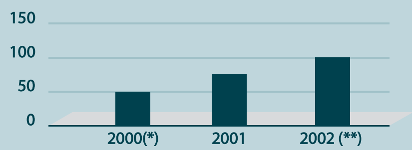
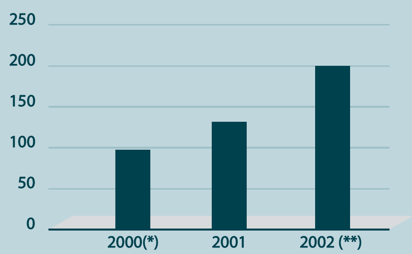
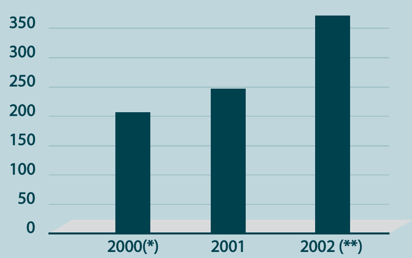
Contents



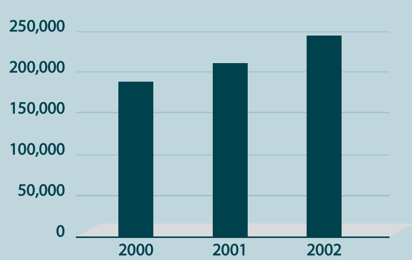
Net Income before extraordinaries
(Million Euros)



Operating Profit
(Million Euros)



Operating Cash Flow
(Million Euros)



Transported natural gas demand
(GWh)

Main Aggregates

CONSOLIDATED FINANCIAL DATA (Million Euros)	2000 (*)	2001	2002(**)
Net Income before extraordinaries	55.3	78.7	**109.3**
Net Income	54.4	117.8	**110.1**
Operating Profit	103.6	138.1	**207.2**
Operating Cash Flow	212.8	249.4	**333.7**
Investments	295.9	216.8	**192.3**
Net Debt	1,148.6	1,062.2	**1,253.0**
No. Employees (Yearly Average)	**852**	**853**	**868**

FINANCIAL DATA PER SHARE	2000 (a)(*)	2001(a)	2002(**)
Net Income (Euros)	0.23	0.49	**0.46**
Dividend (Euros)	0.47	0.49	**0.23**
Operating Cash Flow (Euros)	0.89	1.04	**1.40**
No. of Shares as of 31 December (Million)	11.95	11.95	**238.73**

– On May 3rd 2002, each old share was split into 20 new ones.
– The dividend of 0.23 euros in 2002 was approved by the General Shareholder's Meeting 2003.
(a) The financial data per share for the years 2000 and 2001 have been standardised, using the total number of shares as of 31 December 2002 for the calculation.
(*) The data for 2000 reflects the consolidated proforma results.
(**) The results are not comparable due to the change in the regulatory framework as of February 19th, 2002.

TRANSPORTED NATURAL GAS DEMAND (GWh)	2000	2001	2002
Regulated Market	170,020	130,838	**110,177**
Liberalised Market	18,759	80,969	**133,192**
Total Demand	**188,779**	**211,807**	**243,369**

CONVERSION TABLES

ENERGY UNITS

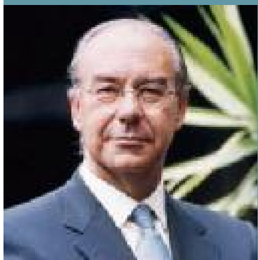
Equivalent to	kWh	Mbtu	te	therm
1 kilowatt-hour (kWh)	1	0.003411	0.8601	0.03411
1 Million BTUs (Mbtu)	293.2	1	252	10
1 termie (te)	1.162	0.00397	1	0.397
1 therm	29.32	0.1	25.2	1

1 gigawatt-hour (GWh) = 10^6 kilowatt-hours (kWh)
1 m^3(n) = 10 te

VOLUME UNITS

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

1 bcm = 10^9 m^3
Normal m^3(n): Measured at 0º and 1 atm
Standard m^3(s): Measured at 15º and 1 atm
1 m^3(n)=0.948 m^3(s)



Letter from the Chairman

Dear Shareholder:

I have the pleasure to inform you about the evolution of Enagas's activity over 2002, its first fiscal year as an independent and quoted company and one marked by significant changes in its organisation and operating environment.

Since its founding in 1972, Enagas has successfully built and managed the infrastructures needed to attend the growth of the Spanish gas market. The Company's long experience in these activities is a highly valuable asset that will allow the new Enagas to fulfil its strategy, initiated last year.

In 2002, a new regulatory framework was published for the gas sector, which remunerates Enagas's activities, ensures an adequate return on investments and provides incentives for continuous improvement. Moreover, the Company completed its initial public offer and implemented a new organisational structure in accordance with its future challenges and needs. We have reaffirmed our strengths, launching the announced investment plan and increasing the Company's historic operating efficiency.

Enagas has commenced its stock market activity with a clear commitment to the best practices of Corporate Governance, based on the foundations of transparency, independence and the defence of Shareholder rights. However, Enagas's commitment is much more ambitious, and in addition to the measures already taken in this area, which allow us to meet of the requirements of the Spanish "Aldama" Report, we will continue to constantly develop our good governance policy well beyond the mere legal requirements in order to be leaders. This annual report includes an extensive and detailed chapter on this area, which I hope will be of your interest.

I will now briefly summarise the main highlights in the operating environment in which Enagas carries out its activity and the aggregates from 2002, the organisational measures we have decided to adopt and, finally, comment on Enagas's expectations for the future.

The Spanish Gas Market and Its Process of Liberalisation

In recent years, Spain has become Europe's fastest-growing gas market, with a demand that trebled between 1993 and 2001, and an annual growth rate of over 14%.

It is estimated that the demand for natural gas in Spain will increase at an annual rate of over 12% in coming years, due to the importance of this energy source for residential and industrial consumption as well as the generation of electricity. As a result, there is a need to build an infrastructure network able to attend to this demand efficiently.

This fact, along with the implementation of the gas sector liberalisation process, makes Enagas an indispensable vehicle for guaranteeing supply, the entrance of new operators and optimum system management. The Royal Decree of 6 June 2000 was the referent for the completion of this process, and it culminated in the Ministerial Orders of February 2002, which establish the specific framework for the implementation of rates and its scope, facilitating third-party access to the network. The timetable for opening the market was substantially accelerated, and since 1 January 2003 all consumers can choose their suppliers.

All in all, the liberalisation of the Spanish gas market can be considered to have been one of the swiftest and most efficient in the European Union, having been brought off without incident and in an orderly manner. It is in this sphere where the new Enagas holds an undeniably important position, attending to a large number of clients and ensuring that infrastructures are put into operation, that will guarantee both competition and supply under the best conditions.

As an additional part of the liberalisation process, a maximum stake of 35% was established for all Enagas shareholders. To comply with this limit, Gas Natural, until then the Company's sole Shareholder, launched an Initial Public Offer, which was successfully completed in June 2002 in the midst of an environment characterised by unstable markets and predictions of a global economic slowdown.

Development of the Regulatory Framework

Since February 2002, the Spanish gas market has enjoyed a defined and stable regulation that allows energy companies to satisfy the projected growth in demand, as well as the need for infrastructures, under suitable conditions.

I would like to highlight those advances made in 2002 and the beginning of 2003 to this end, that are of special relevance to the Company's activity.

First, the Document on Mandatory Planning for gas and electricity, approved by the Council of Ministers in September and endorsed by the Spanish Parliament, reflects the strategic importance of infrastructures for the development of the gas market, classifying a significant portion of the Enagas investment plan for the 2002-2006 period as urgent and compulsory.

One important point in terms of correctly attending to sector growth and the needs of the gas marketers to whom Enagas provides its services is having an efficient system for assigning access to gas networks and contracting capacity. Royal Decree 1424 (2002) was a significant step forward in this respect, as its additional provisions clearly establish the procedures for meeting the double objective of optimising existing capacity and allowing each one of the operators in the system to take maximum advantage of it.

Second, on October 28th last, a Ministerial Order was approved to regulate the procedure for the settlement of payment obligations, as well as the necessary collection fees to be paid for natural gas regasification, transportation, storage and distribution activities, which will allow for the system's proper and orderly operation.

Finally, and now that the first fiscal year in which this new framework was applied has come to a close, it is important to highlight the publication, on January 17th last, of the remuneration Enagas will receive for its activities in 2003.

The Company's remunerated assets increased 11% in 2002, and the revenue established for Enagas will register an estimated 12% increase, confirming the Company's profitability while also resolving any doubts as to the regulatory framework.

The New Enagas. 2002

Today, Enagas provides its services to all of the distributors and marketers that operate in the Spanish gas markets, as well as to the other gas transporters, who, taken as a whole, attend to almost five million clients. Over the last fiscal year, the Company signed more than 20 contracts with different operators, and the projects that were carried out guarantee the necessary capacity to attend to the system's requirements.

We are quite pleased with the organisation's accomplishments this fiscal year, which are reflected in the good results that were obtained, testimony to the Company's strengths, the soundness of its strategy and the significant increase in activity.

The net profit before extraordinaries came to 109.3 million euros in 2002, compared to 78.7 million euros at the end of 2001, representing an increase of 39%.

The operating profit came to 207.2 million euros, 50% more than the previous fiscal year, offering proof of the significant advances in operating efficiency Enagas has achieved in its first year as an independent company. Operating expenses for the year were maintained at levels similar to those for Fiscal 2001, primarily due to internal management, as the Company managed to perform a series of services and activities internally for which it had hitherto paid a corporate fee to its parent company, without increasing charges.

Over the next four years, Enagas will carry out a significant investment plan that will double the size of the Company with only a minimal increase in costs, thereby fulfilling the twofold objective of attending to the growing gas demand and fomenting value creation for Shareholders.

In 2002, the first stage of this significant expansion plan was put into operation. Investments came to 192 million euros, infrastructures valued at 304 million euros were put into operation and new projects were approved, now underway, for over 1.5 billion euros, representing almost 60% of the plan until 2006. This process will continue to unfold over the course of 2003 and in the following years.

With regard to the financial structure, the debt ratio was 43.3% at the end of 2002, quite conservative compared to the situation of comparable companies. Moreover, during the year Enagas managed to refinance the Company's debt, previously consisting mainly of a loan with Gas Natural SDG, under very favourable conditions at an annual cost of 3.9%.

Enagas's sound financial structure will allow it to carry out the significant investment plan announced at its public offer, reaching a level of debt over total assets at the end of 2006 that will not exceed the current sector average.

In this sense, it should be noted that over the year the main rating agencies (Standard & Poor's and Moody's) awarded solid credit ratings to the Company, offering further proof of the high security and low risk of its strategy.

To excel in its new era, Enagas designed a new organisation that responds efficiently to the requirements and challenges of the Company's new reality, reinforcing those areas responsible for carrying out the projected investment plan.

This new organisation is structured around three General Management Offices: the General Office of Technology, Engineering and Environment, the General Office of Infrastructures and Operations and the General Office of Strategy and Regulation. Their functions are explained in detail in this Report, and their aim is to complement the existing departments financial, Legal Affairs, Human Resources and Information Systems.

Likewise, the Office of the System Technical Manager, a new Investor Relations Direction and an Internal Audit Unit were created.

Mention should be made of the role of System Technical Manager, as it is key in guaranteeing the continuity and security of the gas supply, as well as the system's good working order.

All in all, today Enagas is a new Company, with a sound base to build on, an outstanding professional team and a commitment to independence, transparency, operational excellence, expansion and value creation, operating in a high-growth market.

Evolution on the Stock Exchange

I would now like to address the evolution of Enagas shares on the stock exchange in the first year they were listed.

The June 2002, public offer was a sweeping success brought off in an extremely complex and highly unstable environment marked by widespread downward trends in all of the European markets, primarily due to the contagious effects of fears of an economic recession in the United States.

The Spanish market was affected particularly strongly by the fears of an economic slowdown and its exposure in Latin America, whose political and economic crises caused the main Spanish companies to fall to historic lows.

This general panorama was reflected in the Enagas quote, which closed the year with a 10.7% slide, similar to its index of reference, the Ibex 35, which registered a fall of 10.9%. Despite all this, Enagas shares had a more positive evolution than indexes such as the MSCI (of companies with medium and small capitalisation) or the Dow Jones Stoxx 600.

On January 10th last, the Spanish Stock Exchange Society's Expert Committee decided to include Enagas on the selective Ibex 35 index, highlighting the Company's liquidity and representativity.

It should be noted that between January 1st and May 23rd 2003, the date on which this publication was closed, Enagas shares rose 18.6%, compared to the Ibex 35, which rose 5.1%, and the DJ Stoxx 600, which fell 4.7%, in a generalised environment of investor uncertainty stemming from the international situation.

