed a guarantee line for 6 million euros which expires annually.

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

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

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

  1.- Enagás S.A. paid Cantábrica de Inversiones de Cartera S.L., 3.9 million euros in dividends.

  2.- Enagás S.A. signed a credit policy for 6 million euros with Cajastur in 2005.

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

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

- Transactions with Sagane Inversiones, S.L.

  Enagás S.A. paid Sagane Inversiones S.L. 3.9 million euros in dividends.

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

Board members received 918 thousand euros in per diems. Senior Executives (the Chairman and members of the Management Committee) received remuneration totalling 2,872 thousand euros.

Severance indemnities paid to senior executives amounted to 1,331 thousand euros.

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

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

  1. – La Caixa has a 109 million euro stake in the Club Deal Syndicated Loan signed on 24 November 2004 and paid on 10 January 2005, and renewed a 100 million euro credit line with Enagás in 2005.

  2.- At 31 December 2005 La Caixa had given Enagás guarantees amounting to 31 million euros. In addition, Enagás has renting agreements with La Caixa group companies for 5 million euros of principal.

  3.- In January 2005 four FRA contracts for a total amount of 300,000 thousandeuros for the period from 7 January 2004 to 10 January 2005 concluded.

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

- Transactions with Repsol YPF and group companies

  Enagás S.A. leases the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas S.A., for which Enagás S.A. paid 23.48 million euros in 2005.

27. Directors' compensation

27.1 Salaries

Board members received 1,933 thousand euros and 1,849 thousand euros in 2005 and 2004 respectively in respect of compensation. These amounts include per diems and other sums received by the Directors by virtue of their membership of the Board and the Committees, and for attending meetings, in application of the resolution adopted by the Shareholders' Meeting of 22 April 2005, with the limits indicated in said resolution having been respected and complied with in respect of the amounts received by members of the Board. This item also includes salaries and compensation for the carrying out of executive functions by members of the board with these responsibilities. These amounts are independent of the compensation fixed annually by the Shareholders' Meeting to compensate Board members. Finally, the amounts corresponding to payment of expenses incurred by board members when attending board and committee meetings are also included in this item.

27.2 Other compensation

Pension contributions made during the year totalled 10 thousand euros (9 thousand euros in 2004) and the premiums paid for life insurance amounted to 65 thousand euros (43 thousand in 2004).

At 31 December 2005 , the outstanding balance for loans granted to Board members was 355 thousand euros (389 thousand euros at 31 December 2004), granted under market terms and conditions.

28. Other information regarding the Board of Directors

In order to comply with the provisions of Article 127 of the Spanish Companies Act, these Notes to the accounts contain information relating to the shareholdings and positions held by Enagás Board Members with respect to other companies with a corporate purpose that is similar or supplementary to that of Enagás S.A. When preparing this information, companies having a corporate purpose that is similar or supplementary to that of Enagás 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 ENAGÁS, S.A. by Directors at 31 December 2005 are as follows:

DIRECTOR	COMPANY	SHAREHOLDING
Sir. Robert Malpas	BP Plc	65.284 shares
Luis Javier Navarro Vigil	BP Plc	62.320 shares
CAM	Unión Fenosa	4.04%
	Poseidón Gas AIE	5.24%
	Nautilus Gas II AIE	5.24%
Rafael Villaseca Marco	Gas Natural, Sdg.	1.000 shares
	Endesa	859 shares
	Iberdrola	636 shares
BANCAJA	Iberdrola	1%
	Endesa	0.032%
	Gas Natural, Sdg.	0.024%

In addition, José Luis Olivas, the BANCAJA representative, holds 3,545 shares in Endesa, 3,250 shares in Iberdrola, and 910 shares in Gas Natural, Sdg.

Positions held or duties fulfilled by Company Directors at companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGÁS, S.A. at 31 December 2005 are as follows:

DIRECTOR	POSITION
Salvador Gabarró Serra	Chairman of Gas Natural, Sdg.
Luis Javier Navarro Vigil	Chairman of BP España S.A.U.
Rafael Villaseca Marco	CEO of Gas Natural, Sdg.
Manuel Menéndez Menéndez	Physical representative of Peña Rueda on the Board of Naturcorp Redes S.A.U.

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

29. Guarantee commitments to third parties

At 31 December 2005 the Group had provided guarantees to third parties deriving from its activities for an amount of 56,551 thousand euros. It has also received guarantees for a total of 51,776 thousand euros for the loans granted by the European Investment Bank.

Also, 8,900 thousand euros correspond to guarantees furnished to Group companies to guarantee debt included in the liabilities of the Consolidated Balance Sheet, mainly for a loan that Banco Santander Central Hispano, S.A. has granted to Gasoduto Braga – Tuy, S.A.

Group Directors believe no significant liabilities will arise additional to those recorded in the accompanying Consolidated Balance Sheet as a result of the transactions described in this note.

30. Environmental Information

The Enagás Group's activities in 2005 ratified its commitment to make current economic development compatible with the conservation of natural resources to guarantee their use by future generations. For this reason the Group has committed itself to making the respect for and conservation of the environment one of its main criteria when taking corporate decisions. This commitment is embodied in the Group's Environmental Policy which comprises a set of principles whose fundamental purpose is to guarantee that any Group activity or installation respects the environment from the beginning to the end of its useful life.

The practical application of Environmental Policy is represented by the Environmental Management System certified by AENOR according to ISO regulation 14001. The environmental management system involves a number of rules and procedures guaranteeing knowledge and exhaustive control of environmental aspects and the adoption of measures to minimise and correct adverse effects on the environment.

