ENAGÁS GROUP

FISCAL YEAR 2004

CONSOLIDATED ANNUAL ACCOUNTS

Balance Sheet
Profit and Loss Account
Notes to the Annual Accounts

CONSOLIDATED BALANCE SHEETS FOR ENAGAS GROUP AT 31 DECEMBER 2004 AND 2003.
(Thousand euros)

Note No.	Assets	31.12.04	31.12.03
	FIXED ASSETS	**2.967.918**	**2.649.442**
4	**Formation expenses**	**1**	**5**
5	**Intangible fixed assets**	**12.048**	**10.898**
	Research and development expenses	14.768	13.684
	Concessions, patents, licenses, brands and similar items	8.040	7.892
	Software	13.171	9.439
	Amortisation	(23.931)	(20.117)
6	**Tangible fixed assets**	**2.921.889**	**2.603.170**
	Land and buildings	80.440	75.924
	Plant and machinery	3.664.806	3.181.862
	Other installations, tooling and furnishings	12.158	11.375
	Prepayments and assets in course of construction	450.103	479.959
	Other fixed assets	21.806	21.893
	Provisions	(9.402)	(9.845)
	Depreciation	(1.298.022)	(1.157.998)
7	**Investments**	**33.980**	**35.369**
	Loans to group companies	23.515	26.477
	Long-term investment portfolio	1.675	1.338
	Other loans	497	604
	Long-term deposits and guarantees	697	587
	Provisions	7.596	6.363
	Public entities, long-term		
8		**20.333**	**20.181**
	DEFERRED EXPENSES		
		483.543	**423.423**
	CURRENT ASSETS		
9		**2.384**	**2.407**
	Inventories	2.384	2.407
	Raw materials and supplies		
10		**472.533**	**403.967**
	Debtors	125.753	98.571
	Trade debtors for sales and services rendered	1.686	1.575
	Group companies, debtors	125.573	100.828
	Associated companies, debtors	185.950	159.822
	Sundry debtors	154	216
	Staff costs	33.417	44.499
	Public entities	-	(1.544)
	Provisions		
		5.646	**6.776**
	Current asset investments	3.919	3.782
	Loans to group companies	1.727	2.994
	Other loans		
		300	**2.100**
	Cash in hand and at bank		
		2.680	**8.173**
	Prepayments and deferred income		
		3.471.794	**3.093.046**
	TOTAL		

Notes 1 to 30 of the Consolidated Annual Report form part of the Consolidated Balance Sheet at 31 December 2004

CONSOLIDATED BALANCE SHEETS FOR ENAGAS GROUP AT 31 DECEMBER 2004 AND 2003. (Thousand euros)

Note No.	Liabilities	31.12.04	31.12.03
11	**CAPITAL AND RESERVES**	**1.017.295**	**932.359**
	Share capital	358.101	358.101
	Revaluation reserve	342.505	342.505
	Legal reserve	71.620	70.842
	Voluntary reserves	111.171	43.997
	Reserves at companies cons. using the proportional method	6.807	3.543
	Consolidated profit	158.126	142.019
	Interim dividend	(31.035)	(28.648)
12	**DEFERRED INCOME**	**425.448**	**451.227**
	Capital grants	379.715	399.003
	Other deferred income	45.733	52.224
13	**PROVISIONS FOR LIABILITIES AND CHARGES**	**10.880**	**4.737**
	Other provisions	10.880	4.737
	CREDITORS: LONG TERM	**1.363.715**	**1.255.467**
14	**Bank loans**	**1.331.137**	**1.215.311**
16	**Loans from group and associated companies**	**4.576**	**8.469**
	Loans from associated companies	4.576	8.469
	Other creditors	**28.002**	**31.687**
15	Other loans	25.588	29.589
	Public entities, long-term	2.414	2.098
	CREDITORS: SHORT TERM	**654.456**	**449.256**
14	**Bank loans and overdrafts**	**63.007**	**24.945**
	Loans from group and associated companies	**259.919**	**146.845**
	Group companies	3.308	2.801
16	Associated companies	256.611	144.044
	Trade creditors	**262.231**	**212.837**
	Amounts payable for purchases and services received	262.231	212.837
	Other non-trade debts	**69.299**	**64.629**
	Taxes and social security payable	31.798	28.623
	Other debts	4.746	5.820
	Dividend payable	31.035	28.648
	Outstanding wages and salaries	1.624	1.442
	Short-term wages and salaries	96	96
	TOTAL	**3.471.794**	**3.093.046**

Notes 1 to 30 of the Consolidated Annual Report form part of the Consolidated Balance Sheet at 31 December 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003.

(Thousand euros)

Note no.	Expense	2004	2003
	EXPENSES		
19	**Raw materials and supplies**	**729.165**	**1.037.913**
	Consumption of raw materials and other consumables	720.551	1.030.569
	Other external expenses	8.614	7.344
20	**Staff costs**	**57.913**	**58.014**
	Wages, salaries and similar	42.984	42.681
	Social welfare expenses	14.929	15.333
	Fixed asset depreciation/amortisation	**144.795**	**133.612**
	Change in trade provisions	**(412)**	**(67)**
	Other operating expenses	**144.499**	**133.369**
21	External services	142.869	131.365
	Taxes	1.630	2.004
	OPERATING PROFIT	**274.250**	**249.562**
	Financial and similar expenses	35.228	34.060
	Losses on exchange	3	3
	FINANCIAL INCOME	-	-
	PROFIT FROM ORDINARY ACTIVITIES	**241.331**	**217.830**
	Change in provisions for tangible and intangible assets and controlling portfolio	-	473
	Losses from tangible and intangible assets and controlling portfolio	40	10
	Extraordinary expenses	9	1
	Deferred expenses and losses	4.971	-
	EXTRAORDINARY PROFIT	**1.300**	**-**
	PROFIT BEFORE TAXES	**242.631**	**217.376**
17	Corporate income tax	84.505	75.357
	PROFIT FOR YEAR	**158.126**	**142.019**

Notes 1 to 30 of the attached Consolidated Annual Report form part of the Consolidated Profit and Loss Account at 31 December 2004

Note No.	Income	2004	2003
	INCOME		
18	**Net turnover**	**1.295.029**	**1.569.555**
	Sales	726.085	1.037.623
	Services rendered	568.944	531.932
	Own work capitalised	**7.082**	**170**
	Other operating income	**48.099**	**42.678**
	Auxiliary and ordinary trading income	27.698	22.184
12	Capital grants	20.401	20.494
	Income from shareholdings	**336**	**181**
	Income from other securities and long-term loans	**1.643**	**1.948**
	Other interest and similar income	**333**	**125**
	Gains on exchange	**-**	**77**
	FINANCIAL EXPENSE	**32.919**	**31.732**
	Gain on disposal of tangible and intangible assets and controlling portfolio	19	25
	Extraordinary income	797	5
	Deferred income and profits	5.504	-
	EXTRAORDINARY LOSS	**-**	**454**

Notes 1 to 30 of the attached Consolidated Annual Report form part of the Consolidated Profit and Loss Account at 31 December 2004

Translation of consolidated/abridged financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 31). In the event of a discrepancy, the Spanish-language version prevails.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF THE ENAGAS GROUP FOR THE YEAR ENDED 31 DECEMBER 2004

1. Basis of presentation and consolidation principles

a) Basis of presentation

The annual accounts are presented in accordance with the principals and accounting provisions contained in the General Accounting Plan, approved by Royal Decree 1643/1990, dated 20 December, and with that set forth in Law 19/1989, of 25 July, partially reforming and adapting mercantile legislation to conform with EU Directives on corporations, and with Royal Decree 1815/1991, which approves the rules governing the preparation of consolidated annual accounts so as to give a true and fair view of the consolidated Group's net worth, financial situation and results.

The Group companies' fiscal year end is 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo-Maior Leiria Braga, S.A. which, due reasons relating to the date their accounts are approved, are consolidated on the basis of accounts as of 30 November 04. The impact of this time lag is not significant.

The Consolidated Annual Accounts for fiscal year 2003 were approved at the Enagás, S.A. Annual General Shareholders' Meeting, held last 30 April 2004. The unconsolidated annual accounts for Enagás, S.A., prepared on 17 February, 2005, and the individual annual accounts for each of the other companies included in the consolidation perimeter for 2004, with the exception of Gasoduto Campo Maior - Leiría - Braga and Gasoduto Braga - Tuy, which have been prepared by their corresponding Boards of Directors, are all subject to approval at their respective Annual General Shareholders' Meetings. However, it is the belief of the Enagás Board of Directors that these annual accounts will be approved without modification.

b) c) Basis of comparison

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

In 2004, Enagás, S.A. established an accounting procedure for booking personnel expenses associated with investment projects as assets where the cost of work hours put in by Enagás personnel linked with the said projects is fully included in Work carried out by the Company on the fixed assets line, an accounting procedure already in place in connection with R&D projects. This concept amounted to 7.08 million euros in 2004.

This was the only accounting change implemented by the Group in 2004 with respect to the structure of the consolidated balance sheet or profit and loss account. In all other respects, the presentation structure is the same as used in its consolidated financial statements for fiscal year 2003.

c) Consolidation principles

Enagás, S.A. subsidiaries included in the sphere of consolidation are all engaged in the transportation of gas, except for the finance company, Enagás International Finance, S.A.

Enagás, S.A.'s shareholdings in these companies are set out below:

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

It is noteworthy that Enagás, S.A. owned 99.99% of Enagás International Finance, S.A. until 25 November 2004, at which date that company was dissolved.

The consolidation was carried out as follows:

- using the proportional consolidation method for "multi-group" companies managed jointly with the Portuguese company Transgás, S.A. and the full consolidation method for Enagás International Finance, S.A., a company which was dissolved in 2004 and accordingly not consolidated for said fiscal year.

- Transactions between consolidated companies.

  During the consolidation process, credits, debits, income, expenses and results from operations with other Group companies have been eliminated proportionally with Enagás, S.A.'s shareholdings in the companies concerned.

- Consistency.

  Appropriate accounting adjustments have been made when consolidating subsidiaries whose accounting and valuation rules are different from the Group's corresponding standards, provided that the effect is significant, in order to state the consolidated financial statements on a consistent basis.

- 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 has been required.

- Elimination of dividends

  Inter-group dividends are those recorded by a Group company during the fiscal period and which are distributed by another Group company.

  Dividends received by Group companies corresponding to previous years' earnings are eliminated and treated as reserves at the receiving company, recorded on the voluntary reserve line item.

Interim dividends are written off against the related dividend debit account at the distributing company.