With regard to the stock's future evolution, I am sure the market will continue to appreciate Enagas's combination of growth, security and profitability, which places the Company in an exceptional position to create value through implementation of a clear and sound strategy.

Strategic Objectives

Enagas's project will allow us to consolidate our position as leaders, increase profits and optimise our capital structure, the result of financing the investment plan through cash generation and debt. Moreover, our strategy offers the added elements of security and low risk, by focusing our activity exclusively in Spain and on the gas infrastructure business.

To do this, we will take advantage of the economies of scale generated by the increased operating efficiency of our activities to bring the aforementioned infrastructures to fruition without significantly increasing operating costs. Our team has ample experience in this business to ensure the optimum management of assets distributed throughout the Spanish territory, and their devotion and efforts deserve our most heartfelt recognition.

The low risk of the business, the expansion of the Company and its vast experience in the sector allow us to offer high profitability to shareholders. As part of this policy, the Enagas Board of Directors agreed to distribute a gross interim dividend for Fiscal 2002 amounting to 0.23 euros per share, thus complying with the policy announced by the Company to distribute 50% of the net profit.

In summary, the Enagas strategy combines strong, secure and stable growth with attractive dividend payments, thereby generating a significant differential factor in terms of value creation compared to the rest of the energy sector.

Finally, in addition to renewing our firm commitment to you to meet the objectives outlined above, I would like to thank you, in my own name and on behalf of the Board of Directors, for your support and the trust you place in Enagas.

Thank you.

Madrid, May 23rd 2003

Antonio González-Adalid
Chairman

Summary of Fiscal 2002

19th February: Publication of a new regulatory framework for the gas sector, establishing the remuneration for Enagas' activities.

3rd May: Each old share was split into 20 new ones. As a result, Enagas share capital is now divided into 238,734,260 shares with a par value of 1.5 euros each, all belonging to a single class and series.

31st May: Enagas presented its new corporate identity, adapting its image to the new business reality. Moreover, the web site **(www.enagas.es)** was launched.

20th June: A bridge loan for 1 billion euros was formalised with various financial institutions, thereby proceeding to the cancellation of the intercompany loan with Gas Natural SDG, S.A.

26th June: Enagas was listed on the Stock Exchange at an initial price of 6.5 euros per share. The demand for shares was 10 times greater than the volume of the total initial offer.

9th July: The Rules of Procedure for the Organisation and Operation of the Board of Directors were approved, and the Appointments and Remuneration Committee and Audit and Compliance Committee were constituted this same day. Finally, an Internal Code of Conduct was approved for matters concerning securities markets.

6th August: Responding to the needs of the Company and its new shareholding structure after the Initial Public Offer, the Board of Directors proceeded to appoint, by co-option, Mr. Luis Javier Navarro Vigil, to act in the name and on behalf of BP Energía, Atalaya Inversiones S.R.L., represented by Mr. Carlos Egea Krauel, and Bancaja, represented by Mr. Julio de Miguel Aynat, as Directors.

Thus, the Board's final composition included 12 members: six Controlling Shareholders and six Independents.

13th September: The Council of Ministers approved the Document on the Planning and Development of the Gas and Electricity Transport Networks, which envisages investments of 5.235 billion euros for the development of the gas transport network over the 2002-2011 period. This Document was subse-

quently approved by the Spanish Parliament in October.

23rd September: Enagas unveiled its new organisational structure, which seeks to adequately meet the Company's needs.

23rd September: Enagas stock was listed on the selective Dow Jones Stoxx 600 index.

25th October: The second tank at the Cartagena plant was inaugurated, with a storage capacity of 105,000 m^3 of LNG.

5th and 12th November: The main rating agencies published the following ratings for the Company:

Standard & Poor's: A+ Stable (long term).

Moody's: A2 Stable (long term).

28th October: Publication of Ministerial Order ECO/2692/2002, regulating the settlement procedures for the remuneration of gas sector activities.

22nd November: The Enagas Board of Directors approved the payment of a gross interim dividend of 0.09 euros per share, on account of the Net Profit for Fiscal 2002. The payment of said dividend was made on January 17th 2003.

19th December: Enagas subscribed a loan for 150 million euros with Spain's ICO (Official Credit Institute) to finance new gas infrastructures.

23rd December: The Ibex 35 Technical Advisory Committee decided to include Enagas on said index, with a weighting of 100%, to take effect on January 10th 2003.

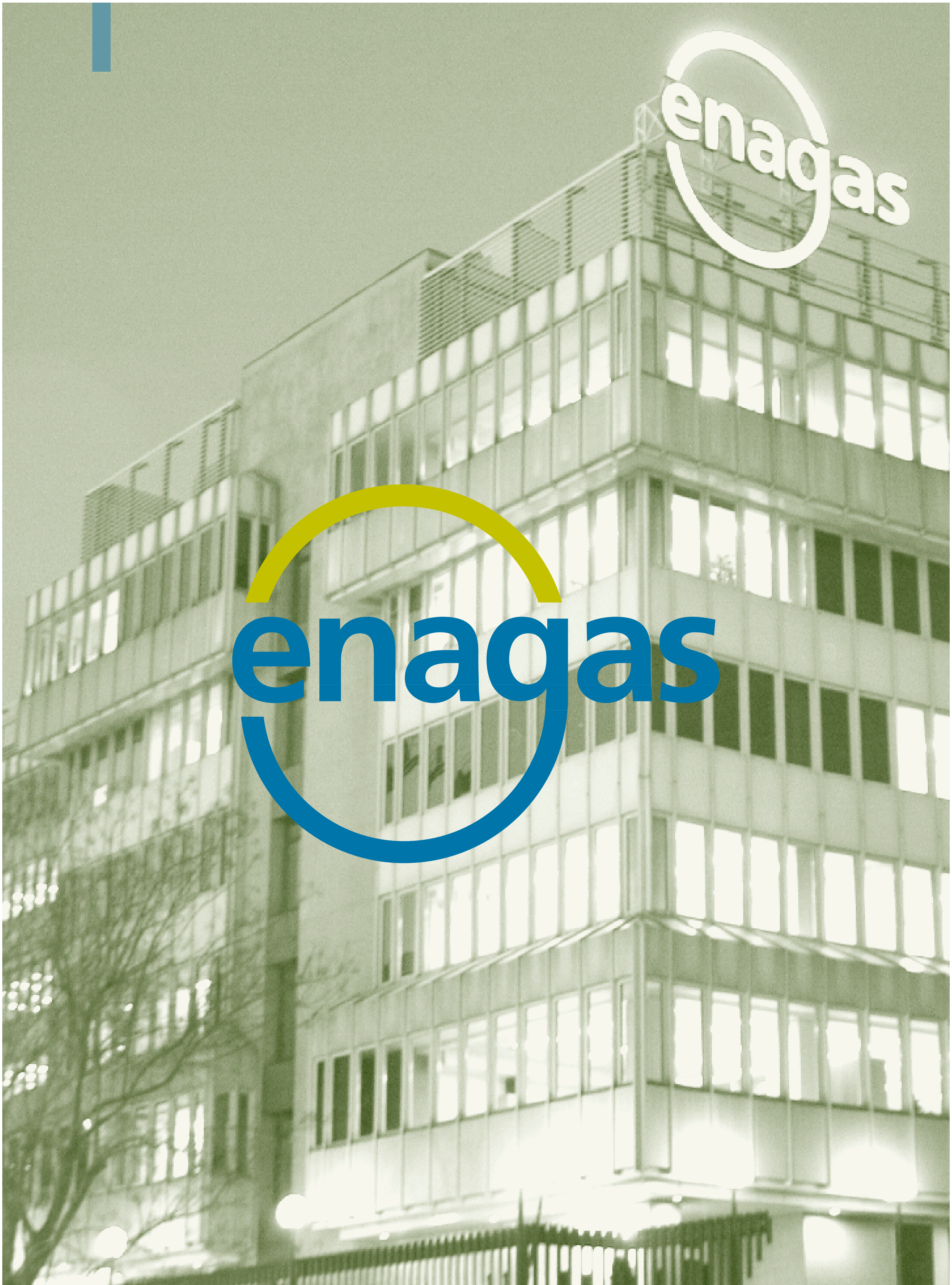
27th December: Approval of Royal Decree 1434/2002, regulating natural gas transport, distribution, marketing and supply activities, as well as the authorization procedures for natural gas facilities.

Development in 2003

16th January: Enagas Management and worker representatives agreed to approve a new Collective Agreement, valid from 2002 to 2004.

17th January: Ministerial Order ECO/30/2003 was published, establishing the applicable remuneration scheme for gas sector activities in 2003.

That the same day, Ministerial Orders ECO/31/2003 and ECO/32/2003 were published, establishing the pipelining tariffs for natural gas and manufactured gases. Moreover, the tolls and fees associated with third-party access to gas facilities were approved.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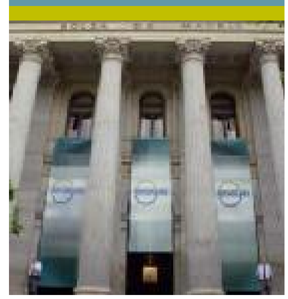
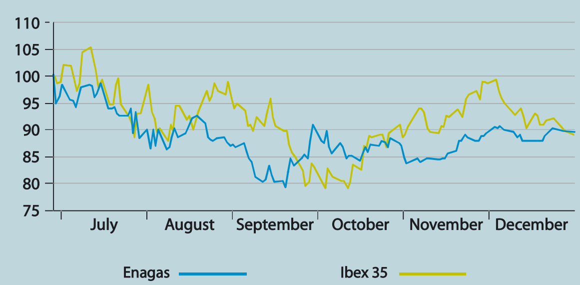
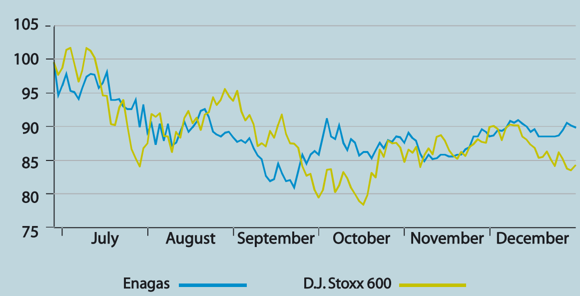
Shareholder Information



Shareholder Information



Enagas vs. Ibex 35
(26 June / 31 December 2002)



Enagas vs. Dow Jones Stoxx 600
(26 June / 31 December 2002)

Evolution of the Stock

Enagas completed its public offer on 26th June 2002, at a starting price of 6.5 euros per share.

The underwriting contracts for the national and international offerings, excluding the 5.9% corresponding to the call option of the placing banks, were assigned in the following tranches:

- Retail: 37.5%.
- National Institutional: 30.2%.
- International Institutional: 32.3%.

Their first quoted price was 6.1 euros, in a climate of widespread falls in the main stock indexes.

The evolution of the stock over 2002 was affected by the general circumstances of the Spanish and international stock markets, as well as those of the sector, which experienced significant slides.

It is worth noting that the stock's behaviour was similar to that of the main indexes of reference. As of 31 December, and using 6.5 euros as the IPO base price, the share had fallen 10.7%, while the Ibex 35 closed the year with a loss of 10.9%, and the Madrid Stock Exchange General Index fell by 10.8%.

The average daily volume of Enagas shares purchased over the year was 1,823,245, mak-

ing Enagas one of the most traded medium capitalisation stocks.

As of December 31st 2002, Enagas was quoted at 5.80 euros per share.

The Company's PER (the relation between the price of the Company on the Stock Exchange and the earnings obtained in 2002) was 12.6 at the close of the fiscal year.

Enagas shares evolved quite positively in January 2003, due to a variety of factors, among which the following stand out: the listing of the stock on the Ibex 35 on January 10th, the payment of an interim dividend and the publication of the 2002 results.

Since its public offer, Enagas has consolidated itself in the market as a stable and high-growth stock, offering a low-risk, high-profit alternative to investors.

In order to ensure that its Shareholders are informed in a transparent way about all aspects of the Company, Enagas keeps up a constant relation with analysts and investors through the Investor Relations Direction, the Shareholders' Office and the corporate web page (www.enagas.es).

Since September 23rd, Enagas has been listed on the Dow Jones Stoxx 600 index. Moreover, the liquidity generated since its public offer and the Company's representativity led to its inclusion in the Ibex 35 index on January 10th 2003.

Dividend Policy

The gross interim dividend per share for Fiscal 2002 approved by the General Shareholders' Meeting, was 0.23 euros. On 17 January 2003, a interim gross dividend of 0.09 euros per share was paid out to all shares, the final dividend for Fiscal 2002 is pending for distribution (expected July 2003).

Together the two payments represent 50% of the Consolidated Net Profit after taxes, in keeping with the policy announced by the Company.