In 2005 the ISO 14001 certificate for the Technology Unit was renewed and certificates for the other Units have been monitored. Measures aimed at correcting the environmental impact of infrastructure projects include environmental control of construction work, landscaping, controlled drilling and archaeological conservation.

In 2005, these environmental activities have involved investments totalling 24,375 thousand euros, which are recorded on asset side of the balance sheet (13,245 thousand euros in 2004).

Environmental expenses totalled 717 thousand euros in 2005 and are recorded under the heading Other operating expenses (874 thousand euros in 2004).

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

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

Certain Enagás, S.A. installations come within the scope of Law 1/2005 of 9 March governing trading in greenhouse gas emission rights. In its resolution of 2 December the Environment Ministry published the proposed allocation of the rights corresponding to these installations.

At present the Group is awaiting the definitive and free allocation of these rights and their registration in the National Registry of Emission Rights.

31. Other information

Improvements to Enagás' credit rating: the international ratings agency Fitch Ratings has awarded Enagás, S.A. a long-term rating of A+ and short-term rating of F1, in both cases with stable outlook.

32. Reconciliation of opening and closing balances of the 2004 financial statements.

The consolidated financial statements of the Group for the financial year ended on 31 December 2005 were the first accounts to have been prepared in accordance with IFRS. Relative to the accounting principles applied in preparing the Group's consolidated financial statements for 2004, the first-time application of IFRS has entailed the following changes:

- Changes in the accounting policies, measurement criteria and presentation methods used to prepare the financial statements.

- Inclusion of two new financial statements – the consolidated statement of changes in equity and the consolidated cash flow statement, and

- A significant increase in the information provided in the notes to the consolidated financial statements.

In preparing the accompanying consolidated financial statements, the Group has taken account of IFRS-1, which establishes, for certain specific situations, allowed alternatives that first-time adopters of IFRS may apply in preparing their financial and accounts information. The ENAGÁS group has elected to apply the following alternatives:

- The Group has elected to use the carrying value assigned to its assets under Spanish GAAP as the depreciated cost of its property, plant and equipment and intangible assets at 31 December 2003, since the Directors of ENAGÁS consider the asset restatement carried out pursuant to prevailing regulations to broadly reflect changes in prices.

The IFRS also establish certain elections that may be applied, the most pertinent of which are as follows:

- Both intangible assets and assets appearing under the "Property, Plant and Equipment" and "Investment Property" captions may be recognised either at market value or at acquisition cost, restated for accumulated depreciation and accumulated impairment, where applicable.

The Enagás Group has elected to measure the aforementioned assets by the cost method.

- Investments in joint ventures may be included in the consolidated financial statements either by proportionate consolidation or by the equity method. The same method of recognition must be used for all of the Group's investments in joint ventures.

The Enagás Group has elected to recognise investments in joints ventures by proportionate consolidation. The main investments recognised by this method are its interests in Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior – Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A.

- The IFRS allow two possible methods of accounting for capital grants. Either the consideration received is deducted from the carrying value of the asset or the grant is recorded under non-current liabilities as deferred income.

The Enagás group has elected to recognise capital grants by deducting the consideration received from the value of the related assets.

- The detail required under IFRS-I in respect of the transition from Spanish GAAP to IFRS.

IFRS-I stipulates that an entity's first IFRS financial statements must include reconciliations between the opening and closing balances of its financial statements for the year immediately preceding the year of first-time adoption and the closing balance of the previous year and the opening balance of the year to which these financial statements relate.

The reconciliations of the balances of the consolidated balance sheet and consolidated income statement are presented in the following pages, using the following interpretations:

- Closing balances: balances of the Group's consolidated financial statements prepared under Spanish GAAP.

- Reclassifications: changes attributable to the new method of preparing the financial statements.

- Adjustments: changes attributable to the changed measurement methods and accounting criteria required under the new regulations.

- Opening balances: balances resulting from the adjustment and reclassification of the closing balances.

- Note: Reference to the note in which the nature of the most significant adjustments and reclassifications are explained.

Due to the changes in accounting principles applied as of 31 December 2004, the value of the Group's equity under Spanish GAAP is 481,845 thousand euros lower than its value under IFRS and profit for the year ended on this date is 7 thousand euros lower than under IFRS. For the year ended 31 December 2004 the difference in the value of the Group's assets is 19,455 thousand euros. Reconciliations between the balances of the main captions of the consolidated balance sheet and consolidated income statement of the Enagás Group at 1 January and 31 December 2004, which were prepared under Spanish GAAP, and the balances resulting from application of international financial reporting standards (IFRS) and used as the basis for the preparation of these consolidated financial Statements are provided in the following pages:

32. 1 Consolidated balance sheet: Reconciliation at 1 January 2004 – Assets and Liabilities