2. Accounting policies

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

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

b) Intangible assets:

R&D expenses are stated at their acquisition or production cost. When there are grounds to believe that these projects will be technically successful and can be profitably commercialised, they are recorded as assets and 95% of associated costs are amortised the first year and the remainder the following year.

Administrative concessions are stated at acquisition cost and are amortised in accordance with their concession life.

IT applications are stated at the amount paid for the ownership or right to use the computer programs or at production cost if they are developed in house. These are amortised over a four-year period.

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

Tangible fixed assets include, among others, financial expenses related to infrastructure project financing when the construction period exceeds one year.

The costs of remodelling work, extensions or improvements are booked as an increase in the value of the asset only when its capacity, productivity or useful life is increased. The net book value of assets replaced is deducted. On the other hand, ongoing maintenance, upkeep and repair expenses are expensed in the P&L in the year in which they are incurred.

Amounts relating to in-house work carried out in connection with tangible assets are capitalised as direct investment costs.

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive, as well as provisions for potential falls in asset market value where their market value at the close of the fiscal period is below the net book value and so long as the latter cannot be recovered by generating sufficient sales to cover all costs and expenses, including depreciation. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life.

The depreciation rates applied are as follows:

	Rate (%)
Buildings	2 - 3
Plant (transport network)	3.33 - 5
Tanks	5
Underground storage	4
Other plant and machinery	5 - 12
Tools and tooling	30
Furniture and fixtures	10
Computer hardware	25
Transport equipment	16

d) Investments. Marketable security investments, irrespective of whether they are equity or debt, short-term or long-term, are stated in the balance sheet at their acquisition cost, restated, where appropriate, according to Law 9/1983 dated 13 July, or at market value, where lower. The acquisition cost does not include accrued dividends or explicit interest accrued and not due at the time of purchase.

In the case of valuation restatements for securities traded on an organised secondary market, with the exception of shareholdings in Group subsidiaries or associated companies, the lower of the market value on the balance sheet close date and the average trading value over the last quarter is taken. Shareholdings in Group subsidiaries or associated companies, regardless of whether or not they are traded on an organised secondary market, are stated at theoretic book value, adjusted for implied capital gains at the time of acquisition and through to the present, in relation to the performance of shareholders' equity. This last procedure is also used to value other shareholdings which are not traded on an organised secondary market.

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

e) Deferred expenses. Deferred expenses include payments that fall due in future years and are expensed in the profit and loss account in the year concerned.

Gasoduto Campo Mayor Leiria – Braga, S.A. and Gasoduto Braga-Tuy, S.A. record directly related gas transport rights and financial expenses, which are being amortised on a straight-line basis through 2020.

This line item at Enagás, S.A. includes long term expenses incurred in connection with loans, which are stated at cost and are amortised in accordance with loan maturity in the profit and loss line item, Financial and Similar Expenses.

f) Inventories. The Company does not own any gas inventories since in its gas purchase and sale activity it acquires gas and subsequently delivers it to the distribution companies to sell, and in its activities in the deregulated market it receives gas for regasification, where appropriate, and subsequent transportation to the locations specified by the Vendor. As a transporter of natural gas the Company is responsible for measuring entries and exits from the system and managing any losses and internal consumption.

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

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

The Company makes the restatements deemed necessary to provide for bad debt risks. Credit lines are stated at the amount drawn down.

The Company's financial derivatives correspond to hedging operations related to cash flows, the aim of which is to significantly reduce the underlying risk of hedged operations. Premiums paid on these derivatives are accrued according to financial criteria. Profits or losses arising over the life of the derivatives are booked on a similar time schedule as that used to book the results of the underlying hedged operation.

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

i) Deferred income. Capital grants are booked to income at the grant amount on a straight-line basis over the depreciation period for the fixed assets they finance.

In order to give a true and fair view, and as a reflection of their significance, capital grants released to profit and loss for the year are recorded under Other operating income in order to associate them with the depreciation charged on related assets.

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

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

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

l) Corporate income tax. Corporate income tax expenses for the fiscal year are calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences with taxable income (see Note 17), i.e. differences that are not reversed in subsequent periods. Recorded deductions arising from corporate income tax incentives and credits are deducted from corporate income tax accrued in the fiscal period, since it is considered that they will recur in future years.

Timing differences do not affect tax expenses for this calculation; rather these differences are booked as prepaid taxes or as taxes on deferred earnings, depending on that nature of the timing difference.

Group policy is to record deferred tax assets only if there is no doubt as to their future recovery.

m) Income and expenses

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

In general, and in accordance with prudent accounting policy, only income generated by the fiscal year end is booked, while foreseeable risks and losses, even possible risks and losses, are recorded as soon as they are known.

As a result of the new standards which affect the parent company as published in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), the accounting criteria for recording income subject to the new regulation is set out below:

<u>As from 19 February 2002</u>

On 15 February 2002, three Ministerial Orders were approved by the Ministry of Economy defining the new remuneration system for regulated natural gas activities in Spain, which came into force on 19 February 2002. In addition to specifying payments for regulated gas-related activities, these Orders fix natural gas prices and tolls and royalties for third-party access to gas installations, published in the Official State Gazette of 18 February. Effective the day after publication, the Official State Gazette stipulated the total payment companies may receive for the rest of 2002 for purchase and sale activities in the regulated market, regasification, gas storage and transportation and technical management of the system and gas distribution. The publication also stated the criteria and formulae for restating and fixing payments for these services in the coming years.

On 15 January 2004, the Ministry of Economy approved three Ministerial Orders (ECO/31/2004, ECO/32/2004 and ECO/33/2004) updating tariffs, and establishing remuneration for 2004 for all companies involved in regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 17 January.

In accordance with the new legislation, the parent company is entitled to compensation for the following activities:

- Regasification
- Storage

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

The most relevant aspects of the regulations covering the Company's activities from an income standpoint are detailed in Note 3 below.

n) Environment. Acquisition costs for systems, equipment and facilities whose purpose is to eliminate, limit or control the potential environmental impact of the Company's day-to-day gas-related activities are considered asset investments.

Environmental expenses other than those incurred in connection with asset acquisitions are expensed in the period in which they are incurred.

The parent company and its subsidiaries consider that existing civil responsibility insurance policies are sufficient to cover any environmental contingencies that could arise.

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

3. Regulation of compensation

a) Income from regasification, storage and transport activities

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

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

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

- Compensation for depreciation of assets used in the system. Compensation is calculated based on the book value of the assets after the restatement in 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 (IPC) and the industrial price index (IPRI) is applied to the difference. The depreciation rate relating to the useful life of the asset is applied to the resulting value, thereby obtaining the amount of income for this item. No compensation for depreciation is recorded for fully-depreciated assets.
  With respect to new infrastructure being brought into service, the standard value of each investment set by the regulator is used as a basis for calculating the related compensation for depreciation, while extension projects are depreciated at their 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 for 2004 was 5.64 %.

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 according to physical and technical units. The annual restatement rate (IPC and IPRI average) is applied to the resulting standard value, adjusted by an efficiency factor of 0.85. Income for this item is obtained by applying these restated standard figures to physical units.

a.1.3. Given that the new system compensates Enagás, S.A. for investments made, and the book value of these investments is the yearly depreciation charged to profit and loss on a straight-line basis, income relating to the fixed authorised cost is also taken to the consolidated profit and loss on a straight-line basis. In this way, a monthly balance is achieved between income (compensation) and expenses (depreciation).

a.2) Authorised variable cost. The authorised variable cost is calculated based on the number of kWh actually regasified as well as those loaded in LNG cisterns, and the variable unit regasification cost for the period in question. For 2004, this cost was set at 0.000249 euros per kWh regasified.

b) Income from technical system management (GTS)

Income 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 infrastructure and controlling third-party access to the network.

In 2004, the quota allocated to compensate for technical management to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for tolls and royalties relating to third-party network access rights, stands at 0.62% for tolls and royalties and 0.30 % for prices. This quota will be recorded by these companies in the periods and form established for the payment procedure into the deposit account opened by the National Energy Commission for these purposes.

The above-mentioned percentage of revenue will be calculated based on the figure obtained by applying maximum tolls and royalties to the invoiced amounts, without subtracting possible discounts that could be agreed between facility owners and users.
This monthly income is taken to the consolidated profit and loss on a straight-line basis.

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

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

d) Income from gas purchase and sales activity

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

The purchase and sale price for gas is set according to the following criteria:

- Gas purchase cost. This raw material cost 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 placing gas in the basic network. This cost is calculated on a quarterly basis in January, April, July and October of each year.

- Sales price. Known as the transfer price, this 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 transfer price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

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

e) Income from the Management of gas purchases and sales

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

- Specific total purchase and sales 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 rate set for 2004 is 0.005.

- A breakdown of gas shrinkage costs arising during regasification processes, storage and transport of gas to be sold on the regulated market is set out below:

- Regasification: 0.5% of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.
- Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in 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 volume of end customer demand (based on the average cost of the raw material to be sold on the regulated market). This coefficient is the result of the sum of the three month Euribor interest rate for the previous year and 0.5%. The rate for 2004 is 2.98%.

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.

4. Set-up expenses

Set out below is an analysis of movements in set-up expenses during the year:

	Balance as of 01.01.04	Increase	Depreciation	Balance as of 31.12.04
Start-up costs	4	-	(4)	-
Share capital increase expenses	1	-	-	1
Total	**5**	**-**	**(4)**	**1**

5. Intangible assets

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

	Balance as of 01.01.04	Increase	Balance as of 31.12.04
Research and development expenses	13,684	1,084	14,768
Concessions, patents, licences, trademarks and similar items	7,892	148	8,040
Computer applications	9,439	3,732	13,171
Accumulated depreciation	(20,117)	(3,814)	(23,931)
Net balance	**10,898**	**1,150**	**12,048**

The increase in R&D expenses is primarily due to:

- A general specification project for the LNG plants
- SIGMA maintenance

Regarding computer applications, we highlight:

- The development of a new function of the SAP support system
- System for the management and certification for obtaining gas measurements

6. Tangible fixed assets

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

	Balance as of 01.01.04	Increase	Decrease	Transfer	Balance as of 31.12.04
Land and buildings	**75,924**	**4,516**	**-**	**-**	**80,440**
Plant and machinery	**3,181,862**	**204,228**	**(1)**	**278,717**	**3,664,806**
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**	**888**	**(975)**	**-**	**21,806**
Total	**3,771,013**	**459,276**	**(976)**	**-**	**4,229,313**

In the increase in plant and machinery line item (and representing 82% of the total), we point out the launch of:

- Phases I & II of the Huelva-Sevilla-Córdoba gas pipeline
- Sections I & II of the Córdoba-Sta. Cruz de Mudela gas pipeline
- Expansion of the Huelva plant to 900,000 m3
- Third 150,000 m3 tank at the Huelva plant
- Phase I of the compression station at Córdoba
- Compression station at Crevillente

Regarding the increase in fixed assets under construction we would highlight (representing over 80%):

- The Cartagena-Lorca gas pipeline
- The Castelnou-Tamarite de Litera gas pipeline
- Expansion of the compression station at Tibias
- The Dos Hermanas compression station
- Third tank at the Cartagena plant
- Fifth and sixth tank at the Barcelona plant
- Fourth tank at the Huelva plant
- 180.000 m3 expansion at the Barcelona plant
- 900,000 m3 expansion at the Cartagena plant

The line item depicting decreases reflects a 975,000 euro vehicle reduction.