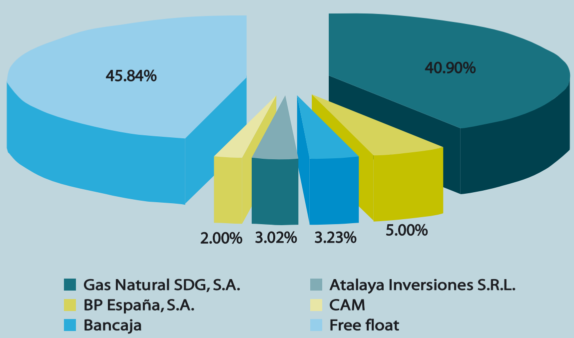
Thus, Enagas reasures its commitment to creating value for its Shareholders, orienting all of its activities toward this goal.

Shareholding Structure

Enagas's Share Capital, as of the date of registration of this publication, came to 358,101,390 euros, wholly subscribed and paid up. Said Capital is divided into 238,734,260 shares, with a par value of 1.50 euros each and represented through book-entry securities. The Spanish Central Securities Depository (Servicio de Compensación y Liquidación de Valores S.A., or the SCLV) and its member organisations are responsible for the accounting records of the Enagas shares.

The Company's shareholding structure at the close of the fiscal year was as follows:

- Gas Natural SDG, S.A.: 40.90%.
- BP España S.A.: 5.00 %.
- Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante): 3.23%.
- Atalaya Inversiones S.R.L.: 3.02%.
- CAM (Caja de Ahorros del Mediterráneo): 2.00%.

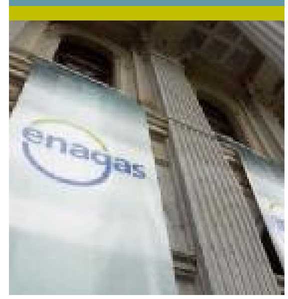


Shareholding Structure

STOCK MARKET HIGHLIGHTS	
Price of Enagas (euros) shares	
Average	5.73
High	6.49
Low	5.11
At December 31st	5.80
Volume	
Shares (Millions)	304.5
Turnover (Millions euros)	1,903.5
No. of Shares (Millions)	238.7
Market Capitalisation (31 December 2002) (Millions euros)	1,384.5
Earnings per Share (euros)	0.46
PER (*) (31 December 2002)	12.6
Dividend per Share 2002 (euros)	0.23
Pay Out (**)	50%
Dividend yield (31 December 2002)	4%

(*) Share price/earnings per share.
(**) Percentage of Net Profit put toward dividends.

Consolidated Management Report



Consolidated Management Report

Consolidation Method

The following companies partially owned by Enagas S.A. were included in the consolidation:

- Gasoducto Al Andalus S.A.: 66.96%.
- Gasoducto Extremadura S.A.: 51.00%.
- Gasoduto Campo Maior - Leiria- Braga S.A.: 12.00%.
- Gasoduto Braga - Tuy S.A.: 49.00%.

The activity of these companies is the transport of gas, and they were consolidated by the proportional integration method.

- Enagas International Finance, S.A.: 99.99%.

This company was consolidated by the global integration method.

Results

It should be noted that the results for this fiscal year reflect the change in the regulatory framework registered as of 19 February 2002.

As of 31 December 2002, the Enagas Group had earned a Net Profit of 110.1 million euros.

Given that in Fiscal 2001, there were Extraordinary Profits amounting to 60.2 million euros, the Net Profit in comparable terms, in other words, before Extraordinaries, increased by 109.3 million euros, a 38.9% increase with regard to that earned in 2001.

Operating Cash Flow (EBITDA)

The Operating Cash Flow registered a 33.8% increase with regard to 2001, for a total of 333.7 million euros.

A greater turnover and improvements in efficiency due to the contention of operating costs contributed to this increase.

Operating Profit (EBIT)

The Operating Profit amounted to 207.2 million euros, exceeding the figure obtained in December of the previous year by 50.0%.

The allocations for the amortisation of fixed assets came to 126.5 million euros, 13.6% more than the figure registered in 2001.

This increase is primarily due to the amortisation of new investments put into operation over the course of 2002.

Financial Results

The Financial Results for the year showed a negative figure of 39.4 million euros.

The financial costs derived from total financing came to 41.8 million euros, a decrease of 3.6% compared to the previous year.

Ordinary Profit

As a result of all that set out above, the Enagas Group earned a Profit on Ordinary Activities of 167.8 million euros, a 71.1% increase over that earned in 2001.

Extraordinary Results

Net Extraordinary Results in 2002 came to 1.2 million euros, corresponding to the reversion of surplus provisions from previous years.

2001 saw positive Extraordinary Profits amounting to 60.2 million euros.

Net Profit

As a result of all of the above, the Consolidated Net Profit before Extraordinaries, as of 31 December 2002, came to 109.3 million euros, representing a 38.9% increase with regard to that obtained in 2001.

The Consolidated Net Profit came to 110.1 million euros.

Investments

In 2002, investments amounting to 304 million euros were put into operation, entailing an 11.7% increase in the remunerated assets base for 2003.

Investments made in 2002 came to 192.3 million euros, the projects defined in the

Mandatory Planning published on September 13 last having been initiated. They were primarily put toward new transport networks, the construction of plants, underground storage facilities and the purchase of materials.

Financial Situation

The Net Cash Flow generated in Fiscal 2002 came to 205.2 million euros, 44.2% more than the figure registered the previous year.

Resources arising from activities were mainly used to finance the investments made and to pay the dividends corresponding to 2001.

On 20 June, restructuring of the Company Debt began, and the intercompany loan from Gas Natural SDG, S.A., was replaced by a bridge loan from a variety of financial institutions for the sum of 1 billion euros.

Thirteen institutions participated in the loan syndication, in addition to the three Lead Arrangers.

The Company's Net Financial Debt came to 1.253 billion euros, as compared to 1.062 billion euros at the close of the previous fiscal year.

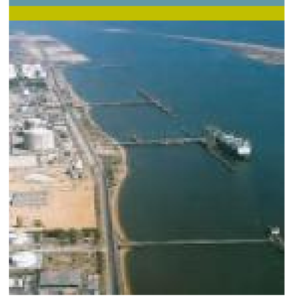
The average cost of the Debt was 3.9%, down from 4.9% in 2001.

On January 23rd, the Enagas Board of Directors authorised the negotiation and formalisation of a syndicated loan for the sum of 750 million euros, extendable to 1 billion euros, with a term of five years and under market conditions.

The Company's sound financial structure will allow it to increase its Financial Debt as needed to carry out the investment programme, until reaching a level of Debt over total assets, at the end of 2006, in keeping with the sector average. This ratio was 43.3% as of 31 December 2002.

It is worth noting that in November, the main Rating agencies (Standard & Poor's and Moody's) published ratings for the Company that reflect the solid growth prospects, high profitability and low risk of the Enagas strategy. Standard & Poor's published a long-term rating of A+ stable, and Moody's, a long-term rating of A2 stable.

Operating Environment



Operating Environment

New Regulatory Framework

Remuneration for Regulated Activities in the Gas Sector

On 15 February 2002, Ministerial Orders ECO 301, 302 and 303 were published, developing Royal Decree 949/2001, which establishes the remuneration for regulated activities in the gas sector.

The general principles governing the sums to be received for said activities are:

a) Ensure the recovery of the investments made within their period of useful life.

b) Allow for a reasonable return on invested financial resources.

c) Determine the system for remunerating operating costs, providing incentives for efficient management and improved productivity.

This remuneration comprises three different elements:

1. Remuneration for regasification, transport and storage activities.

   This is calculated individually for each facility, taking the following costs into account:

– Financial Return: These costs depend on the characteristics of the facility, the date it was put into operation, the in-

vestments made and the established rate of return.

– Depreciation charges: These depend on the useful life of the facilities.

– Operating and Maintenance Costs: These are construed as the recognised operating and maintenance costs associated with each facility, applying criteria of improvements in productivity and efficiency.

Financial Return
Gross Revalued Assets x Rate of Return
(10–year Government Bond + 150 Basis Points)
+
Depreciation charges
+
Operation and Maintenance Costs

2. Remuneration for the management of natural gas purchases and sales, in accordance with the obligation to guarantee a continuous and sure supply to the tariff market.

3. Remuneration for the position of System Technical Manager.

Facilities Put into Operation Prior to December 31st 2001

To calculate the remuneration, the accredited costs of the investments made (deducting any subsidies received) and the real values of the operating costs will be used.

The resulting remuneration will be updated annually using an efficiency factor (currently 0.85).

New Facilities

The remuneration for these facilities depends on how they are authorised:

1. **Directly:** The remuneration to be received is the sum of the investment costs, the depreciation charges and the specific operating costs for the facility.

   The value of the recognised investment is obtained from the unit values of reference for investments published in Ministerial Order ECO/301/2002.

   To calculate depreciation charges, the values defined for the useful life of each type of facility are used.

   Operating costs are obtained from the unit values of reference also published in said Ministerial Order.

   The resulting remuneration is updated annually, using an adjustment factor obtained by multiplying an index (the average variation in the consumer and industrial price indexes) by an efficiency factor, defined for each specific case and likewise subject to annual revision.

When a facility reaches the end of its useful life but continues to be operative, depreciation charges cease to be recognised, although operating costs, as well as 50% of the financial return, continue to be recognised.

2. **Open tenders:** Remuneration will be calculated according to the conditions of the awarded contract.

Mandatory Planning

On September 13 last, the Board of Ministers approved the document on Mandatory Planning for the gas and electricity sector for the 2002–2011 period. The following month, it was approved by the Spanish Parliament.

The Plan highlights two basic aspects:

- The evolution of natural gas consumption, whose share of the national energy balance is projected to rise from 12.2% in 2001 to an estimated 22.5% in 2011.
- The need to make investments in a basic gas infrastructure, on which Enagas's Strategic Plan is based.

Investments Projected in the Mandatory Planning

The Ministry of Economy, along with the Regional Governments and the Gas and Electricity System Technical Managers, among others, are the main agents in the plan's design.

The sum projected by the Government for the construction of the gas transport infrastructure comes to 5.235 billion euros over the 2002–2011 period.

The infrastructures have been classified into four different groups, depending on the need for their execution. Thus, distinctions are drawn between:

- **Urgent infrastructures:** Indispensable for the system's good working order.
- **Group A infrastructures:** These are compulsory, but no urgent approval is required for their plans.
- **Group B1 and B2 infrastructures:** Whose compulsory construction is conditional upon reaching one or two events, respectively, specified in the Planning Document.
- **Group C infrastructures:** Their inclusion as compulsory in subsequent revisions shall be subject to justification of the demand that makes them necessary.

New Settlement Procedure

Ministerial Order ECO/2692/2002, of 28 October, is intended to regulate the procedure for settling payment obligations and the necessary collection fees for the remuneration of natural gas regasification, transport, storage and distribution activities, as well as the taxes and fees for specific purposes.

The agent in charge of carrying out these settlements will be the Directorate General for Energy and Mining Policy (DGPEM), at the proposal of the National Energy Commission (CNE).

Article 14 of said Ministerial Order establishes a transitory provision by which the first provisional settlement on account, corresponding to fiscal 2002, will be effected in March 2003.

Royal Decree 1434/2002

Finally, Royal Decree 1434/2002, of 27 December, issued in development of Law 34/2002, was approved to complete the regulatory framework within which activities related to the natural gas sector must be carried out.

This Royal Decree, on the one hand, sets out the necessary requirements to engage in different transport, distribution and marketing activities and, on the other, regulates aspects related to supply, establishing the rules for the change from the regulated to the liberalised market or vice versa, as well as for choosing a marketer.

Finally, it develops all facets of the procedure for the administrative authorisation of gas facilities and the assignment of capacity:

- To avoid underutilisation of the contracted capacity on the part of the different agents, this Royal Decree establishes that a deposit of a retroactive nature must be made equivalent to the fixed tolls for one year as a guarantee against the subscribed commitments in the first months of provision of services.
- Underutilisation of the contracted capacity for a period of six months will lead to the forfeiture of the deposit and to a reduction in the contracted capacity.
- To prevent the reservation of excessive capacity that might restrict competition, it is established that all operators with contracted capacities in excess of their market needs have a period of three months to reduce said capacity in terms of volume and/or time. This reduction entails no cost or penalty.

Operating Highlights

When explaining how the Spanish gas market worked in 2002 and Enagas's role in it, it is important to distinguish between two different systems, namely, those corresponding to the operation of the liberalised and regulated markets.

Liberalised Market

In this market, natural gas is acquired from suppliers by marketers or directly by eligible consumers, who use Enagas's gas facilities (regasification, storage and transport), paying certain administratively approved tolls and fees to do so.