	01-Jan-04 Thousands of euros			
	Spanish GAAP (*)	Effect of conversion to IFRS	IFRS	Note
ASSETS:				
FORMATION EXPENSES	**5**	**(5)**		(a)
NON-CURRENT ASSETS:	**2,649,437**	**(375,643)**	**2,273,794**	
Intangible assets	10,898	19,237	30,135	(b) (e)
Investment property		743	743	(c.3)
Property, plant and equipment	2,603,170	(398,039)	2,205,131	(b.2) (c)
Investments in associates	29,006	449	29,455	(d)
Deferred tax assets	6,363	1,967	8,330	(i)
Total non-current assets	**2,649,442**	**(375,648)**	**2,273,794**	
DEFERRED CHARGES	**20,181**	**(20,181)**	**0**	(e)
CURRENT ASSETS:	**423,423**	**(5,750)**	**417,673**	
Inventories	2,407		2,407	
Trade and other receivables	359,252	(1,449)	357,803	(l)
Available-for-sale financial assets	6,776	(2,477)	4,299	
Income tax receivable	44,499		44,499	
Other current assets	8,389	(4,301)	4,088	(j)
Cash and cash equivalents	2,100	2,477	4,577	
Total current assets	**443,604**	**(25,931)**	**417,673**	
TOTAL ASSETS	**3,093,046**	**(401,579)**	**2,691,467**	
LIABILITIES				
Issued capital	358,101		358,101	
Reserves	460,887	(3,261)	457,626	(a) (b) (d) (e) (f) (l)
Net profit for the period	142,019		142,019	
Interim dividend	(28,648)		(28,648)	
Total equity	**932,359**	**(3,261)**	**929,098**	
NON-CURRENT LIABILITIES	**1,711,431**	**(397,394)**	**1,314,037**	
Bank loans and borrowings	1,215,311	(3,356)	1,211,955	(j) (f)
Other financial liabilities	29,589	2,486	32,075	(f)
Deferred tax liabilities	2,098	210	2,308	(i)
Provisions	4,737	2,269	7,006	(d)
Other non-current liabilities	459,696	(399,003)	60,693	(c.2)
CURRENT LIABILITIES	**449,256**	**(924)**	**448,332**	
Bank overdrafts	24,945	(945)	24,000	(f)
Other financial liabilities	5,309	21	5,330	
Trade and other payables	359,682		359,682	
Income tax payable	28,623		28,623	(i)
Other current liabilities	30,697		30,697	
TOTAL LIABILITIES AND EQUITY	**3,093,046**	**(401,579)**	**2,691,467**	

32. 2 Consolidated balance sheet: Reconciliation at 31 December 2004 – Assets and Liabilities

	31-Dec-04 Thousands of euros			
	Spanish GAAP (*)	Effect of conversion to IFRS	IFRS	Note
ASSETS:				
FORMATION EXPENSES	**1**	**(1)**		(a)
NON-CURRENT ASSETS:	**2,967,917**	**(348,355)**	**2,619,562**	
Intangible assets	12,047	18,460	30,507	(b) (e)
Investment property		711	711	(c.3)
Property, plant and equipment	2,921,889	(378,795)	2,543,094	(b.2) (c)
Investments in associates	26,385	534	26,919	(d)
Deferred tax assets	7,596	10,735	18,331	(i)
	2,967,918	**(348,356)**	**2,619,562**	
Total non-current assets	**20,333**	**(20,333)**	**0**	
DEFERRED CHARGES	**483,543**	**(1,698)**	**481,845**	(e)
CURRENT ASSETS:	2,384		2,384	
Inventories	438,962	(1,653)	437,309	(l)
Trade and other receivables	5,646	(1,727)	3,919	
Available-for-sale financial assets	33,417		33,417	
Income tax receivable	2,834	(45)	2,789	
Other current assets	300	1,727	2,027	(j)
Cash and cash equivalents				
	503,876	**(22,031)**	**481,845**	
Total current assets	**3,471,794**	**(370,387)**	**3,101,407**	
LIABILITIES				
Issued capital	358,101		358,101	
Reserves	532,103	(19,447)	512,656	(a) (b) (d) (e) (f) (l)
Net profit for the period	158,126	(8)	158,118	
Interim dividend	(31,035)		(31,035)	
Total equity	**1,017,295**	**(19,455)**	**997,840**	
NON-CURRENT LIABILITIES	**1,800,043**	**(364,234)**	**1,435,809**	
Bank loans and borrowings	1,331,137	(1,011)	1,330,126	(j) (f)
Other financial liabilities	25,588	13,856	39,444	(f)
Deferred tax liabilities	2,414	259	2,673	(i)
Provisions	10,880	2,377	13,257	(d)
Other non-current liabilities	430,024	(379,715)	50,309	(c.2)
CURRENT LIABILITIES	**654,456**	**13,302**	**667,758**	
Bank overdrafts	63,007	(1,040)	61,967	(f)
Other financial liabilities	4,294	14,342	18,636	
Trade and other payables	522,150		522,150	
Income tax payable	31,798		31,798	(i)
Other current liabilities	33,207		33,207	
TOTAL LIABILITIES AND EQUITY	**3,471,794**	**(370,387)**	**3,101,407**	

32. 3 Income statement for financial year 2004

Reconciliation of income statement	Spanish GAAP (*)	Effect of conversion to IFRS	IFRS	Note
	31-Dec-04			
	Thousands of euros			
Purchase-sale of gas on regulated market	3,918	(12,571)	(8,653)	(k)
Revenue from regulated activities	549,924	12,571	562,495	(k)
Revenue from non-regulated activities	14,318		14,318	
Other operating revenue	45,665	(14,896)	30,769	(c.2)
Own work capitalised	7,082	(7,082)	0	
Personnel expenses	(57,912)	2,026	(55,886)	(d)
Depreciation and amortisation	(144,795)	20,742	(124,053)	(a) (b) (c.2) (c.3.)
Other operating expenses	(143,951)	34	(143,917)	(b) (e)
OPERATING PROFIT	**267,167**	**7,906**	**275,073**	
Finance income	2,312	636	2,948	
Finance costs	(35,231)	(136)	(35,367)	(f)
PROFIT BEFORE TAX - CONTINUING OPERATIONS	**234,248**	**8,406**	**242,654**	
Capital gains tax	(84,505)	5	(84,500)	(i)
PROFIT AFTER TAX - CONTINUING OPERATIONS	**149,743**	**8,411**	**158,154**	
Extraordinary profit before tax	1,300	(1,300)		(h)
Profit after tax - discontinuing operations		(36)	(36)	
NET PROFIT FOR THE YEAR	**151,043**	**7,075**	**158,118**	