The Transfers line item includes the reclassification of projects underway which were completed during the fiscal year.

The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of 16.91 million euros in the fixed asset depreciation charge for 2004.

Movements in restated tangible fixed assets are set out below:

Balance as at 01.01.04	213,737
Depreciation charge for the period	(16,654)
Balance as at 31.12.04	197,083

The plant and machinery balance includes non-extractable gas assets located in underground gas storage facilities totalling 118.72 million euros.

The impact of capitalised in-house Work carried out in connection with fixed assets accounted for an increase in investment of 7.08 million euros.

The financial costs applied during the year to infrastructure being constructed totalled 7.05 million euros and as of 31 December 2004, 155.12 million euros were recorded as an increase in gross tangible fixed assets, without being previously accounted for first as in-house fixed asset related work.

Movements in accumulated depreciation during the year are as follows:

	Balance as of 01.01.04	Increase	Decrease	Balance as of 31.12.04
Buildings	29,362	2,529	-	31,891
Plant and machinery	1,101,179	136,111	(1)	1,237,289
Other installations, tooling and fixtures	9,521	734	-	10,255
Other fixed assets	17,936	1,606	(955)	18,587
Total	1,157,998	140,980	(956)	1,298,022

The total amount recorded under decreases (956,000 euros) basically relates to the disposal of vehicles totalling 955,000 euros.

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

	Balance as of 01.01.04	Provisions	Application	Balance as of 31.12.04
Provisions	(9,845)	-	443	(9,402)
Total	(9,845)	-	443	(9,402)

The line item reflecting asset decreases includes disposals of stored obsolete investment materials.

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

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

7. Investments

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

	Balance at 1.1.04	**Increases**	**Decreases**	**Balance at 31.12.04**
Loans to group companies	26.477	807	(3.769)	23.515
Long-term securities portfolio	1.338	340	(3)	1.675
Other loans	604	-	(107)	497
Long-term deposits and guarantees	587	124	(14)	697
Government debentures - long-term	6.363	3.130	(1.897)	7.596
Total	**35.369**	**4.401**	**(5.790)**	**33.980**

Loans to group companies fall due in 2011 and bear market interest rates. The average rate in 2004 stood at 3.04%. The balances relate to the interest held in Transgás, S.A. in the following loans:

	Long-term	**Short-term**
Gasoducto Al-Andalus, S.A.	12.951	2.158
Gasoducto de Extremadura, S.A.	3.771	629
Gasoduto Campo Maior Leiria Braga, S.A.	5.019	837
Gasoduto Braga-Tuy, S.A.	1.774	295
Total	**23.515**	**3.919**

These loans are amortised in accordance to the terms established in the contracts and each company's cash resources. The amortisation periods are as follows:

2006	3.306
2007	3.545
2008	3.797
2009	4.069
Over 5 years	8.797
	23.515

The 3.77 million euro decrease corresponds to the amortisation of the loans totalling 3.60 million euros granted to Gasoductos Al-Andalus, S.A. y Gasoducto de Extremadura, S.A. and the loan totalling 167,000 euros granted to Gasoduto Campo Mayor - Leiria - Braga, S.A. and Gasoduto Braga - Tuy, S.A.

The long-term securities portfolio is made up of a FIM mutual fund (security fund) worth 1.66 million euros and a stake in the holding company for the 19th World Petroleum Congress (10,000 euros).

8. Deferred expenses

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

	Balance as at 1.1.04	Increases	Decreases	Balance as at 31.12.04
Enagás, S.A.	434	1.011	(67)	1.378
Gasoduto Campo Maior - Leiria - Braga, S.A.	10.976		(441)	10.535
Gasoduto Braga-Tuy, S.A.	8.771		(351)	8.420
Total	**20.181**	**1.011**	**(859)**	**20.333**

The decreases line for Enagás, S.A. records the royalty paid in advance to Gas de Euskadi, S.A. to use the latter's gas pipelines for a period of 13 years – of which 6 are left.

The increases line for Enagás, S.A. includes long term up-front fees. of 700,000 for the 15 year ICO loan and 311,000 for the 10 year ICO loan.

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

9. Inventories

Inventories at 31 December 2004 relate mainly (see Note 2.f) to materials used for consumption and replacement at regasification plants, underground storage facilities and gas pipeline networks.

10. Debtors

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

The balance for associated company debtors stood at 125.57 million euros relating mainly to Gas Natural SDG, S.A. (92.28 million euros), Gas Natural Comercializadora, S.A. (12.98 million euros) and Gas Natural Castilla y León, S.A. (6.29 million euros).

At 31 December 2004 accounts pending payment relating to regulated activities in 2004 stood at 140.36 million euros. For 2005, at the date these annual accounts were prepared, payment number 10 for 2004 had been settled (12.73 million euros).

Also, at the date these annual accounts were prepared, the final settlements for 2002 and 2003 are still pending. The balance on the Sundry debtors caption of the attached consolidated Balance sheet includes 25.52 million euros corresponding to 2002 and a sum of 17.39 million euros corresponding to 2003, both of which are pending settlement at the year end.

In this sense, Article 13 of Ministerial Order which ECO/2692/2002 stipulating settlement procedures states that *"Any deviations (differences) between the net revenue payable and the accredited remuneration 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 next two years"*.

The Group therefore records these balances for the 2002 and 2003 given that while the calculation of tariffs, access charges and fees for 2004 and 2005 reflect potential deviations occurring in 2002 and 2003, the balances for these years may only be settled once the definitive payment has been made.

The balance of 1.69 million euros shown by Group company Debtors corresponds to Gasoducto Al-Andalus, S.A. (918,000 euros) and Gasoducto de Extremadura, S.A. (768,000 euros) and relates to gas transport services rendered to Transgás, S.A. which were pending settlement at that date and have been booked under the proportional consolidation method applying the percentage of the stake owned by Enagás, S.A. in the companies.

Several doubtful loans to former Customers have been eliminated for the two accounts. There were fully provisioned.

The account Accrued Taxes Payable account basically records VAT receivable by Enagás, S.A., the refund of which was requested in January 2004.

11. Capital and Reserves

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

	Balance at 1.1.04	Distribution of 2003 profit	Other	2004 profit	Balance at 31.12.04
Capital stock	358.101	-	-	-	358.101
Revaluation reserve	342.505	-	-	-	342.505
Legal reserve	70.842	778	-	-	71.620
Voluntary reserve	43.997	67.174	-	-	111.171
Reserves in consolidated companies	3.543	3.057	207	-	6.807
Consolidated profit and loss account	142.019	(142.019)	-	158.126	158.126
Interim dividend	(28.648)	28.648	-	(31.035)	(31.035)
Total	**932.359**	**(42.362)**	**207**	**127.091**	**1.017.295**

a) At 31 December 2004 Enagás, S.A’s share capital was made up of 238,734,260 ordinary bearer shares, all of the same class and series, fully paid up and with a par value of €1.5.

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

   At year-end 2004, the price of Enagás, S.A. shares stood at €12.20 (year high).

c) The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2004 are the following:

	Shareholding (%)
Gas Natural, Sdg., S.A.	26,100
Caja de Ahorros del Mediterráneo	5,030
Sagane Inversiones, S.L.	5,022
B.P.España, S.A.	5,000
Caja de Ahorros de Valencia, Castellón y Alicante.	5,000
Cantabria Inversiones de Cartera, S.L.	5,000

The company has no treasury stock.

After the publication of Law 62/2003 on Tax, Administration and social order measures of 31 December 2003, of which Article 92 amends Law 34/1998 on the hydrocarbon sector, and 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 3 years after 1 January 2004 to adapt shareholdings to meet this new limit. .

As a result of this, Gas Natural Sdg, S.A. has to reduce its stake by 21.1% before 31 December 2006. At the date this consolidated report was prepared Gas Natural Sdg, S.A.’s stake stands at 24.99%.

d) During the year Enagás, S.A. approved the payment of a dividend against 2003 results for a total of 71.01 million euros, of which 28.65 millione euros was paid out in January 2004 and 42.36 million euros will be paid out in July 2004.

The proposed distribution of 2004 net income that the Bank's Board of Directors will submit for approval by the Shareholders' Meeting is shown in the table below:

Dividends	79.063
Voluntary reserve	78.638
	157.701

On 16 December 2004 the Board of Directors of Enagás, S.A. resolved to pay an interim dividend out of 2004 profits to the amount of 31.03 million euros. The Company has prepared the following liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

	Thousands of Euros
Reported net profit at 31 October 2004	133.266
10% legal reserve	-
Profit available for distribution	133.266
Forecast interim dividend	(31.035)
Forecast cash at bank and in hand between 31 October 2004 and 31 December 2004	
- Cash at bank and in hand at 31 October 2004	39.070
- Collections forecast for the period under consideration	160.000
- Credit facilities and loans granted by banks	825.000
- Payments forecast for the period under consideration (including the interim dividend)	(220.000)
- Cash at bank and in hand at 31December 2004	804.070

In January 2005 the approved interim dividend was paid.

e) The revaluation reserve accepted by the Tax Authorities is not available until 2007. The account balance may be used to offset losses, increase share capital or, from 31 December 2006, be taken to unrestricted reserves.

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

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

Gasoducto Al-Andalus, S.A.	3.457
Gasoducto de Extremadura, S.A.	662
Gasoduto Campo Maior - Leiria - Braga, S.A.	177
Gasoduto Braga-Tuy, S.A.	123
Adjustments on consolidation	2.388
Consolidation reserves	**6.807**

12. Deferred income

The amounts and movements recorded in the Deferred income items during the year are as follows:

	Balance as at 01.01.04	Increases	Applications	Balance as at 31.12.04
Capital grants	399.003	1.076	(20.364)	379.715
Canon Gasod. de Extremadura, S.A.	15.449	--	(3.423)	12.026
Canon Gasod. Al-Andalus, S.A.	36.775	--	(3.068)	33.707
Total	**451.227**	**1.076**	**(26.855)**	**425.448**

The 37,000 euro difference between capital grants (20.36 million euros) released to income and the amount recorded on the profit and loss account (20.40 million euros) relates to operating grants.