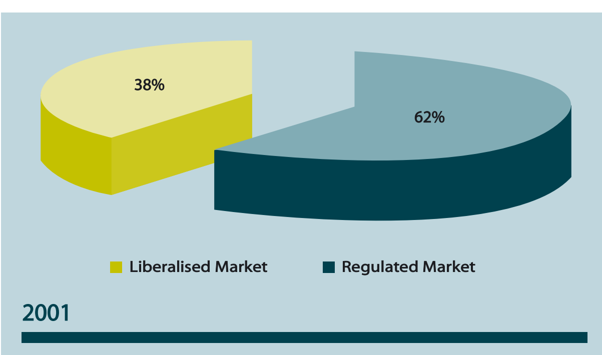
The marketer sells the gas to the eligible consumer at the consumption points.

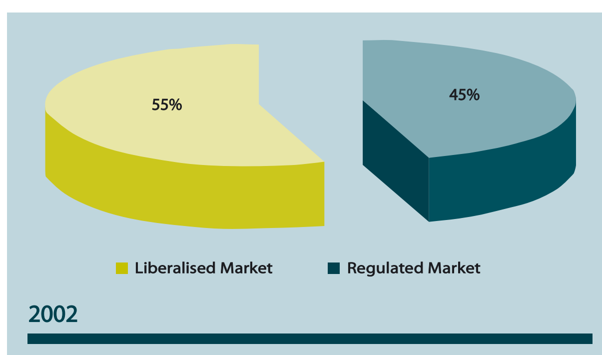
Evolution in 2002

- In accordance with the calendar for liberalisation established in the Law on the Hydrocarbon Sector (Law 34/1998, of 7 October), Royal Decree–Law 6/1999, of 16 April, and other subsequent provisions, the liberalisation of the gas sector was completed on January 1st 2003, without incident and in an orderly manner.

  Since then, all consumers can acquire the status of eligible consumer, independently of the volume of gas consumed, enjoying the freedom to choose a marketer.

- Currently, 31 marketers are registered, of which half are operative, representing, on average, 55% of all market consumption.
- At present, the capacity reserved for the liberalised market represents 72% of the total system capacity, which has been wholly contracted out by the operators.
- Over the course of 2002, a significant increase in the consumption of natural gas was observed after the first combined–cycle plants were put into operation.





	2001	2002	% Variation
DEMAND IN REGULATED MARKET (Unit: GWh)			
Segments			
Tariff market excluding power stations	118,186	94,026	–20.4%
Power stations	12,652	16,151	27.7%
Total regulated market	**130,838**	**110,177**	**–15.8%**
DEMAND IN LIBERALISED MARKET (Unit: GWh)			
Segments			
Industrial market	80,969	122,000	50.7%
Combined cycles	–	11,192	–
Total liberalised market	**80,969**	**133,192**	**64.5%**
Total Demand	**211,807**	**243,369**	**14.9%**

Regulated Market

Enagas purchases natural gas from suppliers. Subsequently, it is either delivered to distributors connected to the network, to other transporters or it is stored. The assignment is effected at a price officially approved by the Government.

Demand

The annual demand for natural gas came to 243,369 GWh, up 14.9% compared to the previous year.

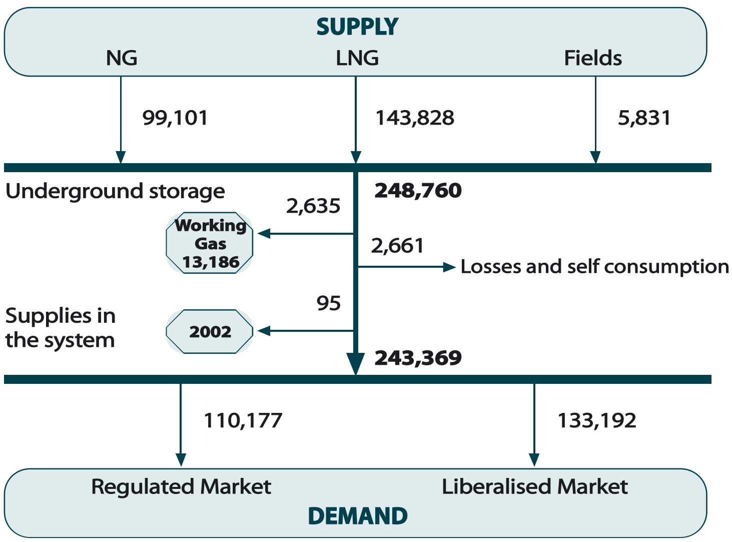
The demand for transported gas in the regulated market was 15.8% lower than the volume transported the year before, due to the sector's growing liberalisation.

85% of the consumption corresponded to the domestic, commercial and industrial sectors, while the remaining 15% corresponded to conventional power stations.

In the liberalised market, the demand for transported gas at year–end was 133,192 GWh, an increase of 64.5% over 2001.

91.6% of this demand corresponded to consumption in the industrial sector, while the transported demand for combined cycles in their first year was 8.4%.

The Document on Mandatory Planning estimates that natural gas consumption for the generation of electricity will be 11.3 times greater than in 2002 by the year 2011.



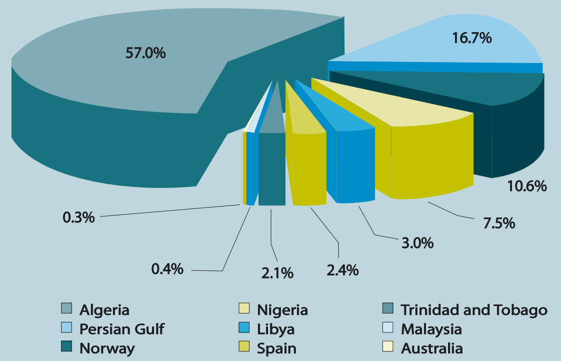
Supply

In 2002, supplies in the form of natural gas or liquid natural gas (LNG) came to 248,760 GWh, up 18.8% from 2001.

The volume of the supplies in 2002 is testimony to the importance of LNG, which comprised 57.8% of the total supply for the year, while entries at the international connections in Lacq-Calahorra and Tarifa comprised 39.8% of the supply. The remaining 2.4% corresponded to nationally produced natural gas supplies.

	2001	2002	% Variation
SUPPLY IN REGULATED MARKET (Unit: GWh)			
LNG by plant	**54,234**	**55,948**	**3.2%**
Barcelona plant	34,853	37,456	7.5%
Cartagena plant	15,728	14,604	–7.1%
Huelva plant	3,653	3,888	6.4%
Natural gas by entry points	**72,555**	**53,766**	**–25.9%**
Tarifa	61,630	50,732	–17.7%
Larrau	5,057	–	–
Domestic	5,868	3,034	–48.3%
Total regulated market	**126,789**	**109,714**	**–13.5%**

	2001	2002	% Variation
SUPPLY IN LIBERALISED MARKET (Unit: GWh)			
LNG by plant	**60,207**	**87,880**	**46.0%**
Barcelona plant	23,759	31,905	34.3%
Cartagena plant	3,428	29,299	754.7%
Huelva plant	33,020	26,676	–19.2%
Natural gas by entry points	**22,438**	**51,166**	**128.0%**
Tarifa	655	21,937	3,249.2%
Larrau	21,783	26,433	21.3%
Domestic	0	2,796	–
Total liberalised market	**82,645**	**139,046**	**68.2%**



Origin of the Supply

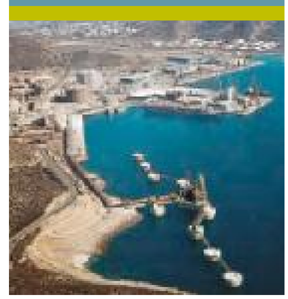
ORIGIN OF SUPPLY			
Country	**2001**	**2002**	**% Variation**
Algeria	123,484	141,813	14.8%
Persian Gulf	21,731	41,548	91.2%
Norway	26,841	26,433	–1.5%
Nigeria	18,562	18,695	0.7%
Libya	9,233	7,341	–20.5%
Spain	5,868	5,831	–0.6%
Trinidad and Tobago	3,714	5,342	43.8%
Australia	0	835	–
Malaysia	0	922	–
Total Supply	**209,434**	**248,760**	**18.8%**

Supply origins were increasingly diversified.

57% of the total amount of imported natural gas came from Algeria, while supply shares corresponding to countries such as Trinidad and Tobago, Nigeria and Persian Gulf countries increased. Moreover, in 2002, LNG was unloaded for the first time from methane carriers coming from Australia and Malaysia.

LNG is expected to become the type of supply most frequently used by the new operators in the liberalised market, both because it contributes to a greater security of supply and because any liquefaction plant in the world can be chosen as a purchasing point, a fact that affords great flexibility in terms of attending to rapid market growth and peaks in demand.

Enagas
in the Natural Gas Value Chain



Enagas in the Natural Gas Value Chain

Regasification

The liquid natural gas (LNG) is brought from the producing countries in methane carriers at -160 ºC and unloaded at the regasification plants.

At these facilities, through a physical process of heat exchange, normally using seawater vaporisers, the LNG is returned to its gaseous state and, then, injected into the gas pipelines to be transported throughout the Peninsula.

Enagas owns the three existing regasification plants in Spain, located in the ports of Barcelona, Cartagena and Huelva.

REGASIFICATION PLANT CAPACITIES

Regasification plant	Number of tanks	Storage capacity m³ LNG	Vaporisation capacity m³/h	Berthing capacity m³ LNG	Loading capacity tank trucks/day
Barcelona	2	40,000	600,000 (72 bars)	87,000	45
	2	80,000	600,000 (45 bars)		
Total		**240,000**	**1,200,000**		
Huelva	1	100,000	400,000 (72 bars)	140,000	45
	1	60,000	50,000 (16 bars)		
Total		**160,000**	**450,000**		
Cartagena	1	105,000	450,000 (72 bars)	140,000	45
	1	55,000			
Total		**160,000**	**450,000**		
Total		**560,000**	**2,100,000**		**135**

The total nominal regasification capacity of the three plants is 2,100,000 m³/h, and today they have a storage capacity of 560,000 m³ of LNG, 18.7% more than at the end of 2001.

Moreover, over the course of 2002, over 368 methane carriers berthed at the Barcelona, Huelva and Cartagena docks, unloading 21.7 million m³ of LNG.

REGASIFICATION PLANT ACTIVITY

Regasification plant	Number of carriers unloaded	Millions of m³ of LNG unloaded
Barcelona	232	10.5
Huelva	86	6.6
Cartagena	50	4.6
Total	**368**	**21.7**

In addition, Enagas regasification plants supplied more than 1.2 million m³ of LNG to a widely scattered group of small autonomous regasification plants (satellite plants). This supply is made to regions far removed from gas pipelines using tank trunks.

Investments

The investments made in the three regasification plants operated by Enagas in 2002 mainly went toward increasing LNG regasification and storage capacity.

Regasification assets put into operation over 2002 included:

- Partial renovation of the Barcelona vaporisers: 300,000 m³/h at 72 bars.
- Second tank at the Cartagena plant with an LNG storage capacity of 105,000 m³, whose inauguration, on 25 October 2002, was attended by the main authorities of the Spanish energy sector and of the Autonomous Community of Murcia, as well as the local Cartagena authorities.
- Increase in the Cartagena plant production capacity from 300,000 m³/h to 450,000 m³/h.

Transport

High-pressure gas pipelines are conduits for the transport of gas made out of high-yield steel tubes.

By the end of 2002, Enagas was operating 6,430.9 km of pipelines designed for use at maximum pressures of 72 and 80 bars, compared to the 6,123 km it was operating in December 2001.

Investments

In 2002, investments in transport assets went toward building new gas pipelines.

These infrastructures will allow the company to attend to an increasingly high demand, as well as to bring its natural gas services to new areas, with the ensuing positive effects in terms of security of supply and the possibilities for development in said areas.

The most significant transport assets put into operation in 2002 were:

- The Gajano-Treto-Laredo pipeline. 39.5 km of 12-inch pipe.
- The Cartagena-Lorca pipeline. It is 37.6 km long, made out of 20-inch pipe up to Fuente Alamo (Murcia).
- The Puente Genil-Malaga pipeline. This pipeline connects the Costa del Sol region to the Maghreb-Europe pipeline. The initial segment, comprising 97 km of 20-inch pipe, runs from its origin in Santaella (Cordoba) to Cártama (Malaga), where it forks in two: one segment, 14.4 km of 16-inch pipe, goes to Malaga, the other, 8.5 km of 10-inch pipe, goes to Alhaurín el Grande (Malaga).
- The Tarancón-Cuenca pipeline. 101.1 km of 12-inch pipe.
- First stage of the Algete-Manoteras split, 8 km of 16-inch pipe.

Compression Stations

At these facilities, compressors are used to raise gas pressure to 72/80 bars in order to maximise the transport capacity of the pipelines.

Enagas currently has nine compression stations, which compressed a volume of 17.548 billion m^3 in 2002, registering a total of 48,771 hours of operation.

These nine compression stations have a total installed horsepower of 137,107.