The main differences between Spanish GAAP and IFRS applicable to the Enagás Group are the following:

a) Formation expenses and capital increase expenses

- Accounting standards in force in Spain allow for formation, start-up and capital increase expenses to be capitalised. These expenses are valued at the acquisition or production cost of the goods and services giving rise to the expense and are depreciated on a straight-line basis over a period of not more than five years.

- Under IFRS, expenses arising as a result of the acquisition or internal generation of property, plant or equipment shall be charged against income for the year in which the expense was incurred. As an exception to the rule, capital increase expenses normally included under formation expenses under Spanish GAAP shall be recognised under IFRS net of any tax credits, thereby reducing the amount raised in the capital increase (issue premium or share capital). If the capital increase is not concluded, the expense relating to the said capital increase shall be charged against income for the period in which the expense was incurred.

- Formation and capital increase expenses not amortised at 31 December 2004 (5 thousand euros) have been redistributed, with 4 thousand euros being allocated to “First-application reserves” and 1 thousand euros allocated to “Deferred tax assets”.

  In 2004, amortisation of the aforementioned formation expenses under Spanish GAAP totalled 4 thousand euros. Accordingly, at 31 December 2004, a similar adjustment was made to the formation and capital increase expenses not amortised at 31 December 2004 (1 thousand euros) appearing under “First-application reserves” and “Deferred tax assets” under IFRS. The impact on the income statement under IFRS of the adjustment to the amortisation charge booked under Spanish GAAP was therefore to reduce the amortisation caption by 4thousand euros.

b) Intangible assets

<u>b.1) Research and development costs</u>

- Under Spanish GAAP, research and development costs are expensed in the year incurred. They may, however, be recognised as intangible assets at the year-end if they can be allocated to a specific project and their amount can be clearly distinguished, such that they may be distributed over time, and the technical success and financial and commercial viability of the project or projects to which they are linked provide adequate justification for their capitalisation. Research and development costs recognised as assets are amortized as soon as possible and at most within five years of the date on which the capitalised research and development project was concluded.

  The Enagás Group books research and development costs at acquisition or production cost. Expenses in respect of which there is justified reason to assume technical success and financial-commercial viability are capitalised, with 95% of the expense being amortised in the first year and the remainder in the following year.

- Under IFRS, in contrast, all research and development costs must be expensed when incurred, and may only be capitalised once the technical and commercial feasibility of the asset for sale or use has been established. The capitalised costs are then amortised over the useful life of the asset. If it is not possible to distinguish between the cost of the research phase and the cost of the development phase of an internal project, all expenditure for that project shall be treated as if incurred in the research phase and shall be recognised as such in the income statement.

- The policy adopted by the Enagás Group is to eliminate from its consolidated balance sheet any amounts under the intangible assets caption pending amortisation, since such expenses do not fulfil the criteria established under IAS 38.

  The balance of research and development costs pending amortisation at 31 December 2003 was 198 thousand euros and was redistributed between "First-application reserves" (129 thousand euros) and "Deferred tax assets" (69 thousand euros)".

  In 2004, under Spanish GAAP, research and development costs totalling 1,804 thousand euros were recorded, together with a corresponding amortisation charge, in line with the criteria set out above, in the amount of 985 thousand euros. Only one of the projects recorded at 31 December 2004, for an amount of 46 thousand euros, meets the prerequisites specified above for consideration as development costs eligible for capitalization under IFRS.

  Accordingly, in 2004, under IFRS, the amortisation charge of 1,139 thousand euros recorded was adjusted and redistributed as follows:

  i. Reclassification from amortisation to "R&D costs" of 941 thousand euros.

  ii. Adjustment of 198 thousand euros to the amortisation caption, redistributed between "First-application reserves" (129 thousand euros) and "Deferred tax assets" (69 thousand euros)".

  Additionally, under IFRS, a 97 thousand euros adjustment was made to the "R&D costs" caption and booked against income to eliminate the balance pending amortisation recorded in the R&D costs account under intangible assets.

b.2) Other intangible assets

- The Enagás Group had recorded the costs associated with its company website in this caption. After analysis, however, the Group concluded that this asset did not fulfil the prerequisites necessary to be considered an asset that generates future economic benefits. Accordingly, the net amount booked was restated (acquisition cost less amortisation).

  At 31 December 2003, the cost corresponding to the company website amounted to 217 thousand euros and accumulated amortisation as of this date came to 38 thousand euros. The net amount was redistributed between "First-application reserves" (116 thousand euros) and "Deferred tax assets" (63 thousand, euros).

  In 2004, under Spanish GAAP, additions of 268 thousand euros associated with the aforementioned company website were booked, while the annual amortisation charge booked for this intangible asset was 72 thousand euros.