These grants were used for investments in gas infrastructure, as shown in the table below:

	Grants received as at 31.12.04	Applications at 31.12.04	Balance as at 31.12.04
Regasification plants	68.466	(30.147)	38.319
Gas transport infrastructure	456.214	(129.969)	326.245
Subterranean fields	15.151	-	15.151
TOTAL	**539.831**	**(160.116)**	**379.715**

The grants were awarded by:

	Grants received at 31.12.04	Applications at 31.12.04	Balance at 31.12.04
EU cohesion funds	378.147	(84.206)	293.941
Spanish regional authorities	47.836	(9.563)	38.273
The Spanish state	113.848	(66.347)	47.501
TOTAL	**539.831**	**(160.116)**	**379.715**

13. Provisions for liabilities and charges

The balance in Other provisions as at 31 December 2004 relates to provisions set up for probable liabilities arising from identified contingencies. Movements in this account are set out below:

	Balance as at 1.1.04	Provisions	Applications	Balance as at 31.12.04
Other provisions	4.737	6.461	(318)	10.880
Total	**4.737**	**6.461**	**(318)**	**10.880**

The most significant Provisions are a provision for non consolidated remuneration to reward Enagás' management and Board members for their loyalty for an amount of 5.30 million euros, and a provision of 1.48 million euros for a pluri-annual remuneration program which is part of a long-term incentive plan linked to meeting various targets over a period of 3 years.

14. Bank loans

These items break down as follows:

	Long term	Short term
Enagás, S.A. credit facilities and bank loans	1.326.776	55.463
Gasoduto Braga-Tuy, S.A. credit facilities and bank loans	4.361	-
Accrued interest	-	7.544
	1.331.137	**63.007**

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

2006	8.629
2007	12.990
2008	8.629
2009	56.486
Over 5 years	1.244.403
	1.331.137

In 2004, the average interest rate on debt payable to credit entities in euros was 2.98%. The group had no foreign currency debt.

At 31 December 2004 Enagás, S.A. had a non available credit line of 247.19 million euros.

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

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

Interest rate hedges have also been obtained for the period 2005-2008 via the purchase of a collar with a cap of 4.12% and a floor of 3.67%. These start in January 2005 and expire in April 2008 and have a maximum fixed cost of 4.32%, which factors in the impact of the refinancing carried out in November (vs. prior to the refinancing).

In 2004, the cost of the 1 billion euro syndicated loan was 31.97 million euros.

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

15. Other creditors

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

	Long term
Loan from Transgas, S.A. to Gasoducto Al-Andalus, S.A.	12.879
Loan from Transgas, S.A. to Gasoducto de Extremadura, S.A.	7.665
Loan from Transgas, S.A. to Gasoduto Campo Maior-Leiria-Braga, S.A.	5.044
	25.588

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

These loans are amortised in accordance to the terms established in the contracts and the cash resources available to each company.

16. Group and associated company debtors

The balance of long-term debt owed to associated companies (4.58 million euros) relates to the forecast adjustments envisaged by under Spanish Corporate Tax law for 1995 to 1998, updated on 31 December 2004 in favour of Gas Natural SDG, S.A., head of the 59/93 Tax Group.

The 3.31 million euro balance of the "ST Debt payable to Group companies" caption is as follows:

- Gasoducto Al-Andalus, S.A.: 1.62 million euros.
- Gasoducto de Extremadura S.A., 735,000 euros.
- Gasoduto Braga - Tuy, S.A., 445,000 euros.
- Gasoduto Campo Maior - Leiria - Braga, S.A., 507,000 euros.

The balance for ST debt payable to associated companies stood at 256.61 million euros with the following breakdown: Sagane S.A. (152.38 million euros), Gas Natural Aprovisionamientos, S.A. (88.67 million euros) and Desarrollo del Cable, S.A. (10.04 million euros).

17. Tax situation

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

b) The tax returns filed by Enagás, S.A. are open to inspection for all years that have not become statute-barred, with the exception of Corporate Taxes, with respect to which only the years 1999 to 2004 are open to inspection and VAT on imports, with respect to which only 2004 and 2003 are open to inspection.

   The tax returns filed by Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A. are open to inspection for all years which are not statute-barred.

   Gasoduto Campo Maior – Leiria – Braga, S.A.'s returns are open to inspection for 2002, 2003 and 2004.

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

   Enagás International Finance, S.A., incorporated on 25 October 2002 in Luxembourg, was dissolved on 25 November 2004.

c) The corporate income tax expense at 31 December 2004 breaks down as follows:

Company	
Enagás, S.A.	79.191
Gasoducto Al-Andalus, S.A.	3.282
Gasoducto de Extremadura, S.A.	1.379
Gasoduto Campo Maior - Leiria - Braga, S.A.	371
Gasoduto Braga-Tuy, S.A.	282
	84.505

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

Reported profit before taxes	**236.892**
Permanent differences:	
. Double taxation exemption	(1.227)
. Other	49
Timing differences	
. Free depreciation R.D.-L. 3/1993	572
. Other	3.523
INITIAL TAX BASE	**239.809**

Tax credits for double taxation applied to the tax base in 2004 amount to 8.66 million euros.

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

	Gasoducto Al-Andalus, S.A.	**Gasoducto de Extremadura, S.A.**	**Gasoduto Campo Maior-Leiria-Braga, S.A.**	**Gasoduto Braga Tuy, S.A.**
Reported profit	9.377	3.941	1.368	1.006
Permanent differences	-	-	-	-
Taxable income	**9.377**	**3.941**	**1.368**	**1.006**

d) At the year end a total of 57.02 million euros in corporate income tax was paid by Enagás, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A.

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

	Balance at 01.01.04	Variation	Balance at 31.12.04
Tax paid in advance			
. Capital grants	1.817	(130)	1.687
. Other	4.546	1.363	5.909
	6.363	**1.233**	**7.596**
Deferred tax			
. Accelerated depreciation	2.098	(200)	1.898
	2.098	**(200)**	**1.898**

18. Net turnover

The breakdown of net turnover is as follows:

		2004		2003
Gas sales		724.469		1.037.194
Other sales		1.616		429
Services rendered		568.944		531.932
- Revenue from regulated activities	549.923		508.812	
Other	19.021		23.120	
Net turnover		**1.295.029**		**1.569.555**

Gas sales relate entirely to those made by Enagás, S.A. Revenues from services rendered basically relates to Enagás's regulated activities, while income generated by the other group companies refers to non-regulated activities. Services rendered are broken down as follows:

Company	2004	2003
Enagás, S.A.	554.647	517.580
Gasoducto Al-Andalus, S.A.	6.635	6.361
Gasoducto Extremadura, S.A.	5.155	5.504
Gasoduto Campo Maior - Leiria - Braga, S.A.	2.176	2.331
Gasoduto Braga-Tuy, S.A.	331	156
	568.944	**531.932**

19. Raw materials and consumables

This heading relates mainly to gas purchases made by Enagás, S.A during the year for the regulated market and can be broken down as follows:

	2004
Enagás, S.A.	582.406
Gas Natural Aprovisionamientos, S.A.	138.145
	720.551

20. Average number of employees

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

	2004	2003
Executives	52	46
Technicians	373	363
Clerical staff	122	129
Workers	344	350
	891	**888**

All personnel are employed by Enagás, S.A. as the other companies do not have any own employees. At 31.12.04 the Company had 904 employees.

21. Other operating charges

This heading consists mainly of structural costs, relating mainly to: repairs and maintenance, computer equipment, advertising, leases for subterranean storage facilities, external services and taxes.

A breakdown of external services as compared to the previous year is set out below:

	2004	2003
Leases and royalties	66.565	56.938
Repairs and maintenance	20.767	20.818
Independent professional services	9.605	8.952
Transport	16.583	15.556
Insurance premiums	5.302	6.749
Banking and similar services	374	211
Advertising and public relations	1.275	1.251
Supplies	13.865	14.209
Other services	8.533	6.681
Total	**142.869**	**131.365**

Leases and royalties are mainly leases for the Gaviota underground storage facilities and the Desarrollo del Cable telecoms network which correspond to Enagás, S.A.

Pursuant to Law 48/2003 of 26 November on the economic and service regime of general interest ports, Enagás has been designated responsible for paying the taxes for all ships docking and all merchandise unloaded in the area of the port under concession to the group, with these amounts being passed on to the agents and seller respectively. This led to an increase of 9.97 million euros in the leases and royalties caption compared to the previous year.

22. Contribution of Group companies to consolidated results

The detail of the balances of this caption is as follows:

	Contribution of Group companies to consolidated results
Enagás, S.A.	148.911
Gasoducto Al-Andalus, S.A.	5.981
Gasoducto de Extremadura, S.A.	1.512
Gasoduto Campo Maior - Leiria - Braga, S.A.	998
Gasoduto Braga-Tuy, S.A.	724
	158.126

23. Transactions with Group and associated companies

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

Income	**Gasoducto Al-Andalus,S.A.**	**Gasoducto Extremadura,S.A.**	**Total**
Network maintenance	798	1.558	2.356
Transport contracts	3.068	3.424	6.492
Technical assistance	617	477	1.094
			9.942

Expenses	**Gasoducto Al-Andalus,S.A.**	**Gasoducto Extremadura,S.A.**	**Gasoduto Campo Leiria-Braga, S.A.**	**Gasoduto Braga Tuy, S.A.**	**Total**
Gas transport	7.054	3.936	2.878	1.692	15.560
					15.560

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

Income		
Concept	**Company**	**Total**
Gas sales	Distribuidores Grupo Gas Natural	672.193
Maintenance of fibre optics for Desarrollo del Cable, S.A.	Desarrollo del Cable, S.A.	4.476
		676.669

Expenses		
Concept	**Company**	**Total**
Gas purchases	SAGANE, S.A. y Gas Natural Aprovisionamientos, S.A.	722.190
Rental of minimum security stocks (35 days)	Gas Natural, SDG, S.A. & Gas Natural Aprovisionamientos, S.A.	3.562
Leases and maintenance	Gas Natural, SDG, S.A. & CEGAS	40.468
Electricity supplies	Gas Natural Comercializadora, S.A.	6.220
		772.440

24. Extraordinaries

The main items under 2004 Extraordinaries for Enagás, S.A. are as follows:

- An expense of 4.97 million euros for an extraordinary provision for the security fund.
- Revenues of 4.04 million euros for the partial reversal of the Corporate Income Tax assessment prompted by the reversion fund. In 2004, Enagás, S.A. brought back debt incurred in previous years with Gas Natural SDG, S.A. in order to cover against the risk deriving from the 1998 Corporate Tax Law with regard to the fiscal treatment for the cancellation of the Reversion Fund booked in 1998 by Enagás, S.A. but carried out in previous years.
- Revenues of 611,000 euros from the regularisation of several balance sheet items.
- Revenues of 551,000 euros from the payment received from the sale of MUSINI shares in previous years.
- Revenues of 517,000 euros from a provisioned payment from Gas de Asturias.