Investments

In 2002, the compression station in Paterna (Valencia) was put into operation, with a total installed horsepower of 20,880.

Regulation and Measurement Stations

These facilities are used to adjust the final pressure of the gas for its supply to distributors and marketers. Likewise, they are used to measure the gas that is supplied.

Enagas has 251 regulation and/or measurement stations.

Investments

In 2002, 28 such facilities were put into operation.

Underground Storage

To adjust supply to demand and to be able to meet peaks in consumption resulting from seasonal variations, interruptions in the supply, etc., large quantities of gas need to be stored.

The natural gas is stored in former fields in the subsoil or in appropriate geological structures.

Enagas has two underground storage facilities, Serrablo and Gaviota, both depleted natural gas fields.

Serrablo Storage Facility

The Serrablo underground storage facility, owned by Enagas, is located between the towns of Jaca and Sabiñánigo (Huesca).

It has a working gas capacity of 775 million m^3 and a base gas capacity of 280 million m^3.

3.9 million m^3/day can be injected, to reach a maximum production of 4.9 million m^3/day.

In 2002, 322 million m^3 were injected in this storage facility, while a total of 148 million m^3 were withdrawn.

At the end of the year, there was a stock of 967 million m^3, of which 687 million m^3 were gas ready for use.

Gaviota Storage Facility

Gaviota is an off-shore platform located near Bermeo (Vizcaya) that is managed by Enagas and belongs to Repsol YPF and the Murphy Eastern Oil Company. It can hold up to 1.347 billion m^3 of working gas and 1.135 billion m^3 of base gas.

It allows for the injection of 4.5 million m^3/day, for a maximum production of 5.7 million m^3/day.

In 2002, 464 million m^3 were injected, and a total of 423 million m^3 were withdrawn in order to attend to peaks in natural gas consumption.

At the end of the year, there was a stock of 2.270 billion m^3, of which 1.135 billion m^3 were working gas.

Investments

In 2002, new compressors were put into operation at the Serrablo storage facility (Huesca), increasing the injection capacity by 1.5 million m^3/day.

System Technical Management

Royal Decree-Law 6/2000, on urgent measures to intensify competition in goods and services markets, appointed Enagas as the System Technical Manager.

It defines the main goal of Technical Management as guaranteeing the continuity and security of the natural gas supply and smoothly coordinating access points, storage facilities, transport and distribution.

Since the entry in force of said Royal Decree, this activity has been jointly carried out by the different Enagas operating areas.

Last 20 September, as a result of Enagas's new organisational structure, the Office of the System Technical Manager began its activity.

The System Technical Manager participates in the process of reserving capacity by receiving the requests for access made by marketers and eligible customers to the facility operators.

The transport viability report drawn up by the different agents is assessed from the point of view of the Gas System as a whole,

and the System Technical Manager's viability report is issued.

The System Technical Manager also sends information with the required frequency (monthly, quarterly or annually) both to the Public Administrations and Regulating Bodies and to the other agents composing the system, pursuant to the terms of the Ministerial Orders, Royal Decrees and Resolutions in force.

In order to coordinate the subjects acting in the system and to make the existing information on the facilities' capacity and use available to all, in July 2002 the computerised tool SL-ATR (Logistical System for Third-Party Access to the Network) was put into service.

This system was developed as an easily accessible element used to guarantee that the information supplied is current and that the principles of objectivity, transparency and non-discrimination are respected.

Its purpose is to provide services to transporters, distributors, marketers and eligible customers and to act as a support for managing the full gas cycle: requests for capacity, contracting, nomination, distribution, balances and pre-billing.

Purchase and Sale of Gas for the Tariff Market

Enagas is the only transporter, to date, that purchases natural gas for its subsequent distribution to the tariff market.

The gas purchased for supply to the regulated market in the form of LNG is regasified at the company's own facilities and transported through the pipeline network, along with the gas received at the international connections, to the points of delivery.

The sale price is stipulated by the Government and reflects the cost of the raw material, the average cost of regasification and the cost of processing the purchase and sale of gas for the regulated market.

Contracting of Transport Services

Pursuant to the terms of Article 6.5 of Royal Decree 949/2001, Enagas publishes and updates all data related to the available and contracted capacity of its facilities on a quarterly basis.

The information is published on the corporate web page (www.enagas.es).

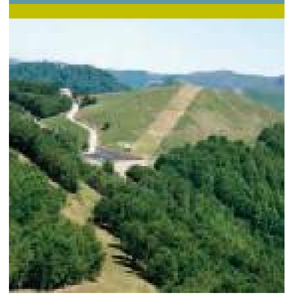
The available capacity is calculated based on the Company's best estimates as to the investments made and put into operation.

Enagas has subscribed Third-Party Access (TPA) contracts with 11 companies, which means it will be operating at full regasification capacity in 2003.

The contracts signed until 2005 include the transport of gas for a total of 40 groups that generate electricity from natural gas, each with a power of 400 MW.

Over this period, 7 companies contracted underground storage services, for a total of 12.7% of the available capacity. Enagas will reserve the necessary capacities to attend to the needs of the demand in the regulated market and to complete the operative storage included in the service tolls for contracted transport.

Enagas in Society



Human Resources

Organisation

As a result of the new operating environment for the gas sector, in which Enagas carries out its activities, and the public offer, an organisational restructuring was required in order to adequately meet the Company's new needs.

In September 2002, the Board of Directors approved Enagas's present organisational model, which, closely tied to the Company's Strategy, ensures that current goals will be met.

The resulting organisation is based on a model of management by processes, which, by simplifying and clearly assigning responsibilities, guarantees that goals will be efficiently reached.

The new structure is divided into three General Management Offices, dependent on the Chairman, Mr. Antonio González-Adalid:

- The General Office of Technology, Engineering and the Environment, under the management of Mr. Antonio García Mateo.
- The General Office of Infrastructures and Operations, under the management of Mr. Javier González Juliá.

- The General Office of Strategy and Regulation, under the management of Mr. Juan Manuel Llabrés Estabén.

The following Departments complete the Company's organisational chart:

- Legal Affairs: Mr. Luis Pérez de Ayala.
- Finance: Mr. Diego de Reina.
- Human Resources: Mr. Erundino Neira.
- Information Systems: Mr. Ignacio Carbonell.

Moreover, as a result of the new organisational structure, the Office of the System Technical Manager, the Investor Relations Direction and an Internal Audit Unit were created.

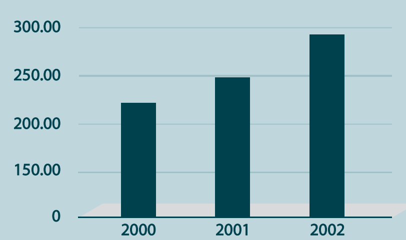
Staff

At the end of 2002, the Company had 859 permanent employees and 25 temporary ones.

No. of Employes	2001	2002	Variation
Transport	335	338	0.90%
Regasification	212	217	2.36%
Storage	26	27	3.85%
System Management	35	39	11.43%
Purchase-sale of gas	16	15	-6.25%
Corporate Structure	189	206	8.99%
Other	44	42	-4.55%
Total	**857**	**884**	**3.15%**

In 2002, the staff was expanded by 3.15%, in accordance with the established plans. This expansion allowed for the incorporation of highly qualified management and technical personnel, as well as new faces with strong technical potential through the Recent Graduates Programme.

The period saw, despite the need for new services and units, a significant increase in average workforce productivity, measured in terms of transported energy.



Ratio GWh Transported/No. of Employees

The majority of the managers are university graduates with postgraduate degrees, and they have ample professional experience. 90% of the upper managers and technicians are engineers and/or hold BAs, and the remaining 10% have mid-level degrees. 15% of the middle managers have university degrees, and 85% have second-level Professional Training Diplomas in their respective specialties.

Over the course of 2002, as part of Enagas's Annual Training Plan, a total of 25,867 hours of training were given, 12.4% more than in the previous year. This training included 160 courses and individual training actions, of which 29.4% corresponded to Technical Training.

Thus, each worker received an average of 29 hours of training last year.

Among the different actions carried out, it is worth noting:

- In the Area of Safety, constituting 21.4% of all training provided, the Plants' first intervention teams (FITs) were fully trained, and first-aid refresher courses were given to transport personnel.
- In the Area of Management, a Management Skills Programme was carried out, attended by 24 degree-holding technicians recently taken on, eliciting an exceptionally high level of acceptance and commitment on the part of the participants.

Likewise, attention should be drawn to the initiation of on-line training as a knowledge management tool designed to facilitate the development of our professionals' responsibilities.

Collective Agreement

The Company Management and Worker Representatives reached a preliminary agreement to approve and subscribe Enagas's 13th Collective Agreement, to be valid for the three-year period lasting from 2002 to 2004.

It is a negotiated occupational framework agreement designed to regulate occupational relations.

Pension Plan

The Negotiating Committee for the Collective Agreement and the Pension Plan Control Committee ratified the agreements reached to adapt the Enagas S.A. employment system's Pension Plan Regulations to the modifications introduced by Law 24/23/2001, of 31 December, on Tax, Administrative and Social Policy Measures. Through these agreements, the compulsory modifications, as set forth in the aforementioned legal precept, were incorporated into the Enagas Pension Plan Regulations on 31 December 2002.

Safety and Risk Prevention

Enagas designs and operates its facilities according to Regulations and the strictest national and international technical and industrial safety standards. The human team, down to its last member, makes the safety of the environment, third parties and company personnel and facilities its top priority.

Enagas's Occupational Risk Prevention Policy was approved by its Management Committee and, on its behalf, by its Chairman. It is developed and kept current at all levels of the organisation.

For all of these reasons, Enagas has been progressively implementing an Occupational Risk Prevention Management System (ORPMS) to address the health and safety of its workers in accordance with the requirements of the Law on the Prevention of Occupational Risks and legislation on prevention and safety before Serious Accidents (SBSA).

This System was developed according to the premises of national (UNE) and international (OHSAS) regulations on the subject, and it was submitted to the compulsory regulation audit at the end of 2001, which it passed, and earned the corresponding certification from the auditing firm in 2002.

As part of the constant updating of the ORPMS, in 2002 dozens of documents were issued and reviewed on such diverse subjects as the purchase of equipment and products, control of modifications and reforms or matters of industrial hygiene and applied ergonomics/psychosociology, among others.

In the sphere of the Prevention of Serious Accidents (Seveso II/CORAG Directives), the three Enagas establishments affected, namely, its regasification plants, satisfactorily passed the compulsory regulation inspections conducted over 2002.

One of the aspects inspected concerns ensuring that the action procedures comprising the Self-protection and Emergency Plan, put into practice and subject to revision, where appropriate, through annual activation drills, are always kept up to date.

They are reported to the relevant Authorities, who may even watch or participate in their development.

The internal safety and risk prevention training carried out by the Human Resources Department is supplemented by the periodic issue of leaflets and pamphlets to illustrate different risks related to the occupational activities of employees, explaining how to prevent them and how to act in the event that they occur in order to counteract their consequences.

Participation in Health and Safety issues is achieved via Prevention Delegates, the four local Committees constituted according to applicable law, and the Intercentre Committee on Health and Safety established under the Collective Agreement.

Health Monitoring is guaranteed by offering all workers annual specific medical examinations according to their particular posts.

In addition to the active or passive safety elements intrinsically incorporated into all new installations and into the improvements of old ones, factored into the cost of the corresponding investments, specific expenses for safety and accident prevention in 2002 came to a total of approximately 1.4 million euros. They primarily went toward maintenance of and improvements in the security systems, the adaptation of work equipment, the purchase of individual protective gear, sign improvements, etc.

Technological Innovation

In 2002, Enagas continued to develop new RDTI (Research, Development and Technological Innovation) projects whose main aim was to reduce investment costs and minimise the Company's operating costs.

Investment in technological innovation is key in terms of optimising resources and improving safety, ratifying Enagas's commitment to the environment.

Investments in RDTI projects in 2002 came to one million euros.

Projects

Liquid Natural Gas (LNG)

The computer application "LNG Mixing" was developed over 2002 to predict the behaviour of LNG during tank-filling, based on the qualities of the resident and entering LNG and the type of filling apparatus being used.

Operation

In order to predict the demand for natural gas, two computer tools, "Patrones" (Patterns) and "Nivel-1" (Level 1), were put into operation in 2002.

These applications make daily estimates with a projection of 18 months, taking into account the behaviour of the demand in cold and hot seasons.

In addition, the Reading and Measuring System "RMS" was developed to gather the field readings from Enagas's measuring gauges and, after conducting the relevant

validations and verifications, calculate the physical balance of the facilities and provide the validated measurements to the other systems.

Transport

In the Area of Transport and the field of odorisation, the classic odoriser (THT) was replaced with a THT/TBM mix in the city of Albacete.

The new odoriser has proven itself to be more effective than its predecessor, requiring only one third of the amount to reach the same level of odorisation.