  Under IFRS, the following adjustments and reclassifications for 2004 were made:

  i. Adjustment of 179 thousand euros to the opening balance, redistributed between "First-application reserves" (116 thousand euros) and "Deferred tax assets" (63 thousand euros), corresponding to the amount pending amortisation as of 31 December 2003.

  ii. Reclassification of the 72 thousand euros amortisation charge as "Other operating expenses".

iii. Adjustment of 196 thousand euros, under IFRS, corresponding to the value of investments in the year pending amortisation, booked against income.

iv. The offsetting entry for these adjustments was the retirement of the corresponding intangible asset booked under Spanish GAAP. The impact of the adjustment is reflected in the balances of the “First-application reserves” and “Deferred tax assets” captions of the income statement prepared under IFRS, as described above.

- The Enagás Group had also recognised as an intangible asset a regasification study for the Autonomous Community of Extremadura. After analysis and verification, however, it decided that, given its direct link to the cost of property, plant and equipment for the La Plata gas pipeline, this asset should be transferred to the “Property, plant and equipment” caption. This transfer, effective as of 31 December 2003, entailed several adjustments:

  i. Reclassification of the 334 thousand euros balance recognised under intangible assets as property, plant and equipment.

  ii. Restatement of accumulated amortisation as of this date, to reflect the change in amortisation/depreciation period from five to 30 years. This adjustment totalled 152 thousand euros and was redistributed between “First-application reserves” (99 thousand euros) and “Deferred tax assets” (53 thousand euros).

  v. Reclassification, effective as of 31 December 2003, of the 48 thousand euros accumulated intangible asset amortisation charge, restated to reflect the useful life of the asset, as accumulated depreciation of property, plant and equipment.

No additions were booked under this caption in 2004, other than the intangible asset amortisation charge in the amount of 68 thousand euros booked under Spanish GAAP in accordance with the criteria described above. Accordingly, given the absence of additions in the year, at 31 December 2004, the Group effected the aforementioned reclassification of intangible assets in the amount of 334 thousand euros as property, plant and equipment. The Group also restated accumulated amortisation and the amortisation charge booked for the year to reflect the changes in the aforementioned amortisation/depreciation periods, besides reclassifying the corresponding intangible asset amortisation as depreciation of property, plant and equipment. The impact of this restatement on the income statement under IFRS was to reduce the amortisation charge recorded by 56 thousand euros (to 36 thousand euros net of tax).

a) Property, plant and equipment

c.1) Impairment test

- Under Spanish GAAP, valuation adjustments must be effected so that each item of property, plant and equipment can be assigned the lower market value applicable to it at the year-end, provided that the carrying value of the property, plant and equipment is not recoverable via the generation of revenue sufficient to offset the costs and expenses, including depreciation.

  When the depreciation of assets is irreversible and distinct from systematic depreciation, the loss and corresponding diminution in value are booked directly. In other words, Spanish GAAP makes a distinction between temporary loss of value, which is provisioned but may be reversed, and permanent loss of value, which is irreversible.

- Under IAS 25, Impairment of asset value, an asset is impaired if its recoverable amount is lower than its carrying value (book value), This diminution in value must therefore be recognised immediately as an impairment loss. The impairment loss is therefore the excess of carrying amount over recoverable amount.

  The recoverable amount must be calculated for all assets that are recognised at fair value and whenever an indicator of impairment in the asset or cash-generating unit (CGU) exists. The recoverable amount is the higher of the asset’s net selling price and its value in use.

  An asset's value in use is calculated on the basis of estimated future cash inflows and outflows, applying an appropriate discount rate to these flows. The cash flow projections should be based on reasonable and fair assumptions that reflect management’s best estimates and on the most recent financial budgets approved by management. They should cover a maximum period of five years, unless a longer period can be justified.

  Additionally, estimates of future cash flows and the discount rate applied should factor in expected increases in prices resulting from inflation.

  The discount rate or rates used should be the pre-tax discount rate and should reflect the market’s current assessment of the time value of money and the specific risks associated with the asset.

- The Enagás Group has elected to recognise its property, plant and equipment at historical cost and to date no "impairment" assessment has been carried out in respect of its assets. The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. The Group has not deemed it necessary to carry out an impairment test as both the latter activities and its core business (ownership and management of gas transportation, regasification and storage infrastructures) are remunerated on the basis of prevailing legislation and there is therefore no doubt that the amount recognised under property, plant and equipment is recoverable.

- On this basis, in view of the nature of its business and the aforementioned activities and the information that the Board of Directors draws on in managing the Company, the Group has decided that the cash-generating units taken into account when valuing and classifying its property, plant and equipment, fall into the following three categories: Transportation (including gas transportation, storage and regasification), technical system management and gas sales to regulated clients.

c. 2) Capital grants

- As described in point g) above, the Company has reclassified the balance of capital grants appearing under current liabilities by reducing the value of the property, plant and equipment to which the grants are related. The effect of this reclassification was to reduce the balance of the property, plant and equipment caption at 31 December 2003 by 399,009 thousand euros.