25. Commitments and contingent liabilities

At 31 December 2004 Enagás S.A. had guarantees to third parties worth 54.41 million euros, resulting from its investment in infrastructure. It also had financial guarantees totalling 60.40 million euros as a guarantee for the loans granted by the EIB.

Enagás, S.A. has furnished a guarantee of 8.9 million euros for the loan Banco Santander Central Hispano, S.A. has granted to Gasoduto Braga – Tuy, S.A.

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

At 31 December 2004 the group has gas transport rights totalling 1,207,888,000 thousand therms for the period 2005/2020. All contracts feature "ship or pay" clauses.

26. Other information

a) In accordance with Law 34/1998 on the hydrocarbons industry, implemented by Royal Decree 1716/2004 of 23 July governing the requirement to maintain minimum safety stocks and to diversify natural gas supply, Enagás, S.A. has made the necessary arrangements to maintain, under lease agreements, minimum safety stocks sufficient to supply its clients with natural gas at a regulated price for up to 35 days.

b) In 2004, remuneration accruing to members of the Board of Directors amounted to 1.85 million euros. This amount includes per diems and other amounts received by Directors due to their positions on the Board of Directors and Commissions and their attendance at meetings, in accordance with the Resolution adopted by shareholders at the general meeting held on 30.04.04 (the limits established by the Resolution in terms of the amounts received by Directors having been respected and met). It also includes the salary and remuneration amounts received by those executive members of the Board of Directors who have management responsibilities, these latter sums being independent from the remuneration paid to members for attendance at meetings, the amount of which is set each year at the general meeting. Also included are amounts corresponding to the reimbursement of expenses incurred by Board members in attending meetings of the Board and Commissions.

   Pension contributions made during the year totalled 9.39 million euros, while premiums paid for life insurance amounted to 42.9 million euros.

   At 31.12.04, loans granted to Board members, on terms in line with the market, totalled 389,000.

   In order to comply with the provisions of article 127 of the Spanish Companies Act, these notes to the financial statements contain information relating to shareholdings and positions held by Enagás Board Members in other companies with a corporate purpose that is similar or complementary to that of Enagás S.A. In preparing this information, companies having a corporate purpose similar or complementary 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 hydrocarbons industry.

   Shareholdings in companies that have a same, similar or complementary corporate purpose and that have been reported to ENAGÁS, S.A. by Directors (as of 31.12.04) are as follows:

DIRECTOR	SHARES	
Enrique Locutura Rupérez (*)	Gas Natural Sdg	3,860
Ramón Blanco Balín	Gas Natural, Sdg	9,166
Luis Javier Navarro Vigil	BP Plc	58,256
CAM	Gas Natural Sdg Poseidón Gas AIE Nautilus Gas II AIE	64,092 300,004,460 (5.24%) 300,004,440 (5.24%)
Rafael Villaseca Marco	Gas Natural, Sdg	1,000
BANCAJA	Iberdrola	1%
José Luis Olivas Martínez	Iberdrola	3,250

Positions held or duties fulfilled by Company Directors at companies that have a same, similar or complementary corporate purpose and that have been reported to ENAGÁS, S.A. by Directors (as of 31.12.04) are as follows:

DIRECTOR	POSITIONS
Ramón Blanco Balín	Director of Gas Natural, Sdg
Salvador Gabarró Serra	Chairman of Gas Natural Sdg., S.A.
Enrique Locutura Rupérez (*)	Chief Executive of Gas Natural, Sdg Chairman of Gas Natural Distribución
Luis Javier Navarro Vigil	Chairman and Director of BP Gas España S.A.
Rafael Villaseca Marco	Chief Executive of Gas Natural, Sdg (since 28.01.05.)
Manuel Menéndez Menéndez	Representative of Peña Rueda on the Board of Naturcorp Redes S.A.U.

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

(*) Mr Enrique Locutura Rupérez resigned from the Board of Directors of Enagás, S.A. on 17 February 2005.

c) In 2004 PricewaterhouseCoopers Auditores, S.L. billed the Company 38.2 million euros for audit fees and 68.4 million euros for other non-audit related services rendered to Group companies.

On this point, it should be noted that at the general meeting of shareholders held on 30.04.04, shareholders agreed to appoint Deloitte & Touche España, S.L (now Deloitte, S.L.) as auditors to Enagás, S.A. and its consolidated group for a period of three years. In 2004 fees billed by Deloitte, S.L. for audit fees and other non-audit related services totalled 11.5 million euros and 57.1 million euros respectively.

d) Improvements to Enagás' credit rating:

Standard & Poor´s. In January 2004, the ratings agency Standard & Poor´s raised Enagás' long-term rating from "A+" to "AA-", and its short-term rating from "A-1" to "A-1+", citing the improved earnings outlook for the generation business and the Company's more robust financial position.

Moody´s. On 5 July, the ratings agency Moody´s revised the outlook for Enagás long-term rating, currently A2, from stable to positive, besides assigning the Company a short-term credit rating of Prime-1.

e) On 23 February 2004, Enagás, S.A. took out a 200 million euro loan with Instituto de Crédito Oficial (ICO) to provide part funding for its 2004-2006 Investment Plan. This loan is scheduled to be repaid over a period of up to 15 years.

f) On 23 June 2004, Enagás, S.A. concluded a 450 million euro loan with the European Investment Bank (EIB) to cover its financing needs to 2006. This loan is structured into two tranches and is scheduled to be repaid over a period of 10-15 years. The loan will be available for drawdown at intervals of between nine and 30 months. The first instalment, in the amount of 125 million euros, was drawn down on 5 July 2004.

g) In November and December the terms of the 1,000 million euro syndicated loan concluded in April 2003 were renegotiated, as were loans in the amount of 150 million euros and 200 million euros contracted with the ICO in December 2002 and February 2004 respectively.

   By refinancing these loans, the Company significantly reduced the associated financial charges. In the case of the syndicated loan, it was also able to extend the term from 2008 to 2010.

27. Environment

In 2004, in accordance with its environmental policy, the Company accorded particular attention to preservation of the environment in the execution of its business activities, specifically by adopting measures designed to minimise the environmental impact of its infrastructure programmes, such as landscaping, controlled drilling, archaeological conservation and other environmental improvement programmes. Also, the environmental management certificates issued by AENOR in respect of the management system in place at its operating installations, pursuant to ISO 14001, were renewed.

In 2004, these environmental activities involved investments totalling 13.43 million euros, recognised as assets on the balance sheet.

Environmental expenses totalled 874,000 in 2004 and were recorded under “other operating expenses”.

Potential contingencies, indemnities and other environmental risks that the Company may incur are sufficiently covered by the third-party civil liability insurance policies it has taken out.

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

28. Post-balance sheet events

a) On 12.01.05 an interim dividend was paid against 2004 profits. This dividend totalled €0.13 per share and was approved by the Board of Directors of Enagás, S.A. at a meeting held on 16.12.04.

b) On 28.01.05 the Ministry for Industry, Tourism and Trade approved three Ministerial Orders updating prices, tolls, royalties and remuneration for regulated gas industry activities in 2005, applicable to all companies carrying out regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 31 January.

29. Statement of source and application of funds

The statement of source and application of funds in 2004 is as follows:

APPLICATION OF FUNDS	Thousands of euros 31.12.2004	Thousands of euros 31.12.2003
Formation expenses	(4)	2
Purchases of fixed assets	468.642	426.256
Deferred expenses	1.026	
Prior-year dividends	42.362	33.549
Interim dividend	31.035	28.648
Provision for liabilities and charges	318	91
Debts falling due after one year	(108.248)	(1.019.546)
Due from banks	(115.826)	(1.024.536)
Due from associated companies	3.893	-
Other amounts owed	3.685	4.990
Total applications of funds	**435.131**	**(531.000)**
Surplus of sources over application of funds (increase in working capital)	**-**	**791.451**

SOURCE OF FUNDS	Thousands of euros 31.12.2004	Thousands of euros 31.12.2003
Funds generated from operations	282.979	248.791
Capital grants	1.076	3.716
Other reserves	207	174
Proceeds from disposal of fixed assets	5.789	7.770
Total sources of funds	**290.051**	**260.451**
Surplus of applications over sources of funds (reduction in working capital)	**145.080**	**-**

	Thousand of euros		**Thousand of euros**	
	31.12.2004		**31.12.2003**	
Change in working capital	**Increase**	**Decrease**	**Increase**	**Decrease**
Inventories	-	23	-	20
Debtors	68.566	-	-	97.122
Creditors	-	205.200	879.968	-
Short-term financial investments	-	1.130	3.151	-
Cash	-	1.800	1.225	-
Accruals, prepayments and deferred income	-	5.493	4.249	-
TOTAL	**68.566**	**213.646**	**888.593**	**97.142**
Change in working capital		**145.080**	**791.451**	

	Thousand of euros	Thousand of euros
Consolidated funds generated from operations	**31.12.2004**	**31.12.2003**
Profit for the year	**158.126**	**142.019**
Increases:	**124.853**	**106.772**
. Depreciation and amortisation	144.795	133.612
. Deferred expenses	874	571
. Deferred income	(26.855)	(28.629)
. Net application of the provision for liabilities and charges	6.461	972
. Change in provision for tangible fixed assets	(443)	261
. Profit on disposal of fixed assets	(19)	(15)
. Loss on disposal of treasury stock	40	-
Funds generated from operations	**282.979**	**248.791**

30. ISSUES DERIVING FROM THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Regulation no. 1606/2002 of the European Parliament and of the Council establishes that all companies listed to trade on regulated markets in the European Union must present their consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter IFRS) for all years beginning subsequent to 1 January 2005.

