



Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

MANAGEMENT REPORT OF THE ENAGÁS GROUP

Performance of the Group in 2005

Net income for the year was 190,960 thousand euros, up 20.77% on the prior-year figure.

Net revenue totalled 646,211 thousand euros.

The Group made investments for a total value of 358,667 thousand euros. Investments approved by the Board of Directors of Enagás, S.A. in the course of the year amounted to 354.1 million euros, a figure essentially corresponding to the cost of the planned gas pipeline connecting the Cordoba-Madrid pipeline with the Alicante-Valencia pipeline and the associated compressor stations.

At the year-end the Enagás Group had shareholders' equity of 1,110,429 thousand euros.

Share capital is represented by 238,734,260 fully paid ordinary bearer shares each with a par value of 1.50 euros.

The Company engaged in no treasury shares transactions in the course of the year.

On 28 January 2005 the Ministry of Economy approved three Ministerial Orders updating tariffs, tolls, fees and remuneration for regulated gas sector activities in 2005. The new rates were published in the Official State Gazette on 31 January and established the remuneration to be received in the course of 2005 by all companies carrying out regasification, storage, transport and distribution activities.

Throughout the year the Group continued to extend and enhance its re-gasification, transport and storage installations to bring them in line with the requirements pointed up by future demand forecasts. To this end the following major initiatives were undertaken in 2005:

- A fifth tank with LNG storage capacity of 150,000m³ was brought into service at the Group's Barcelona Plant, and a third tank with LNG storage capacity of 127,000m³ was opened at the Cartagena Plant. Emission capacity at the Barcelona, Cartagena and Huelva plants was also increased, to 1,500,000m³ (n)/h, 900,000 m³ (n)/h and 1,050,000m³ (n)/h respectively.
- Total combined nominal re-gasification capacity at the three Plants was increased to 750,000 m³ (n)/h.
- At the end of 2005 the Enagás, S.A. Group was operating 7,360Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,158.1Km operational in December 2004, thus helping secure continuity of supply and the development of areas that previously had no access to natural gas supplies.
- The main transportation assets brought into service in 2005 were the aforementioned new tanks in Barcelona and Cartagena, section II of the Málaga-Estepona gas pipeline, the Castelnou-Fraga-Tamarite de Litera and Arbós-Tivisa pipelines, stage II of the Cartagena-Lorca pipeline and the Totana-Murcia branch pipeline. The Group also extended the Cordoba (stage II), Almendralejo, Seville, Bañeras (stage II) and Tivissa compressor stations.
- 19 new regulating and measuring stations were brought into service in the course of the year, taking the total number in operation at the year-end to 310.

Overall, at the end of 2005, the gas infrastructure of the Enagás, S.A., Group, consisting of the basic natural gas network, was as follows:



The Barcelona, Huelva and Cartagena regasification plants had a total combined LNG storage capacity of 987,000m³, 277,000m³ more than the end-2004 level of 710,000m³, and combined emission capacity of 3,450,000 m³(n)/h, 750,000 m³(n)/h higher than the 2,700,000 m³(n)/h recorded at the end of 2004.

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

A gas pipeline network with a total length of 7,360 Km, consisting of the following main lines:

Central line: Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country.
(with Huelva-Sevilla-Córdoba-Madrid duplicated)

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

Western line: Almedralejo-Cáceres-Salamanca-Zamora-León-Oviedo.

Spain-Portugal western line: Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)-Tuy-Pontevedra-A Coruña-Oviedo.

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

The following system entry points:

North: Calahorra-Lac Spain-France pipeline connecting Spain and Portugal with the European gas pipeline network.

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

Subsequent events

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

Research and development initiatives

Technological innovation initiatives realised by the Company in 2005 were focussed on assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, and in particular on projects of strategic value for the Group.

Gas transportation initiatives were focussed on securing continuity of supply and enhancing technical and cost efficiency, thereby maximising safety and minimising environmental impacts.



ENAGÁS GROUP

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

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

Chairman

Mr. Antonio González-Adalid García-Zozaya

Board members

Mr. Jesús David Álvarez
Mezquíriz

Mr. Ramón Perez Simarro

Mr. Antonio Téllez de Peralta

Mr. José Riva Francos

Mr. Carlos Egea Krauel

Mr. Rafael Villaseca Marco

Mr. Jose Manuel Fernández
Norniella

Mr. Martí Parellada Sabata

Mr. Salvador Gabarró Serra

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

Sir. Robert
Malpas

Mr. Dionisio Martínez Martínez

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

Mr. Luis Javier Navarro Vigil

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

Secretary to the Board

Mr. Luis Pérez de Ayala
Becerril