  In 2004, under Spanish GAAP, grants worth 1,076 thousand euros were recorded, with corresponding applications in the amount of 20,364 thousand euros. Accordingly, at 31 December 2004, as described above, the balance of capital grants appearing under current liabilities was reclassified as a diminution in the value of the property, plant and equipment to which the grants are related in the amount of 379,715 thousand euros. This reclassification had the effect of reducing the amount booked for depreciation of property, plant and equipment and decreasing the revenue corresponding to the release of capital grants by 20,364 thousand euros.

c. 3) Investment property

- As required under IFRS, the Company has reclassified, as of 31 December 2003, the balance corresponding to the value of property and land that Enagás, S.A. owns in Valencia and leases to third parties, moving a net amount of 743 thousand euros (1,127 thousand euros corresponding to the gross value of the property and land and 384 thousand euros corresponding to accumulated depreciation) from the property, plant and equipment caption to the investment property caption. The net amount of the reclassification applied as of 31 December 2004 was 711 thousand euros (1,129 thousand euros corresponding to the gross value of the property and land and 418 thousand euros corresponding to accumulated depreciation).

c. 4) Provision for the dismantling of Serrablo

- As required under IFRS, the Company has increased the value of property, plant and equipment corresponding to the Serrrablo storage facility by the amount of the estimated cost of dismantling the facility when the concession expires.

- At 31 December 2003, the effect of this adjustment was to increase the value of the underground storage facility by 1,939 thousand euros. The adjustment was effected by deducting from the "First-application reserves" and "Deferred tax assets" captions the sums of 259 thousand euros and 140 thousand euros respectively and assigning to the provision for dismantling and accumulated depreciation of underground facilities captions the sums of 1,820 thousand euros and 517 thousand euros respectively.

- In 2004, under IFRS, the Company recognised 136 thousand euros under financial expenses corresponding to the financial adjustment of the reserve and 64 thousand euros under depreciation corresponding to the increase in the value of property, plant and equipment, plus 69 thousand under the "Deferred tax assets" caption.

d) Financial assets - Provisions for liabilities and charges

- In line with its remuneration policy, the Company has established a provision to cover all obligations accrued under its Staff Loyalty Rewards Scheme. The Company invests in a non-money market investment fund (FIM) to cover these obligations. Under Spanish legislation, the corresponding financial assets (the FIM) should be recognised at cost or market value, whichever is the lowest, and any possible gains in the value of the assets should only be recognised in income once they have actually occurred. Since any gains are only realised when an employee belonging to the Staff Loyalty Scheme retires or leaves the Company, the Group recognises neither the income corresponding to the increase in value nor the expense incurred in hedging the item.

- Under IFRS, the FIM is included under available-for-sale financial assets and is recognised at fair value, in accordance with the value at which it is trading on the market at the close of each accounting year. Since the FIM was created to establish provisions for the Staff Loyalty Scheme, any change in the value of the fund entails a change, in the same amount, in the associated provision.

- The valuation of the fund at 31 December 2003 represents a 449 thousand euros increase on the value of the fund recorded under Spanish GAAP. This increase in the fund's value implies an increase, in the same amount, in the value of the associated provision, and, accordingly, has no impact on equity.

- The valuation of the fund at 31 December 2004 represents a 534 thousand euros increase on the value of the fund recorded under Spanish GAAP. As in the case of the increase recognised at 31 December 2003, the valuation implies increases in the value of both the financial asset itself and the associated provision and, accordingly, has no impact on equity. On the income statement for financial year 2004, the change in the value of the fund since 31 December 200 (85 thousand euros) is recognised as an increase in financial revenue and increase in personnel expense (in the same amounts) and credited to the corresponding provision.

e) Deferred expenses: loan issue costs, deferred interest expenses and other deferred financial expenses.

- Under Spanish GAAP, these expenses consist of the legal costs incurred in issuing or modifying fixed-income securities and taking out loans with a term to maturity in excess of one year.

  Loan issue costs are recognised at acquisition or production cost, whilst deferred interest expenses are recognised as the difference between the redemption value and issue value of the corresponding securities and loans. Such costs should in principle be expensed in the year in which they are incurred but, on an exceptional basis, may be distributed over several years. In the event of their deferral, they should be charged against income over the life of the corresponding debt and in accordance with a financial schedule, such that the costs are always fully expensed by the time the corresponding debts mature.

- Under IFRS, financial assets and liabilities should initially be recognised at cost, which is the fair value of the consideration given to acquire the asset (in the case of an asset) or received in exchange for the asset (in the case of a liability). Transaction costs should be included in the initial measurement of all assets and liabilities of a financial nature. Consequently, costs directly related to debt issues are deducted from the amount initially recognised and then amortised on the income statement over the life of the security or loan by the effective interest rate method. They are not recognised as separate assets. Interest is charged against income as it accrues, using the effective interest rate method.

- Expenses deriving from the accrual of up-front fees charged on loans taken out with credit institutions have therefore been reclassified, so reducing the associated debt at end-2004 by 1,011thousand euros.

  At 31 December 2003, under Spanish GAAP, the Enagás Group had recognised 19,747, thousand euros corresponding to the transportation rights that its Portuguese gas pipelines (Gasoducto Campo-Maior-Lleiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.) held with Transgas, S.A. under the "Deferred expenses" caption. These have been reclassified as an intangible asset, pursuant to IAS 38, and will be amortised on a straight-line basis over the duration of the agreement.

At 31 December 2003, the Company therefore redistributed the balance of this caption (a net amount of 19,747 thousand euros) between “Other intangible assets” (25,319 thousand euros) and “Accumulated amortisation of intangible assets” (5,572 thousand euros).

- The Enagás Group had also recognised under the “Deferred expenses” a sum corresponding to the fee paid in advance for the transportation rights granted by Gas de Euskadi, S.A. However, these transportation rights do not conform to the definition of intangible assets established under IAS 38. The Enagás Group therefore adjusted the balance of this caption by 434 thousand euros, transferring 282 thousand euros to “First-application reserves” and 152 thousand euros to “Deferred tax assets”.