The Directors of the Parent Company have prepared the accompanying consolidated financial statements under Spanish generally accepted accounting principles (hereinafter GAAP), in order to provide a true and fair of the Group's assets, financial position and consolidated earnings at 31 December 2004 and 2003.

Although not legally required to do so, the Directors of Enagás, S.A. also deemed it appropriate to provide in these notes to the 2004 consolidated financial statements of the Enagás Group detailed estimates of the impact of adopting IFRS on the consolidated balance sheets as of 1 January and 31 December 2004 and the consolidated statements of income for the year ended 31 December 2004, highlighting the main differences between the accounts prepared under IFRS and those prepared applying the accounting principles currently in force in Spain, and explaining these differences.

Pursuant to Regulation no 1606/2002 of 19 July of the European Parliament and of the Council, the first annual financial statements of the Enagás Group to be formally prepared in full compliance with IFRS will be the 2005 financial statements. The information contained in these notes may therefore be modified to allow for application of any regulation issued in the course of this year and any change to any of the assumptions on which the calculations are based.

Because of the differences in the accounting principles used, as of 31 December 2004 the value of the Group's net assets under Spanish GAAP is 18.38 million euros higher than under IFRS, while profit for the year ended as of this date is 8,000 euros lower than in the accounts prepared under IFRS. For the year ended 31 December 2003, the difference in net assets is 2.32 million euros. The following section of these notes provides a reconciliation between the balances of the main captions of the Enagás Group's consolidated balance sheets as of 31 December 2003 and 2004 and its consolidated statement of income for the year ended 31 December 2004 prepared under Spanish GAAP and those resulting from the application of IFRS.

	31 December 2003 Thousand Euro			
	Spanish Standars (*)	Effects from transition to IFRS	IFRS	Reference
ASSETS				
FORMATION EXPENSES	**5**	**(5)**		(a)
NON-CURRENT ASSETS	**2.649.437**	**(376.151)**	**2.273.286**	
Intangible fixed assets	10.898	19.237	30.135	(b) (e)
Property assets		743	743	(c.3)
Tangible fixed assets	2.603.170	(398.039)	2.205.131	(b.2) (c)
Long-term financial investments	28.419	449	28.868	(d)
Other non-current assets	587		587	
Deferred tax assets	6.363	1.459	7.822	(i)
Total non-current assets	**2.649.442**	**(376.156)**	**2.273.286**	
DEFERRED EXPENSES	**20.181**	**(20.181)**	**0**	(e)
OTHER CURRENT ASSETS	**423.423**	**(4.301)**	**419.122**	
Inventories	2.407		2.407	
Trade debtors and other short-term debts	359.252		359.252	
Short-term financial investments	6.776	(2.477)	4.299	
Tax receivables	44.499		44.499	
Other current assets	8.389	(4.301)	4.088	(j)
Cash and other equivalents resources	2.100	2.477	4.577	
Total current assets	**443.604**	**(24.482)**	**419.122**	
TOTAL ASSETS	**3.093.046**	**(400.638)**	**2.692.408**	
LIABILITIES				
Share capital	358.101		358.101	
Reserves	460.887		460.887	
Provision for first-time adoption		(2.320)	(2.320)	(a) (b) (d) (e) (f)
Net income for the year ended	142.019		142.019	
Interim dividend paid during the year ended	(28.648)		(28.648)	
Total equity	**932.359**	**(2.320)**	**930.039**	
NON-CURRENT LIABILITIES	**1.711.431**	**(397.394)**	**1.314.037**	
Bank loans	1.215.311	(3.356)	1.211.955	(j) (f)
Other long-term loans	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 loans and overdrafts	24.945	(945)	24.000	(f)
Other short-term loans	5.309	21	5.330	
Trade creditors and other short-term credits	359.682		359.682	
Pasivos por impuestos corrientes	28.623		28.623	(i)
Other current liabilities	30.697		30.697	
TOTAL LIABILITIES AND EQUITY	**3.093.046**	**(400.638)**	**2.692.408**	

	31 December 2004 Thousand Euros			
	Spanish Standars (*)	Effects from transition to IFRS	IFRS	Reference
ASSETS				
FORMATION EXPENSES	**1**	**(1)**		(a)
NON-CURRENT ASSETS	**2.967.917**	**(348.934)**	**2.618.983**	
Intangible fixed assets	12.047	18.460	30.507	(b) (e)
Property assets		711	711	(c.3)
Tangible fixed assets	2.921.889	(378.795)	2.543.094	(b.2) (c)
Long-term financial investments	25.688	534	26.222	(d)
Other non-current assets	697		697	
Deferred tax assets	7.596	10.156	17.752	(i)
Total non-current assets	**2.967.918**	**(348.935)**	**2.618.983**	
DEFERRED EXPENSES	**20.333**	**(20.333)**	**0**	
OTHER CURRENT ASSETS	**483.543**	**(45)**	**483.498**	(e)
Inventories	2.384		2.384	
Trade debtors and other short-term debts	438.962		438.962	
Short-term financial investments	5.646	(1.727)	3.919	
Tax receivables	33.417		33.417	
Other current assets	2.834	(45)	2.789	
Cash and other equivalents resources	300	1.727	2.027	(j)
Total current assets	**503.876**	**(20.378)**	**483.498**	
TOTAL ASSETS	**3.471.794**	**(369.313)**	**3.102.481**	
LIABILITIES				
Share capital	358.101		358.101	
Reserves	532.103		532.103	
Provision for first-time adoption		(18.373)	(18.373)	(a) (b) (d) (e) (f)
Net income for the year ended	158.126	(8)	158.118	
Interim dividend paid during the year ended	(31.035)		(31.035)	
Total equity	**1.017.295**	**(18.381)**	**998.914**	
NON-CURRENT LIABILITIES	**1.800.043**	**(364.234)**	**1.435.809**	
Bank loans	1.331.137	(1.011)	1.330.126	(j) (f)
Other long-term loans	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 loans and overdrafts	63.007	(1.040)	61.967	(f)
Other short-term loans	4.294	14.342	18.636	
Trade creditors and other short-term credits	522.150		522.150	
Pasivos por impuestos corrientes	31.798		31.798	(i)
Other current liabilities	33.207		33.207	
TOTAL LIABILITIES AND EQUITY	**3.471.794**	**(369.313)**	**3.102.481**	

Reconciliation of the profit and losses accounts	31 December 2004 Thousand of euros Spanish Standars (*)	 Effects of transition to IFRS	 IFRS	 Reference
Sales	724.469	(724.469)	0	(k)
Sales cost	(720.551)	711.898	(8.653)	(k)
Gross earnings	**3.918**	**(12.571)**	**(8.653)**	
Income from regulated activities	549.925		562.496	(k)
Income from non-regulated activities	14.318		14.318	
Own work capitalised	7.082		7.082	
Other operating income	45.665	(14.896)	30.769	(c.2)
Staff costs	(57.913)	(5.056)	(62.969)	(d)
Amortization and depreciation	(144.795)	20.742	(124.053)	(a) (b) (c.2) (c.3.)
Other operating expenses	(143.951)	34	(143.917)	(b) (e)
OPERATING PROFIT/(LOSS)	**274.249**	**824**	**275.073**	
Financial income	2.312	636	2.948	
Financial expenses	(35.228)	(136)	(35.364)	(f)
Income / (Gains) on exchange	(3)		(3)	
PROFIT / (LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXES	**241.330**	**1.324**	**242.654**	
Income tax	(84.505)	4	(84.501)	(i)
PROFIT / (LOSS) FROM ORDINARY ACTIVITIES	**156.825**	**1.328**	**158.153**	
Extraordinary income (net from taxes)	1.300	(1.300)		(h)
Profit / (Loss) after tax from discontinued activities		(36)	(36)	
PROFIT / (LOSS) FOR YEAR	**158.125**	**(8)**	**158.117**	

First-time adoption of IFRS

The provisions of IFRS-1 (First-Time Adoption of International Financial Reporting Standards), published on 06.04.04, were taken into account in preparing the accompanying consolidated financial statements.

The main provisions of this regulation are described below.

- The Regulation shall apply when an entity adopts IFRS for the first time by an explicit and unreserved statement of compliance with all IFRS.
- All IFRS in force on the date of publication of the financial statements shall apply to all periods to which the information contained in the said financial statements relates.
- The entity shall set a date of transition, which shall be the beginning of business in the first year for which information is included in the financial statements. All captions of the financial statements prepared under local standards as of that date shall be converted to IFRS. The impact of this conversion shall be recorded directly against the initial balance sheet balances.
- Disclosures that explain how the transition from GAAP to IFRS has affected the entity's reported financial position, financial performance and cash flows are required.
- IFRS-1 grants limited exemptions from the aforementioned requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of the financial statements. The Regulation also prohibits retrospective application of IFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.

IFRS-1 establishes that the entity may elect to use one or more of the exemptions provided for therein. The exemptions that the Enagás Group has elected to use are described below.

<u>Fair value or revaluation as deemed cost</u>

The entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

The Enagás Group has elected to use a previous GAAP revaluation of its property, plant and equipment as deemed cost at the date of revaluation, since the revaluation was, at the date of the revaluation, broadly comparable with:

a) fair value, or
b) cost or depreciated cost, adjusted to reflect changes in a specific price index.

IFRS-1 also prohibits retrospective application of some aspects of other IFRS. Those that the Enagás Group has elected to apply are described below.

<u>Hedge accounting</u>

As required by IAS 39 Financial Instruments: Recognition and Measurement, at the date of transition to IFRS, an entity shall:

1. Measure all derivatives at fair value; and

2. Eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.

The Enagás Group has applied IAS 32 and 39 since 1 January 2004, henceforth measuring all derivatives at their fair value (see section f).

Estimates

An entity's estimates under IFRS at the date of transition to IFRS shall be consistent with estimates made for the same date under GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

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 shall be valued at the acquisition or production cost of the goods and services giving rise to the expense and shall be depreciated on a straight-line basis over a period of not more than five years.

- Under IFRS-1, expenses arising as a result of the acquisition or internal generation of an intangible asset shall be charged against income for the year in which the expense was incurred As an exception to the above, 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 (5,000 euros) have been redistributed, with 4,000 euros being allocated to "Provisions for first-time adoption" and 1,000 euros being allocated to "Deferred tax assets".

  In 2004, amortisation of the aforementioned formation expenses under Spanish GAAP totalled 4,000 euros. Accordingly, at 31 December 2004, a similar adjustment was made to the formation and capital increase expenses not amortised at 31 December 2004 (1,000 euros) appearing under "Provisions for first-time adoption" and "Deferred tax assets" under IFRS. The impact on the statement of income under IFRS of the adjustment to the amortisation charge booked under Spanish GAAP was therefore to reduce the amortisation caption by 4,000 euros.

b) Intangible assets

b.1) Research and development costs

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 provides adequate justification for their capitalisation. Research and development costs recognised as assets are amortised 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 statement of income.