Safety

Within the line of research concerning the safety of gas transport pipelines, two computer projects were completed in collaboration with other gas companies from Europe and the rest of the world.

Said projects optimise the control of transport risks, given current tendencies to increase gas transport pressure and diversify supplies, with the ensuing compositional variations.

Regulation Stations

The development of the study on noise reduction at RMSs (Regulation and Measurement Stations) was completed in 2002, using dynamic fluid and noise generation models.

In addition, the propagation of noise inside RMS buildings and its leakage into the environment were studied, and a series of alternative solutions to mitigate the problem were proposed.

Laboratories

Over the year, gas meter, instrument, analysis and polyethylene laboratories renewed their National Accreditation Entity (ENAC) certification. Notably, this time the quality system was audited according to the ISO 17025 standard, much more rigorous than the former EN45001 standard according to which the original certification had been earned.

Other Activities

In the field of spreading technology, work continued on the monitoring of this process with the aim of extending and incorporating the latest innovations in measuring both in gaseous (natural gas) and liquid (LNG) phases. With regard to natural gas, technology for the direct measurement of energy (Energy Meter) is being closely followed, and in the field of LNG, work is being done on measuring volume and improving plant analyses and balances.

Information Systems

All of the activity carried out in this area over 2002 was comprised under the Enagas Strategic Systems Plan.

In order to adapt the information systems to Enagas's new role of ensuring the Company's confidentiality, impartiality and independence, the information systems initially located and integrated in those of Gas Natural, as well as the voice and data communication systems, were separated.

Among other things, this separation allowed the economic and financial management system, sales, purchases, human resources and the maintenance of network, plant and building infrastructures to be made available in an SAP platform.

The J2EE Java platform was used to develop the SL-ATR program, employing the latest technology to guarantee the identification and authentication of users, as well as the privacy of the information processed according to defined access profiles.

A control system is also being developed to support the new Company Management Model that will enable the segregation of costs by activity and the measurement of the efficiency of business processes, while also incorporating a model instrument panel.

Development of an Intranet has also been initiated, to afford the organisation access to information from any point via an easy-to-use interface.

Upon its completion, it will be possible to gain access to corporate applications, reports, analyses, the employee portal for access to different Human Resources services, etc., from a single point.

In 2002, a new e-mail system was implemented, and e-learning technology was used for training on how to use it.

Renovation of the technology park continued, adapting it to defined standards in order to allow for better use of the systems employed in production and improvements in computer personnel productivity.

Corporate Identity

Since May 2002, Enagas has had a new corporate identity. The chosen logo combines the colours blue, representing natural gas, and green, symbolising the Company's environmentally responsible policy.

The new corporate image reflects Enagas's new business reality as a gas services company at the service of society, highlighting its activity as a natural gas transporter.

The new image has already been applied at some of the Company's most important facilities, and its implementation at the remaining facilities should be completed over the course of 2003.

Enagas Web Site

Since May 2002, the Enagas web site has been available to the public (www.enagas.es).

The chosen design combines the features of the Company's new corporate identity with the functionality needed to facilitate the rapid location of subjects of interest to users.

Thus, users can gain access to any section of the site using the Site Map available on both the home page and the different content pages.

The Enagas web site offers general and detailed information about the Company with regard to its organisation, activity, existing infrastructures and current projects.

The section on Operation and Management of the Gas System periodically publishes the latest existing data on the demand for natural gas in Spain. It also reports the nominal capacity, existing contracts and available capacity for the entrance, regasification, transport and underground storage facilities.

The Legal Framework section includes the basic legislation on the gas sector. Users can download the content as PDFs.

Users can also gain access to information about the activities carried out by the Technological Innovation area, as well as the policy, organisation and systems applied by the Company with regard to Environmental Management and the prevention and safety measures taken at its facilities.

Investor Relations offers ample information, in Spanish and English, about Enagas share quotes, with daily and historic graphs, as well as financial information on the Company, results, official communications to the National Securities Market Commission (CNMV) and any public presentations that are made.

The news section includes Enagas press releases, articles published in the media about the Company and its own publications.

The Enagas web page is constantly updated and offers web users the option of making queries or suggestions by e-mailing the Public Relations Department or Investor Relations Department.

As of 31 December 2002, the Enagas web page had received 1,675,266 hits, and 297,765 files had been requested, meaning that in the eight months of the site's existence, 12,725 Gb have been downloaded by data transfer.

Environment

Enagas considers the conservation of its surroundings to be an essential element in the management of its business and, therefore, is committed to carrying out its activities in an environmentally responsible way.

Moreover, Enagas undertakes the requirements established in the UNE-EN-ISO 14001 standard for the implementation of an Environmental Management System at its facilities.

In its construction activities, Enagas applies the principles of pollution prevention and environmental risk assessment from the planning stage, through the execution, and all the way up to the commencement of operation, thereby complying with current legislation on the assessment of environmental impact.

The Environment Unit is responsible for ensuring compliance with the Company's Environmental Policy through permanent monitoring of the System and all construction activities.

Environmental Management System

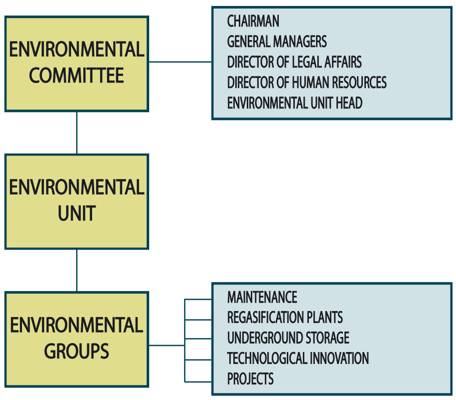
Environmental management systems are tools that help companies control and minimise the impacts of their activities on the environment.

Enagas's Environmental Management System was first implemented in 1998. The System's basic lines are included in the Environmental Manual: responsibilities, documentation and organisation.

The System's organisational structure is defined at two main levels: first, the Environmental Committee, composed of Enagas's Senior Management, which establishes and approves basic operating guidelines, and second, the Environmental Groups, in charge of carrying these guidelines out.

The Environmental Unit is responsible for coordinating the two levels, as well as proposing basic actions and principles designed to meet Enagas's environmental objectives to the Environmental Committee for approval.

The System is documented in the Environmental Manual and in a set of internal procedures and rules aimed at achieving a high level of protection of the environment from Company activities, as well as the ongoing improvement of said activities in relation to the surroundings.



ISO 14001 Certification

The ISO 14001 certification is one way in which the company's Environmental Management System stands out, for it signifies its external recognition and international standardisation. All of this guarantees greater transparency in the management of its activity with regard to Public Administrations, financial agents, customers, etc.

In 2000, 2001 and 2002, Enagas earned the corresponding certificates in Environmental Management granted by the Spanish Standardisation and Certification Association (AENOR) for all of its installations: LNG regasification plants, gas pipeline transport network, the Serrablo underground storage facility and the technological innovation unit.

In keeping with this line of action, certification of the activities corresponding to projects now underway is projected for the near future.

Environmental Investments

Implementation and monitoring of the Environmental Management System affords Enagas a constant evaluation of environmental impacts, detailed and in-depth knowledge of its environmental behaviour and an assessment of the costs and benefits associated thereto.

In terms of costs, in 2002, 642,500 euros went toward the System's implementation and monitoring. Additionally, that same year, investments in construction activities (restoration of terrains, revegetation, directed drilling, archaeological studies, etc.) came to 4.3 million euros.

Social Work

As a company aware of its social responsibilities, Enagas collaborated in 2002 with a variety of organisations and institutions in order to pay special attention to the social needs of the community, making numerous donations to town councils.

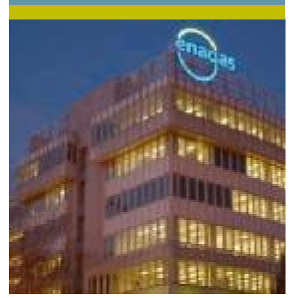
In the cultural sphere, mention should be made of the collaboration with the Royal

Theatre of Madrid's Lyric Theatre Foundation.

As a company integrated into society, in the near future, it will continue to support social projects designed to benefit disadvantaged collectives in the communities and regions that, for reasons of its industrial activity, are closest.

Likewise, Enagas pays special attention to those environmental projects primarily aimed at promoting sustainable economic development through respect for and defence of the ecological surroundings.

Corporate Governance and Governing Bodies



Corporate Governance and Governing Bodies

Enagas began its life as an independent and quoted company on 26 June 2002, with a clear commitment to complying with the principles of and recommendations for good corporate governance.

Reflecting international consensus on the matter, the Enagas system of Corporate Governance was built on the foundations of transparency, independence and defence of the Shareholder.

The Report on Corporate Governance of quoted companies published in February 1998 and known as the "Olivencia Code" was Enagas's starting point for all aspects of the Company's Governing Body, along with the commitment to continue adapting its Corporate Governance regulation to any new recommendations and/or legislation that might be passed.

The listing of the Company on the stock exchanges, as a result of the Initial Public Offer (IPO), led, on the one hand, to the restructuring of the Board of Directors in order to reflect the changes in the shareholding structure and, on the other, to the implementation of the governing principles, then in force, contained in the Report on Corporate Governance of quoted companies (Olivencia Code), primarily through:

- The approval of the Rules of Procedure for the Organisation and Operation of the Board of Directors.
- The approval of an Internal Code of Conduct with regard to Securities Markets, pursuant to the terms of Royal Decree 629/1993, of 3 May, on the rules of procedure in said markets and compulsory registers.
- The constitution of the Audit and Compliance Committee and the Appointments and Remuneration Committee.
- The incorporation into the Board of three Controlling Directors to represent the new Shareholders.
- The incorporation into the Board of six Independent Directors.

However, Enagas's commitment to Corporate Governance did not stop there, for it has also established the objective of adapting itself to any new recommendations that might arise on the subject.

That is why Enagas paid special attention to the Report for the Promotion of Transparency and Security in the Markets and in Listed Companies, published on 8 January 2003 and known as the "Aldama Report", verifying that many of the recommendations contained therein had already been put in practice. At the same time, the necessary measures are being taken to substantially introduce other recommendations found in said Report.

Below is information on the degree of Enagas's compliance with the measures proposed in the Aldama Report.

Information and Transparency

Enagas has published and sent the National Securities Market Commission (CNMV) information on the shareholding structure, the rules of procedure for the organisation and operation of the Board, its offices and its relations with the controlling Shareholders.

The criteria for conflicts of interest and for relations with significant Shareholders are also public.

This new era has also witnessed the launching of the Enagas web page (www.enagas.es), where, in addition to information on the gas system itself, much of the company information recommended by the aforementioned Aldama Report is also available.

Finally, this report on Corporate Governance is, in itself, the product of compliance with one of the recommendations in the Aldama Report, and it reflects the degree of Enagas's commitment to its Shareholders and the market with regard to this area.

General Shareholders' Meeting

Enagas's first General Meeting as a listed company was held on 25 April 2003.

It was Enagas's unequivocal wish to follow the Aldama Report's recommendations in the preparation and organisation of this General Meeting.

Thus, the Meeting was called with the legally required announcements (published in the Official Bulletin of the Spanish Registry of Companies and in two widely circulated newspapers in the province of the registered office), with well over the fifteen days of advance notice established in the Corporations Act, and the announcement was run a second time in the press eight days before it was held.

In addition to the call itself, and acting on new recommendation contained in the Aldama Report, the full content of the proposals to be submitted for consideration by the General Meeting, along with a justification and explanation thereof, was also made available to Shareholders.

Enagas employed all possible technical and human means to guarantee a high degree of participation, not just by significant and institutional Shareholders, but also by small Shareholders.

Board of Directors

The Governance of Enagas, with regard to those aspects not expressly reserved for the General Meeting, is carried out by the Board of Directors and its Committees.

Enagas's active commitment to the adaptation of the operation and organisation of its Board of Directors stands out, and, thanks to the different actions carried out in recent months, it can be said that its degree of compliance with the CNMV's recommendations and those contained in the Olivencia and Aldama Reports is comparable to that of the largest listed companies. Of course, Enagas does not believe its work is over; on the contrary, it remains steadfast in its commitment to actively adapt itself to any future trends or rules that might arise.

Current Composition of the Board of Directors

Chairman:

- Antonio González-Adalid García-Zozaya (Controlling Director proposed by Gas Natural SDG S.A.)