  Also, in 2004, under Spanish GAAP, the Group booked deferred expenses of 68 thousand euros corresponding to these rights. The impact of this restatement on the income statement prepared under IFRS was to reduce the amount recognised in the "Other operating expenses" caption by 68 thousand euros (44 thousand euros net of tax).

f) Derivative financial instruments

- The Group uses specific financial derivatives to manage exposure to cash flow fluctuations attributable to interest rate risk. Under Spanish GAAP, derivatives are valued at cost or market value, whichever is the lowest.

- Under IAS 32, entities are required to describe their financial risk management objectives and policies, Including their hedging policies for the different types of transactions in which they expect to use hedges, and also to provide information about the extent to which derivative financial instruments will be used, the risks associated with the instruments, and the reason for which they are being used.
- Under IFRS, all derivatives, whether or not they are classified as hedge instruments, must be recognised at fair value, which, for unquoted instruments, is equivalent to market value.
- If a cash flow hedge meets the prerequisites established for recognition as such pursuant to IAS 39, it will be recognised as follows:

  - The portion of the gain or loss on the hedge instrument that has been classified as the effective hedge shall be recognised directly in equity; and

  - The ineffective part of the gain or loss on the hedge instrument shall be recognised in income for the year.

- At 31 December 2003, the Enagás Group made a best-estimate analysis and valuation of its hedge instruments in accordance with its financial risk management policy and IFRS criteria. This valuation, which confirms the existence of an interest-rate cash flow hedge, revealed a financial liability in the amount of 2,507 thousand euros, which was recognised as such under the relevant caption. Corresponding adjustments in the amount of 1,630 thousand euros and 877 thousand euros were made to the "Hedging reserve" and "Deferred tax assets" captions respectively.

- Additionally, the derivatives valuation applied at 31 December 2004 reveals a financial liability of 27,202 thousand euros which was not recorded under Spanish GAAP. The offsetting entry for this liability can be found under “Hedging Reserve” (17,682 thousand euros) and "Deferred tax assets" (9,520 thousand euros).

g) Capital grants

- Under Spanish GAAP, non-refundable capital grants must be recorded on the liabilities side of the balance sheet as deferred income and, in the case of depreciable assets, recognised in income in proportion to the depreciation applied to the assets financed by the grant or, in the case of non-depreciable assets, recognised in income in the year in which the assets are sold or withdrawn from inventories.

- Under IFRS, grants used to fund assets (i.e. capital grants) may be recognised on the consolidated balance sheet either as deferred income or as a reduction in the value of the related assets. The Enagás Group has elected to deduct capital grants from the value of the related asset, as indicated in section c.2 above. The impact of this election on the financial statements for the years ended 31 December 2003 and 31 December 2004, and its impact in the course of 2004, are also discussed in the aforementioned section.

h) Extraordinary items

- Under Spanish GAAP, extraordinary items are defined as all revenues and expenses that are distinct from the entity's ordinary activities and are not recurrent.

- IAS 1 stipulates that no items may be presented on the face of the income statement or in the notes as "extraordinary items", since it is the nature of the revenue or expense rather than its frequency that should determine its presentation. All revenues and expenses must therefore be presented as ordinary items. However, IAS 1 also stipulates that the nature and amount of all significant revenues and expenses of a non-recurrent nature must be disclosed in the notes to the financial statements.

- The Company has therefore redistributed the extraordinary revenues and expenses booked on the consolidated income statement for 2004 prepared under Spanish GAAP to the corresponding captions of the consolidated income statement prepared under IFRS, on the basis of their nature:

  i. Income of 19 thousand euros from property, plant and equipment, 720 thousand euros in surplus provisions for liabilities and charges, 4,653thousand euros in deferred revenues and gains, and 77 thousand euros in other extraordinary revenues were redistributed to the "Ancillary and other operating income" caption.

  ii. Deferred revenues and gains of 300 thousand euros and 551 thousand euros respectively were redistributed to the "Other operating expenses" and "Income from associates" captions.

  iii. 4,971 thousand euros in profits and losses carried forward from previous years and 9 thousand euros in other extraordinary expenses were redistributed to the "Personnel expenses" and "Other operating expenses" captions respectively.

  iv. 40 thousand euros corresponding to the change in treasury stock provisions has been redistributed to the "Profit after tax from discontinuing operations" caption.

i) Corporate income tax

- Under Spanish GAAP, corporate income tax is calculated on the basis of book income before tax, plus or minus, as appropriate, any permanent differences. Temporary differences reflect the different time schedules applicable to taxation and the recognition of income and expenditure.

- Under IFRS, corporate income tax is accounted for using the balance sheet liability method. Accordingly, prepaid and deferred income tax is recognised on the basis of the difference between the carrying amount of assets and liabilities and the corresponding tax bases.

- The Enagás Group has taken this into account for all accounting items. The resultant impacts for each item are detailed in the notes included in this reconciliation report.

j) Presentation of the financial statements

- IFRS-1 stipulates that all assets, liabilities and components of equity recognised previously under Spanish GAAP, must be reclassified and assigned to the corresponding asset, liability or equity component caption under IFRS.