The policy adopted by the Enagás Group is to eliminate from its consolidated balance sheet any amounts in 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 198,000 and was redistributed between "Provisions for first-time adoption" (129,000 euros) and "Deferred tax assets" (69,000 euros).

In 2004, under Spanish GAAP, research and development costs totalling 1.80 million euros were recorded, together with a corresponding amortisation charge, in line with the criteria set out above, in the amount of 985,000 euros. Only one of the projects recorded at 31 December 2004, for an amount of 46,000 euros, meets the prerequisites specified above for consideration as development costs eligible for capitalisation under IFRS.

Accordingly, in 2004, under IFRS, the amortisation charge of 1.14 million euros recorded was reclassified and redistributed as follows:

i. Transfer from amortisation to "R&D costs" of 941,000 euros.

ii. Adjustment of 198,000 euros to the amortisation caption, redistributed between "Provisions for first-time adoption" (129,000 euros) and "Deferred tax assets" (69,000 euros).

Also, under IFRS, a 97,000 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 fixed assets.

<u>b.2) Other intangible assets</u>

- The Enagás Group has 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 31.12.03, the cost corresponding to the company web site amounted to 217,000 euros and accumulated amortisation as of this date came to 38,000 euros. The net amount was redistributed between "Provisions for first-time application" (116,000 euros) and "Deferred tax assets" (63,000 euros).

In 2004, under Spanish GAAP, additions of 268,000 euros associated with the aforementioned company website were booked, while the annual amortisation charge booked for this intangible asset was 72,000 euros.

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

i. Adjustment of 179,000 euros to the opening balance, redistributed between "Provisions for first-time adoption" (116,000 euros) and "Deferred tax assets" (63,000 euros) corresponding to the amount pending amortisation as of 31.12.03.
ii. Reclassification of the 72,000 euros amortisation charge as "Other operating expenses".
iii. Adjustment of 196,000 euros 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 fixed asset booked under Spanish GAAP. The impact of the adjustment is reflected in the balances of the "Provisions for first-time adoption" and "Deferred tax assets" captions of the statement of income prepared under IFRS, as described above.

The Enagás Group has also recognised as an intangible asset a regasification study for the Autonomous Community of Extremadura. After analysis and verification, it was 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 tangible fixed assets caption. This transfer, effective as of 31.12.03, entailed several adjustments:

v. Reclassification of the 334,000 euros balance recognised under intangible assets as tangible assets.
vi. Restatement of accumulated amortisation as of this date, to reflect the change in amortisation/depreciation period from five to 30 years. This adjustment totalled 152,000 euros and was redistributed between "Provisions for first-time adoption" (99,000 euros) and "Deferred tax assets" (53,000 euros).
vii. Reclassification, effective as of 31.12.03, of the 48,000 euros accumulated intangible asset amortisation charge, restated to reflect the useful life of the asset, as accumulated tangible fixed asset depreciation.

No additions were booked under this caption in 2004, other than the intangible fixed asset amortisation charge in the amount of 68,000 euros booked under Spanish GAAP in accordance with the criteria described above. Accordingly, given the absence of additions in the year, at 31.12.04, the Group effected the aforementioned reclassification of intangible fixed assets in the amount of 334,000 euros as tangible fixed assets. 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 fixed asset amortisation as tangible fixed asset depreciation. The impact of this restatement on the statement of income prepared under IFRS, was to reduce the amortisation charge recorded by 56,000 euros (36,000 euros net of tax).

c) Tangible fixed assets

c.1) Impairment test

- Under Spanish GAAP, the relevant valuation adjustments must be effected in order to attribute each tangible fixed asset its lowest market value at the close of each year, provided that the book value of the asset is not recoverable via the generation of sufficient revenues to cover all costs and expenses, including amortisation and depreciation.

  When the depreciation of assets is irreversible and distinct from systematic amortisation, the loss and corresponding decline in value of the asset in question are booked directly. In other words, Spanish legislation distinguishes between temporary loss of value, which is provisioned but may be reversed, and permanent loss, which is irreversible.

- Under IAS 36, *Impairment of asset value*, if the recoverable part of an asset is lower than its recorded book value, the value of the asset is deemed to have deteriorated and this must be recorded immediately in the accounts as loss of value through deterioration. In this way, loss through deterioration is the difference between the book value of an asset and its recoverable value.

  The recoverable value must be determined for those assets which are carried at fair value and also when there are indications that an asset or cash generating unit has been impaired. The asset's recoverable amount is the highest of the net sales price and its value in use.

  The value in use of an asset should be calculated taking into account the projected cash inflows and outflows, applying the appropriate discount. For this reason cash flow estimates should be based on fundamental and fair hypotheses, which represent the company's best estimates, and which should be based on the most recent financial forecasts approved by the company's management for a period of five years unless a longer period may be justified.

  Additionally, forecast cash flow and discount rates must also factor in expected increases in prices resulting from inflation.

  The discount rate(s) to be used should be taken before taxes and should reflect the current market view concerning the time value of the cash flow generated and risk specific to the particular asset in question.

- Enagas has chosen to record its tangible fixed assets under the Historic Cost caption and to date no "impairment" assessment has been made for its assets. Virtually all of the group's tangible fixed assets are gas transport, regasification and storage assets, as well as assets required for its gas purchasing and sales activities to regulated customers and technical system management. The group does not deem it necessary to carry out an impairment test as both the latter activities and its core business of operating and managing gas transport, regasification and storage infrastructure is remunerated through the regulation currently in force and therefore there is no doubt that the figure entered for this concept under tangible fixed assets is recoverable.

- This decision is based on the characteristics of the Group's businesses and activities mentioned above and on information used by the Board of Directors in its management of the company, i.e. that the cash generating assets used in the valuation and classification of tangible fixed assets are the following: transport activities (including the transport, storage and regasification of gas), technical system management and gas purchases and sales activities with regulated customers.

c. 2) Capital grants

- As described in point g) above, the Company has restated the capital grants balance on the liabilities part of the Balance sheet as a lower value for tangible fixed assets affected by these grants, which, at 31 December 2003, led to a decrease of 399.01 million euros on the tangible fixed assets line.

  In 2004, under Spanish GAAP, grants worth 1.08 million euros were recorded, with their corresponding applications to the amount of 20.37 million euros. Therefore, at 31 December 2004, the afore-mentioned restatement of the capital grant balance on the liabilities side of the Balance sheet as a lower value for tangible fixed assets relating to these grants was carried out to the amount of 379.71 million euros. This restatement of capital grants has led to a reduction in tangible fixed asset depreciation and a 20.36 million euro decline in revenues corresponding the release of capital grants to profit and loss.

c. 3) Property assets

- Under IAS, the company has restated at 31 December 2003 the balance of property and land assets owned by Enagás, S.A. in Valencia which it has leased to third parties, moving this from the tangible fixed assets line to the property investment caption to a total amount of 743,000 euros corresponding to the gross value of the building and land (1.13 million euros) plus accumulated depreciation 384,000 euros. At 31 December 2004 the amount of this restatement was 711,000 euros, corresponding to the gross value of the building and land (1.13 million euros) plus an accumulated depreciation of 418,000 euros.

c. 4) Provision for the dismantling of Serrablo

- In accordance with IAS, the Company has increased the value of its tangible fixed asset which is the Serrablo storage facility for the amount of the cost of dismantling the facility at the end of the concession period.

- At 31 December 2003 the impact of this concept on the tangible fixed asset line was an increase of 1.93 million euros in the value of the underground storage facility. This adjustment was made by redistributing 1.82 million euros and 517,000 euros to the dismantling provision and accumulated depreciation of underground storage captions respectively and a charge of 259,000 euros and 140,000 euros made against "Provisions for first-time adoption" and "Deferred tax assets" respectively.

- According to IAS, the Company has recorded the financial expense corresponding to the financial adjustment of the provision and depreciation for the higher value of tangible fixed assets to the sum of 136,000 euros and 64,000 euros respectively, and 69,000 euros for the corresponding "Deferred tax assets".

d) Financial investments - Provisions for liabilities and charges

- In line with its remuneration policy, the company has recorded a provision to cover all obligations accrued under its Loyalty program concept. The company has a Security Investment Fund to cover these obligations. Pursuant to Spanish law the corresponding financial assets (Security Investment Fund) must be carried at the lowest of their cost or market price while possible increases in the value of the asset should not be credited to profit and loss account until they actually occur. This occurs when the worker benefiting from the Loyalty plan retires or leaves the company, therefore the group does not record either the income corresponding to the increase in value or the expense relating to the hedging of the item.
- Under IAS, this fund (FIM) is classified under assets available for disposal, and is valued at its fair value, in accordance with its market trading value at the close of each accounting year. Although this fund has been set up to hedge the Loyalty Program Provision associated with it, variations in the value of the fund lead to variations in to the same amount in the associated provision.
- At 31 December 2003, the valuation of this fund led to an increase of 449,000 euros on the figure recorded under Spanish GAAP. This increase in the value of the fund has therefore meant an increase in the associated provision to the same amount, and at 31 December 2003 had no impact on equity.
- At 31 December 2004, the valuation of this fund led to an increase of 534,000 euros on the figure recorded under Spanish GAAP. In the same way as at 31 December 2003 this increase means an increase in the valuation of the financial asset and in the associated provision and has no impact on equity. The 2004 Profit and Loss accounts shows the change in this fund vs. 31 December 2003 (85,000 euros), higher financial revenues and higher personnel expenses (to the same amount) and credited to the provision.

e) Deferred expenses: Cost of debt, deferred interest expenses and other deferred financial costs.

- Under Spanish law, these expenses refer to the judicial/legal costs incurred in the issue or modification of fixed income assets and debt which comes to term in a period of over one year.

  Expenses relating to the formalisation of debt are recorded according to the acquisition price or production cost while expenses relating to deferred interest are recorded at the difference between their repayment and issue value. These expenses should affect the year in which they are incurred and exceptionally may be distributed over several years, in which case they should be accredited to results during the maturity period of the debt and according to a financial plan; in all cases they should be fully paid up when the corresponding debt is amortised.

- Under IFRS, when recording a financial asset or liability the company should measure them at cost, which will be the fair value of the consideration paid (in the case of an asset) or received (in the case of a liability). Transaction costs should be included in the initial measurement of all financial assets and liabilities. Consequently, costs directly related to the issue of debt are deducted from the amount initially recognised and then amortised on the profit and loss account throughout the life of the debt, based on the effective interest rate method. They are not recognised as separate assets. Interest is taken to the profit and loss account as incurred based on the effective interest rate method.