Board Members:

- Antonio Brufau Niubó (Controlling Director proposed by Gas Natural SDG S.A.)
- Ramón Blanco Balín (Controlling Director proposed by Gas Natural SDG S.A.)
- Luis Javier Navarro Vigil (Controlling Director proposed by BP Energía S.A.)
- Atalaya Inversiones, S.R.L., represented by Carlos Egea Krauel (Controlling Director proposed by Atalaya Inversiones, S.R.L.)
- Bancaja, represented by Julio de Miguel Aynat (Controlling Director proposed by Bancaja)
- Juan Badosa Pagés (Independent Director)
- Rafael Villaseca Marco (Independent Director)
- Robert Malpas (Independent Director)
- Dionisio Martínez Martínez (Independent Director)
- José Riva Francos (Independent Director)
- José Manuel Fernández Norniella (Independent Director)

Secretary of the Board:

- Luis Pérez de Ayala Becerril

Under Secretary:

- Beatriz Martínez- Falero García

Rules of Procedure for the Organisation and Operation of the Board of Directors

The Rules of Procedure for the Organisation and Operation of the Board of Directors were approved in the Board's session of 9 July 2002.

The Rules of Procedure are designed to regulate the Board of Directors, and to this end they set forth the principles for its organisation and operation, the governing rules for its legal and statutory activity and its system of supervision and control.

Once approved by the Board of Directors, following the recommendations of the Olivencia Code, the Rules of Procedure were communicated, by personalised letter, to all Board Members and Senior Executives, whose signed copies, in which they confirm that they received them and are aware of the obligations to which they are bound, were deposited with the Secretaryship of the Board.

The basic content of the Board's Rules of Procedure addresses the following aspects, among others:

a) Chairman, Secretary and Members:

Chairman of the Board: No special requirement is established for access to the office of Chairman or Vice Chairman. The Chairman of the Board is also the Company's chief executive officer. Nevertheless, in keeping with the 5th Recommendation of the Olivencia Code, the Board of Administration has a long list of powers that may not be delegated. Moreover, for those decisions that are delegated to the Chairman, the reports and proposals of the Audit and Compliance Committee, as well as the Appointments and Remuneration Committee, must necessarily be taken into account, and thus it is possible to speak of a high degree of compliance with this recommendation.

Secretary of the Board of Directors: The Secretary will be appointed by the Chairman and will be responsible for the formal and material legality of the Board's actions and ensuring that its proceedings and rules of governance are respected and regularly reviewed.

In implementation of the 6th Recommendation of the Olivencia Code, the office of Secretary coincides with that of Legal Advisor (Article 2), a person who, as an attorney, is responsible for ensuring the Board's independence and its capacity to safeguard the legality of its actions. On this point, there is also a high degree of compliance.

Director-Members: The Board of Directors is made up of 12 members:

The individuals appointed as Directors should, in addition to meeting the legal and statutory requirements for the position, have a recognised standing and the appropriate personal skills and experience to discharge their duties.

The Board's Rules of Procedure establish three categories of Directors: Executive Directors (with executive competencies and pertaining to the Company's senior management, not to exceed three in number), Controlling Directors (proposed by those holding significant and stable stakes in the Company's capital, the appointment going to individuals with executive functions), and Independent Directors (those not included in the aforementioned categories).

In compliance with the Recommendations of the Olivencia Code and the Aldama Report, the Enagas Board of Directors is composed of 6 Controlling Directors, one of whom is also the Executive Chairman, and 6 Independent Directors, such that there is a proportional relationship between significant and minority Shareholders.

The following individuals may not be proposed for or appointed as Independent Directors: those who currently have significant ties to Shareholders, as well as those who hold, or have held in the last two years, Senior Executive positions in the Company; direct family members of those who are, or have been in the last two years, Executive Officers or Senior Executives in the Company; those who have directly or indirectly made or received payments to or from the Company that might compromise their independence; and, in general, any individual who maintains any relation with the company's ordinary management or who, for professional or commercial reasons, is bound to the Company's Executive Officers or other Senior Executives.

b) Obligations of the Directors

The Board's Rules of Procedure include the obligations of fair administration, non-competition, abstention from conflicts of interest, non-utilisation of the company for personal profit or the profit of third parties, and those obligations of confidentiality to which the directors are subject.

The 16th and 17th Recommendations of the Olivencia Code, as well as the principles set forth in the Aldama Report with regard to the obligations of Directors to act in good faith and with due diligence, to abstain in cases of conflict of interest and to ensure the transparency and control of transactions with significant Shareholders, were also incorporated into the Board's Rules of Procedure, and Enagas complies with them scrupulously so as to prevent the exchange of classified information, attain maximum levels of objectivity in the Board's deliberations and achieve a parity of treatment among all Shareholders.

Article 16 of the Rules of Procedure for the Organisation and Operation of the Board of Directors, approved in the Board's session of 9 July 2002, establishes the obligation of Directors to act in good faith, stating that, in those matters in which there might arise a conflict of interest, the Director shall abstain from intervening if he is personally affected, including in those matters that affect members of his family or a company not forming a part of the Enagas Group with which he has ties through the holding of an executive position, membership in the administrative body or the possession of a significant stake in its capital.

Moreover, Article 17 establishes the obligation of Directors to ensure the confidentiality of the information to which they have access while exercising their positions, even after resigning from them.

The prohibitions on using non-public information about the Company for private ends and on using Company assets to obtain pecuniary benefits are set out in Article 19.

Transactions with any significant Shareholder are formally reserved for approval by the Board, and, in any case, the authorisation or refusal of this latter must be preceded by a report from the Appointments and Remuneration Committee assessing said operation from the point of view of market conditions.

c) Board Meetings

The Board will meet at least once every two months, according to Article 9 of the Rules of Procedure of the Board and Article 38 of the Company Bylaws.

Notwithstanding the above, meetings have thus far habitually been held on a monthly basis. Thus, the Enagas Board of Directors met almost every month in 2002, so that the Directors could supervise and actively participate in the Company's management as directly as possible.

Ordinary sessions are called by the Chairman, the Secretary or the Under Secretary, by order of the Chairman, one week prior to the date the session will be held, so that the Directors are informed sufficiently in advance.

d) Remuneration of the Directors

The remuneration of the Directors is regulated by Article 35 of the Company Bylaws and Article 22 of the Rules of Procedure of the Board, in keeping with the 15th Recommendation of the Olivencia Code.

The sums earned in Fiscal 2002 by members of the Company's Board of Directors came to 1,160,000 euros, including those stemming from sitting on both the Board and Committees, as well as the amounts corresponding to professional relations and other direct responsibilities Board members might have had at different executive levels.

The Company Bylaws, in addition to travel allowances, provide for other forms of remunerating Directors, such as: profit sharing, stocks or stock options. Nevertheless, in 2002 none of these remunerative schemes was used.

All information on remuneration in Fiscal 2000, 2001 and the first quarter of 2002 was included in the IPO Prospectus sent to the CNMV, while all of the data for Fiscal 2002 can be found in this Report.

e) Board Committees

Article 39 of the Company Bylaws and Article 29 of the Rules of Procedure of the Board provide for the constitution, within the Board of Directors, of an Executive Committee, an Audit and Compliance Committee and an Appointments and Remuneration Committee.

The Board of Directors, meeting on 9 July 2002, created an Audit and Compliance Committee and an Appointments and Remuneration Committee.

Greater efficiency and transparency in the exercise of powers and discharge of duties attributed to the Board of Directors justify its creation of the aforementioned Committees, which are assigned decision-making powers for matters whose immediacy or relevancy makes their referral to Board sessions unadvisable.

Both Committees are intended not just to facilitate decision-making with regard to certain issues through prior studies, but also to reinforce the guarantees of objectivity with which the Board should address certain questions.

The Rules of Procedure of the Board state that these Committees shall meet at least four times a year.

Both the Audit and Compliance Committee and the Appointments and Remuneration Committees met on a quarterly basis, and they functioned quite well, taking decisions on questions of great importance to the Company, such as, among others, the approval of the new organisational structure or the monitoring of the Rule on Internal Audits.

The functions and composition of each of these Committees is described below.

• Audit and Compliance Committee

Chairman: Luis Javier Navarro Vigil.

Board Members: Juan Badosa Pagés, Robert Malpas. Bancaja, represented by Julio de Miguel Aynat.

The Committee is responsible for conducting studies and making proposals to the Board, primarily with regard to the following: (a) the appointment or replacement of external auditors for approval by the General Meeting, as well as their salaries; (b) monitoring the development of the annual audit; (c) research of any internal aspects related to the auditing activity; (d) monitoring the performance of the internal financial control system; and (e) reviewing the information on Company activities and results periodically drawn up in compliance with current legislation on the stock exchange.

Specifically, the Audit Committee reviewed the annual accounts for Fiscal 2002, prior to the formulation by the Board of Directors, and recommended that they be signed to the rest of the Board.

The Audit and Compliance Committee includes no Executive Directors, in order to safeguard the transparency and objectivity of its decisions.

• Appointments and Remuneration Committee

Chairman: Antonio Brufau Niubó.

Board Members: Rafael Villaseca Marco, Dionisio Martínez Martínez.

The Committee is responsible for conducting studies and making proposals to the Board, among other things, with regard to the following: (a) the criteria for the remuneration of Company Directors; (b) the general policy for the remuneration of Enagas Executives; (c) guidelines on the appointment, selection, career path, promotion and dismissal of senior Executives; (d) review of the structure of the Board of Directors, the criteria that informs the statutory renewal of Directors and the incorporation of new members; and (e) informing the Board of any transactions that entail or might entail conflicts of interest.

The Appointments and Remuneration Committee, which, among other things, reports on conflicts of interest, is primarily composed of independent directors.

f) Relations Between the Board of Directors and Shareholders

In compliance with the terms of the Rules of Procedure of the Board, and following the 19th and 20th Recommendations of the Olivencia Code, the Enagas Board has specific duties with regard to the communication of relevant Company events to the Securities Exchange.

Enagas has created an Investor Relations Department to facilitate communication between the company and Shareholders. Through this Department, the Company refers all relevant information to the CNMV and to the Governing Companies of the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, the Dutch Stock Exchanges and the SEC in the United States in equal conditions.

Moreover, all of the relations and transactions between Enagas and its significant Shareholders are formally reserved for approval by the Board of Directors. In addition, the Audit and Compliance Committee recently entrusted the external auditors with the preparation of an annual report reflecting all of the transactions made each fiscal year between Enagas and its significant Shareholders.

Internal Code of Conduct

In its session of 9 July 2002, the Board of Directors approved an Internal Code of Conduct, containing, among other things, rules on the confidentiality of certain information, the operations of those comprised in its scope, the treasury stock policy, the communication of relevant events and conflicts of interest.

The Internal Code of Conduct applies to the following individuals:

- Members of the Board of Directors.
- Members of the Management Committee.
- General Managers and, where applicable, members of the Boards of Directors and Management Committees of subsidiary or partially-owned companies whose management is controlled by Enagas.
- In general, all those individuals who have access to classified or confidential Company information.

The main obligations to which those individuals subject to the Internal Code of Conduct are bound are as follows:

- To safeguard any classified information to which they have access, abstaining from making any transactions with the securities to which said information refers, as well as from communicating or recommending certain actions to third parties based on said information, all whether directly or indirectly for their own profit or for the profit of third parties.
- To inform the Board Secretaryship of any direct or indirect transaction or operation with Enagas stock, as well as of any portfolio management contracts that are signed, and to abstain from carrying out said operations during the periods in which they have access to confidential information that might effect the value of the stock.

  Specific operations carried out by portfolio managers according to their own exclusive criteria need not be communicated to the Board Secretaryship, provided the affected party has not intervened therein.
- To inform the Board Secretaryship of the possible existence of any conflict of interest with the company as a result of family relations, personal property or any other cause, and to abstain from taking any decisions that might be affected by the possible conflict of interests.

The Internal Code of Conduct was communicated to all those individuals subject to compliance with it. Each affected party sent a signed copy thereof to the Board Secretaryship, which is responsible for maintaining an updated list of the people

subject to it at any given time, as well as for processing the notices it should receive concerning transactions with Enagas stock and any existing possible conflicts of interest.

Rules of Procedure of the General Shareholders' Meeting

In compliance with the Aldama Report recommendation, a proposed resolution was incorporated into the Agenda for the first General Meeting of Enagas Shareholders, to be held in April 2003, for the approval of Rules of Procedure of the Meeting, containing the bases and criteria for the call and development of its sessions.

Main Transactions with Significant Shareholders and Other Related Parties

Enagas made the relations and operations it maintains with Gas Natural, Repsol YPF and La Caixa public in its IPO Prospectus, available on the Enagas web page (www.enagas.es), and it has kept the CNMV informed of them at all times.

Below is a summary of the main contractual and financial relations between Enagas and the individuals or legal entities related to the Company, including its significant Shareholders (namely, those whose stakes exceed 5 percent of the share capital), members of the Board and those companies that exert joint control over any of its significant Shareholders.

a) Relations with Gas Natural and Its Affiliates

Concerning the Purchase and Sale of Gas for the Regulated Market

- Gas purchase contract for supply to the tariff market between Enagas and Gas Natural Aprovisionamientos S.A. and SAGANE, by virtue of which both companies, affiliates of Gas Natural, supply Enagas with the gas it needs (both natural gas and LNG) to supply tariff consumers. Said contract is the only one Enagas has subscribed for the purchase of gas; in 2002, 111,652,889,000 KWh were purchased at a total cost of 1.332 billion euros.