- The Enagás Group has therefore made various reclassifications, effective as of 31 December 2004. The main reclassification effected, and not considered in other sections of this report, was the reduction in the income and expenditure accounts corresponding to port taxes paid and received by the Group (a total amount of 8,751 thousand euros) necessitated by the new regulations governing ports and port concessions.

k) Operating income and supplies

- Under Spanish GAAP, sales revenues are measured as the remuneration received from clients or consumers of goods supplied, exclusive of amounts collected on behalf of third parties. Income from the sale of goods must be recognised when a series of conditions or prerequisites demonstrating that a transaction has been concluded are satisfied — i.e. when the seller of the goods has transferred to the buyer all significant risks and rewards of ownership, all significant actions have been concluded and the seller has no effective control over the goods transferred that would normally be construed as ownership, and there is no material uncertainty in respect of the consideration to be received from the sale of the goods, the associated costs incurred or to be incurred in producing or purchasing the goods, and the manner in which the goods may be returned.

- Under IFRS, revenue from the sale of goods should be recognised in the financial statements when all the following conditions have been satisfied:

    - The entity (seller) has transferred to the buyer the significant risks and rewards of ownership of the goods.

    - The entity (seller) retains neither continuing management involvement to the degree normally associated with ownership nor effective control over the goods sold.

    - The amount of revenue can be measured reliably.

    - It is probable that any economic benefits associated with the transaction will flow to the entity.

    - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

- Revenue should be measured at the fair value of the consideration received or receivable.

- Revenues include only the gross inflows of economic benefits received or receivable by the entity on its own account. Amounts collected on behalf of third parties, such as sales taxes, goods and services taxes, and value added taxes are not economic benefits that flow to the entity and do not result in increases in equity. Similarly, in an agency relationship, the gross inflows of economic benefits received by the agent include amounts collected on behalf of the principal, which do not result in increases in equity for the entity. The amounts collected on behalf of the principal do not constitute revenue. Instead, revenue is the amount of the commission.

- The Enagás consolidated balance sheet for the year ended 31 December 2004 prepared under Spanish GAAP included sales revenues and cost of sales associated with the supply of gas to regulated customers of 724,469 thousand euros and 720,551 thousand euros respectively.

- Under IFRS, as described in the preceding section, Enagás acts as manager in the sale of gas to regulated clients and receives remuneration from this activity in theory sufficient to cover the costs incurred. The revenue and costs deriving from the sale of gas to regulated customers are therefore eliminated from the consolidated income statement and only the amount of 8,653 thousand euros corresponding to the cost of sales associated with gas shrinkage suffered in the process has been recognised. Additionally, revenue corresponding to regulated remuneration for the management of gas sales activities has been reclassified, resulting in a 12,571 thousand euros increase in the value of the "Revenue from regulated activities" caption.

l) Trade and other receivables

- Under Spanish GAAP, the trade accounts payable caption includes all amounts pending collection in respect of regulated activities carried out in 2002, 2003 and 2004.

- Under IFRS, these amounts have been discounted at the average finance cost of the Parent Company. The discounted amounts at 31 December 2003 came to 24,072 thousand euros for accounts pending collection from 2002. At 31 December 2004, the discounted amounts came to 24,797 thousand, euros and 16,465 thousand euros for amounts pending collection from 2002 and 2003 respectively.

33. Joint ventures

Information on the joint ventures in which the Group had interests at 31 December 2005 is set out in the table below.

Company	Country	Activity	Reporting Method	%	% Voting rights controlled by Enagás, S.A.	Thousands of euros				
						Net carrying value	Figures for part-owned company (*)			
							Assets	Liabilities	Equity	Net profit for the year (**)
Gasoducto Al-Andalus, S.A.	Madrid	Gas transportation	PC	66.96	50	23,744	114,573	114,573	49,597	8,064
Gasoducto de Extremadura, S.A.	Madrid	Gas transportation	PC	51	50	9,732	52,018	52,018	27,647	6,765
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Gas transportation	PC	12	50	3,195	93,633	93,633	37,381	8,825
Gasoduto Braga-Tuy, S.A.	Portugal	Gas transportation	PC	49	50	2,546	18,542	18,542	6,742	1,217
TOTAL										

PC: Proportionate consolidation.
(*) The data presented correspond to figures for the individual companies prepared under GAAP applicable in the country in question and before the homogenization adjustments conducted prior to consolidation of the financial statements.
(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A., and Gasoduto Braga-Tuy, S.A., as indicated in note 1a), are taken from the accounts closed on November 2005.

34. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

ENAGÁS GROUP

On 22 February 2006, the Board of Directors of Enagás, S.A. approved the consolidated financial statements for the year ended 31 December 2005, consisting of the accompanying documents, in accordance with Article 171 of the Spanish Companies Act and Article 37 of the Code of Commerce.

However, pursuant to article 171.2 of the Spanish Companies Act, it is hereby noted that the accounts were not signed by Messrs Jesús David Álvarez Mezquíriz and Sir Robert Malpas, as neither board member attended the meeting at which the accounts were approved nor was able to provide his signature by other means as neither was present in Spain at the time.

Chairman

Mr. Antonio González-Adalid García-Zozaya

Board members

Mr. Jesús David Álvarez Mezquíriz

Mr. Antonio Téllez de Peralta

Mr. Carlos Egea Krauel

Mr. Jose Manuel Fernández Norniella

Mr. Salvador Gabarró Serra

Sir. Robert Malpas

Mr. Dionisio Martínez Martínez

Mr. Luis Javier Navarro Vigil

Mr. Ramón Perez Simarro

Mr. José Riva Francos

Mr. Rafael Villaseca Marco

Mr. Martí Parellada Sabata

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

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

Peña Rueda, S.L. Unipersonal
(Represented by Mr. Manuel Menéndez Menéndez)

Secretary to the Board

Mr. Luis Pérez de Ayala Becerril