- Therefore, expenses deriving from the accrual of up-front-fees for loans taken out with Credit Entities have been restated, lowering 2004 debt by 1.01 million euros.

  At 31 December 2003 under Spanish GAAP Enagás had recorded 19.75 million euros under the “Deferred expenses” heading corresponding to transport rights its Portuguese gas pipelines (Gasoducto Campo-Maior-Lleiria-Braga, S.A. y Gasoducto Braga-Tuy, S.A.) hold with Transgas, S.A. These have been restated as tangible fixed assets in line with IAS 38 and will be amortised on a straight line basis during the life of the contract.

  At 31 December 2003, the group transferred the balance of this heading to a total amount of 19.75 million euros to “Other intangible fixed assets” (25.32 million euros) and “Accumulated amortisation of other intangible fixed assets” (5.57 million euros).

- Additionally, Enagás has recorded under “Deferred expenses” a sum corresponding to the fee paid in advance for the transport rights obtained from Gas de Euskadi, S.A. These transport rights do not comply with the definition of fixed intangible assets established by IAS 38. Enagás has therefore restated this balance by 434,000 euros, adjusting the captions “Provisions for first-time adoption” and “Deferred tax assets” by 282,000 euros and 152,000 respectively.

  In 2004, under Spanish GAAP, deferred expenses of 68,000 euros were booked for this concept. The impact of this restatement on the profit and loss account prepared under IFRS, is to reduce the “Other operating costs” heading by 68,000 euros (44,000 euros net of taxes).

f) Derivative financial instruments

- The Group uses specific financial derivatives to manage its exposure to fluctuations in cash flow prompted by interest rate risk. Under Spanish GAAP, derivatives are recorded at cost or market value, whichever is lower.
- Under IAS 32, the Company must state its targets and policies for financial risk management, including its hedging policies for all of its main projected transactions where hedges are used and furnish a description of the scope of these financial instruments, their associated risk and business use.
- Under IFRS, all derivatives, those used for hedging and those not, must be carried at their fair value, i.e. the market value for non trading instruments.
- If hedging operations relating to cash flow meet the conditions established by IAS 39, they will be carried in the following way:

  - The portion of the profit or loss on the hedging instrument which has been qualified as an effective hedge will be recognised directly in equity; and

  - The ineffective part of the profit or loss will be recognised on the income statement for the year.

- At 31 December 2003 Enagás made a best estimate analysis and assessment of its existing hedging instruments in accordance with its financial risk management policy and IFRS criteria. This valuation, which corroborates the existence of an interest-rate cash flow hedge, evidences a financial liability of 2.51 million euros, adjusted in the

"Hedging reserve" and "Deferred tax assets" headings to the amount of 1.63 million euros and 877,000 euros respectively.

- Additionally, the derivative valuation made at 31 December 2004 evidences the existence of a financial liability of 27.20 million euros which is not recorded under Spanish GAAP and whose offsetting entry can be found under the "Hedging reserve" and "Deferred tax assets" headings to the amount of 17.68 million euros and 9.52 million euros respectively.

g) Capital grants

- Under Spanish accounting legislation, non reintegrated capital grants are recognised on the liabilities side of the balance sheet as deferred income and are credited to results, in the case of depreciable assets, in the proportion to the depreciation of the assets financed with these grants over the period, while non depreciable assets will be taken to results in the year in which they are disposed or delisted from inventories.
- Under IFRS, grants related to assets – capital grants – may be recorded in the consolidated balance sheet as deferred income or deducted from the value of the corresponding asset. Enagás has opted to deduct these grants from the value of the corresponding assets, as stated in section c.2. above. Section c.2 also discusses the impact on financial statements at 31 December 2003 and 31 December 2004, and the impact seen throughout 2004.

h) Extraordinary items

- Under Spanish GAAP, extraordinary items are defined as income or expenses which are distinct from a company's ordinary activities and not expected to occur frequently.
- IAS 1 stipulates that "extraordinary items" may not be presented in the income statement or accompanying notes and therefore all transactions carried out by the company must be presented as ordinary activities, considering that the nature of the transaction determines how it should be presented, not the frequency of its occurrence. However, IAS 1 also requires disclosure in the notes of the nature and amount of all important non recurring revenues and expenses.
- The Company has therefore restated extraordinary revenues and expenses booked on its consolidated profit and loss account under Spanish GAAP in 2004 under the relevant headings of the profit and loss account under IFRS, i.e. in accordance with their nature:
    i. Items restated under the "Accessory and other current management income" heading: income of 19,000 euros from fixed assets, 720,000 in surplus provisions for liabilities and charges, 4.65 million euros in deferred revenues and income and 77,000 euros in extraordinary revenues.

    ii. 300,000 euros and 551,000 euros corresponding to deferred revenues and profits have been restated under "Other operating expenses" and "Income from capital stakes".

    iii. 4.97 million euros in deferred expenses and losses and 9,000 euros in other extraordinary expenses have been restated under the "Personnel expenses" and "Other operating expenses" headings respectively.

iv. 40,000 euros corresponding to variations in the treasury stock provision has been reclassified under the "Profit after taxes from interrupted operations" heading.

i) Corporate income tax.

- Under Spanish GAAP, corporate income tax for the year is calculated on the base of book income before tax, increased or decreased as appropriate by the permanent differences. Therefore, the time differences reflect the different time schedule as refers to the taxation and accounting of income and expenses.
- Under IFRS, the corporate income tax expense is booked according to the balance sheet liability method. In this sense, prepaid and deferred income tax is booked according to the difference between the book value of the assets and liabilities and their taxable base.
- Enagas has factored this in in all accounting items. Details of these items appear in the notes to the points described in this report.

j) Presentation of financial statements

- IAS 1 establishes that all assets, liabilities and items of net worth previously recognised under Spanish GAAP be restated under the corresponding heading under IFRS.
- Therefore, at 31 December 2004 Enagás made several restatements: the main restatement, and one which is not mentioned in other sections, concerns the lower income and expenses corresponding to the port taxes paid and received by the group - an amount of 8.75 million euros – resulting from the new regulations for ports and concessions.

k) Operating income, supplies

- Under Spanish GAAP, income from sales was measured according to the offsetting entry received from customers or consumers for the goods supplied, excluding amounts charged by third parties. Income from the sale of goods must be recognised when are series of conditions or requisites occur which demonstrate that the earning process is complete – such as when the seller has transferred significant risks and rewards of ownership to the buyer, all significant actions have been completed and the seller has no effective control over the transferred goods, which would normally be construed as ownership, there is no significant uncertainty surrounding the consideration to be received from the sale of the goods, the associated cost incurred or to be incurred in the purchase or sale of the goods or the extent to which goods may be returned.
- Under IFRS, ordinary revenues from the sale of goods should be recognised and recorded in a company's financial accounts when each and every one of the following conditions are met:
  - a) the entity (seller) has transferred significant risks and rewards of ownership to the buyer, b) the entity has relinquished managerial involvement and effective control over the goods, c) the costs incurred or to be incurred can be measured reliably, d) it is probable that any future economic benefit

associated with the revenue will flow to the entity, and e) the revenue has a cost or value that can be measured reliably.

- Ordinary revenues must be recognised using the fair value of the consideration received or receivable.

- Ordinary revenues correspond only to the gross book entries received and receivable by the company itself. Amounts receivable by third parties, such as taxes on sales, taxes on products or services or VAT are not book entries for the company and therefore do not increase its net worth. Therefore, such entries are not included under ordinary revenues. In the same way, in a principal/agent relationship, the latter's gross book entries also include amounts received by the principal but which do not increase the net worth of the company. Amounts received by the principal do not constitute ordinary revenues although fees do.

- Under Spanish GAAP, at 31 December 2004 Enagás' consolidated profit and loss account showed revenues from sales and expenses for supplies amounting to 724.47 million euros and 720.55 million euros respectively, relating to the supply of gas to regulated customers.

- Under IFRS, as described in the previous section, Enagás acts as manager in the purchase/sale of gas to regulated customers and receives remuneration from this activity in theory sufficient to cover the cost incurred. Therefore, revenues and expenses from the purchase/sale of gas to regulated customers are eliminated from the consolidated profit and loss account and only the amount of 8.65 million euros is booked corresponding to the cost of sales associated with gas shrinkage. Furthermore, regulated remuneration from the management of purchasing/sales activities has been restated under the heading "Revenues from regulated activities" to the amount of 12.57 million euros.

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

In compliance with company law, set out below are details of companies included in Enagás's scope of consolidation at 31 December 2004. None of these companies are listed on an organised secondary market.

Name	Country	Consolidation method	%	Book value	Capital	Reserves	Result for 2004 (*)	Dividend received 2004
Gasoducto Al-Andalus, S.A.	Spain	Prop.	66,96	23.744	35.459	5.164	9.103	5.134
Gasoducto de Extremadura, S.A.	Spain	Prop.	51	9.732	19.082	1.298	5.022	2.299
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Prop.	12	3.195	26.946	1.156	7.840	859
Gasoduto Braga-Tuy, S.A.	Portugal	Prop.	49	2.546	5.254	193	1.612	498
Net balance				**39.217**				**8.790**

Full: Full consolidation method.
Prop.: Proportional consolidation method.
(*) Data relating to Gasodutos Campo Mayor- Leiria- Braga, S.A. and Gasoduto Braga-Tuy, S.A., as indicated in Note 0.02acres), relate to the 30 November 2004 close.

ENAGÁS GROUP

On 17 February 2005, the Board of Directors of Enagás, S.A. drew up the consolidated annual accounts for the year ended 31 December 2004, consisting of the accompanying documents, in accordance with Article 171 of the Spanish Companies Act and Article 37 of the Code of Commerce.

Chairman

Mr. Antonio González-Adalid García-Zozaya

Board members

Mr. Jesús David Álvarez Mezquíriz

Mr. Ramón Blanco Balín

Mr. Carlos Egea Krauel

Mr. José Manuel Fernández Norniella

D. Salvador Gabarró Serra

Mr. Rafael Villaseca Marco

Mr. Robert Malpas

Mr. Dionisio Martínez Martínez

Mr. Luis Javier Navarro Vigil

Mr. Ramón Blanco Balín

Mr. José Riva Francos

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

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 Salá Belló)

Secretary to the Board

Mr. Luis Pérez de Ayala Becerril

31. Explanation added for translation to English

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.