- Gas sale contract between Enagas and the Gas Natural Group distributors, necessary for the latter to attend to the supply of the tariff market. Said sale is made at the regulation sale price, based on the average cost of the raw material.

  In 2002, revenue from the sale of gas to Gas Natural Group distributors came to 1.339 billion euros, comprising 96.57% of all sales.

Concerning the Provision of TPA Services (Third-Party Access to the Network)

• Enagas has subscribed multiple regasification, transport and storage contracts with Gas Natural Comercializadora S.A. The contractual conditions are those generally established for all marketers, said conditions being objective, transparent and non-discriminatory for all, and the economic scheme governing them responds to the official tolls and fees.

The global turnover for all of these contracts in Fiscal 2002 came to 78 million euros, 68.48% of the total TPA turnover.

Purchase and Sale of Assets

Enagas has sold assets to Gas Natural (optic fibres, a satellite plant and three mobile calibration units) for a global sum of 5.8 million euros.

Other Contracts for Property Leasing and Services

The main leasing, supply and service contracts between Gas Natural SDG and Enagas in 2002 were as follows:

- Lease of minimum safety stocks and strategic reserves, under which Gas Natural leases Enagas the quantities of gas it needs for these purposes.

- Contract by which Desarrollo del Cable, S.A. leases Enagas the fibre optic cable it requires to sufficiently meet its communication needs and its needs for the remote control and command of its gas pipeline network.

- Service contract by which Enagas provides maintenance services for all of the fibre optic cables belonging to Desarrollo del Cable S.A., as well as gas pipeline maintenance services to different Gas Natural SDG affiliates.

- Contract for the supply of electricity to Enagas's regasification plants by Gas Natural Comercializadora.

Gas Natural billed Enagas 27.6 million euros for the aforementioned contracts in 2002. In turn, Enagas billed Gas Natural 10.2 million euros.

Contracts in Force Until the Enagas IPO

Prior to the IPO, there existed contracts for the provision of computer and corporate services for which Enagas paid, up to the month of June, the sum of 10.48 million euros. There was also a credit line open between Enagas and Gas Natural SDG S.A. until said IPO, on which Enagas paid a total of 15.7 million euros as interest.

b) Relations with BP España S.A. and Its Affiliates

Enagas has subscribed various contracts for access to its regasification, transport and storage facilities with BP España, S.A. The contractual conditions are those generally established for all marketers, said conditions being objective, transparent and non-discriminatory for all, and the economic scheme governing them responds to the official tolls and fees.

The global turnover for all of these contracts in Fiscal 2002 came to 16.2 million euros, 14.26% of the total TPA turnover.

c) Relations with REPSOL YPF and Its Affiliates

- TPA contracts for the provision of Regasification and Transport services between Enagas and Repsol YPF. These contracts generated no turnover in Fiscal 2002, since the project has not yet been put into operation.
- Contracts for the leasing of property and services (Gaviota underground storage facility) and for the provision of engineering services (through the Association of Economic Interest— AIE— set up between REPSOL YPF and Enagas). REPSOL YPF billed Enagas the sum of 29.8 million euros for this.
- In turn, Enagas billed the AIE 2.2 million euros for the assignment of personnel.

d) Relations with Caixa d´Estalvis i Pensions de Barcelona (La Caixa)

- Enagas has various financing contracts with La Caixa:

– Agreement for credit on current account between Enagas and La Caixa for the sum of 50 million euros, signed in July 2001, with a term of two years, the sum of 42.3 million euros having been drawn to date.

– Bridge loan for the amount of 1 billion euros between Enagas and various financial institutions, among them, La Caixa, with a share of 199 million euros, signed on 20 June 2002, with a term of one year, in order to replace the credit line that had been open between Enagas and Gas Natural SDG S.A. until the IPO.

– Guaranty Lines and Loans to Personnel.

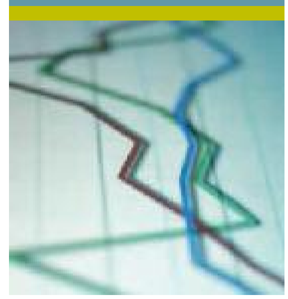
The interest paid on all of these financial contracts over 2002 came to 5 million euros.

– Contracts to rent vehicles and computer equipment have also been signed with Caixa Renting, and the instalments paid on them in 2002 came to 649,000 euros.

Conclusion

In conclusion, Enagas, after just ten months of life as a quoted company and only recently listed on the Ibex 35, complies with the majority of the recommendations included in the Olivencia and Aldama Reports, as well as with the latest legislation enacted by the Law on Reform Measures for the Financial Sector. In just a few short months, it has positioned itself on a level with large companies that have much more experienced in this selective index. Nonetheless, the adaptive process is not over yet, for Enagas is firmly committed to adapting itself to all new recommendations and/or legislation, committed to the ongoing improvement of its Corporate Governance policy and the goals of transparency, objectivity and defence of the Shareholder.

Annual Accounts




Change
0.430
0.990

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Oscar Yebra Cemborain
Partner

March 3, 2003

CONSOLIDATED BALANCE SHEETS OF THE ENAGAS GROUP AT 31 DECEMBER 2002 AND 2001.

(thousand euros)

Note Assets	31.12.02	31.12.01
FIXED ASSETS	**2,363,043**	**2,310,870**
Formation expenses	**5**	**42**
Intangible fixed assets	**9,724**	**5,671**
• Research and development expenses	12,739	11,827
• Concessions, patents, licences, brands and similar items	7,267	4,752
• Software	6,944	3,802
• Amortisation	(17,226)	(14,710)
Tangible fixed assets	**2,316,647**	**2,261,184**
• Land and buildings	73,708	72,731
• Plant and machinery	3,029,109	2,727,548
• Fixtures, fittings, tools and equipment	10,948	9,628
• Payments on account and assets in course of construction	220,229	350,523
• Other fixed assets	21,464	19,246
• Provisions	(11,352)	(12,732)
• Depreciation	(1,027,459)	(905,760)
Investments	**36,667**	**43,973**
• Loans granted to Group companies	29,398	36,446
• Long-term securities portfolio	1,500	1,320
• Other loans	757	572
• Long-term deposits and guarantees	616	617
• Provisions	(312)	(312)
• Taxes refundable, long-term	4,708	5,330
DEFERRED EXPENSES	**20,752**	**19,898**
CURRENT ASSETS	**511,940**	**423,814**
Inventories	**2,427**	**8,120**
• Raw materials and other consumables	2,427	8,120
Debtors	**501,089**	**408,736**
• Trade debtors for sales and services rendered	99,098	42,759
• Amounts owed by Group companies	1,382	1,661
• Amounts owed by associated companies	91,324	359,152
• Sundry debtors	284,818	2,729
• Loans granted to staff	212	351
• Taxes and social security contributions refundable	25,866	3,633
• Provisions	(1,611)	(1,549)
Investments	**3,625**	**1,947**
• Loans granted to Group companies	3,625	1,947
Cash at hand and in bank	**875**	**4,102**
Prepayments and accrued income	**3,924**	**909**
TOTAL	**2,895,735**	**2,754.582**

CONSOLIDATED BALANCE SHEETS OF THE ENAGAS GROUP AT 31 DECEMBER 2002 AND 2001.

(thousand euros)

Note Liabilities	31.12.02	31.12.01
CAPITAL AND RESERVES	**852,363**	**779,643**
Share capital	358,101	358,705
Revaluation reserve	342,505	342,505
Legal reserve	60,060	46,988
Voluntary reserves	1,992	15,942
Reserves in comps. consol. using proport. consol. method	1,120	(741)
Consolidated profit and loss	110,071	117,844
Interim dividend	(21,486)	(101,600)
DEFERRED INCOME	**476,140**	**479,553**
• Capital grants	415,636	410,579
• Other deferred income	60,504	68,974
PROVISIONS FOR LIABILITIES AND CHARGES	**2,087**	**1,290**
• Other provisions	2,087	1,290
CREDITORS: FALLING DUE AFTER MORE THAN ONE YEAR	**235,921**	**985,513**
Bank loans	**190,775**	**78,612**
Amounts owed to Group and associated companies	**8,469**	**862,072**
• Amounts owed to associated companies	8,469	862,072
Other creditors	**36,677**	**44,829**
• Other amounts owed	34,350	42,280
• Taxes payable, long-term	2,327	2,549
CREDITORS: FALLING DUE IN LESS THAN ONE YEAR	**1,329,224**	**508,583**
Bank loans and overdrafts	**1,015,975**	**83,383**
Amounts owed to Group and associated companies	**156,977**	**323,206**
• Amounts owed to Group companies	2,031	4,746
• Amounts owed to associated companies	154,946	318,460
Trade creditors	**107,254**	**82,861**
• Amounts owed for purchases or services received	107,254	82,861
Other creditors	**49,018**	**19,133**
• Taxes and social security contributions payable	20,622	5,667
• Other amounts owed	4,973	2,689
• Interim dividend payable	21,486	-
• Remuneration pending payment	1,841	762
• Short-term deposits and guarantees received	96	10,015
TOTAL	**2,895,735**	**2,754,582**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF THE ENAGAS GROUP FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001.

(thousand euros)

Debit	31.12.02	31.12.01
EXPENSES		
Raw materials and consumables	**1,344,959**	**2,032,094**
• Consumption of goods purchased for resale	-	2,978
• Consumption of raw and other materials	1,336,275	2,026,266
• Other external expenses	8,684	2,850
Staff costs	**53,034**	**47,143**
• Wages, salaries and similar items	39,657	33,818
• Staff welfare expenses	13,377	13,325
Fixed asset depreciation	**126,499**	**111,308**
Changes in trade provisions	**62**	**-**
Other operating expenses	**139,422**	**136,884**
• External services	137,720	135,314
• Taxes	1,702	1,570
OPERATING PROFIT	**207,193**	**138,113**
Financial and similar expenses	**41,801**	**43,356**
Losses on exchange	**13**	**50**
FINANCIAL INCOME	**-**	**-**
PROFIT FROM ORDINARY ACTIVITIES	**167,828**	**98,082**
Change in provisions for intangible, tangible fixed assets and controlling shareholdings	**(1,056)**	**528**
Losses from intangible, tangible fixed assets and controlling shareholdings	**116**	**413**
Extraordinary expenses	**3**	**2,966**
Prior-year expenses and losses	**-**	**1,041**
EXTRAORDINARY PROFIT	**1,219**	**60,223**
PROFIT BEFORE TAXES	**169,047**	**158,305**
• Corporate income tax	58,976	40,461
PROFIT FOR THE YEAR	**110,071**	**117,844**

CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF THE ENAGAS GROUP FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001.

(thousand euros)

Credit	31.12.02	31.12.01
INCOME		
Net turnover	**1,821,792**	**2,414,258**
• Sales	1,389,785	2,239,412
• Services rendered	432,007	174,846
Own work capitalised	**208**	**199**
Other operating income	**49,169**	**51,085**
• Sundry income	27,826	32,895
• Capital grants	21,343	18,190
Income from shareholdings	**384**	**311**
Income from other negotiable securities and fixed asset loans	**1,818**	**2,312**
Other interests and similar income	**227**	**667**
Gains on exchange	**20**	**85**
FINANCIAL EXPENSE	**39,365**	**40,031**
• Profit on disposal of intangible, tangible fixed assets and controlling shareholdings	282	3,420
• Extraordinary income	-	61,751

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF THE ENAGAS GROUP FOR THE YEAR ENDED 31 DECEMBER 2002

1. Basis of presentation and consolidation principles

a) Basis of presentation

The annual accounts are presented in accordance with the provisions of current mercantile legislation and the rules laid down in the General Accounting Plan and Royal Decree 1815/1991, which approved the rules governing the preparation of consolidated annual accounts, so as to give a true and fair view of the consolidated Group's net worth, financial situation and results. The Group companies end their year on 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo-Maior Leiria Braga, S.A. which, due to the date their accounts are approved and the resulting absence of data, are consolidated on the basis of accounts as at 30 November 2002.

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

As a result of the new legislation applicable to the gas industry in Spain, as from 19 February 2002 figures recorded under Net turnover in Enagas, S.A.'s profit and loss accounts at 31 December 2002 and 2001 are not comparable (see Note 2m).

With respect to Group and associated companies, in order to make 2001 figures recorded on the balance sheet comparable with figures for 2002, debtor and creditor balances recorded in 2001 have been reclassified to short-term.

b) Consolidation principles:

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

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

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

The consolidation was carried out as follows:

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

– Transactions between consolidated companies:

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

– Consistency.

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

– Translation of financial statements denominated in foreign currencies.

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

2. Accounting policies

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

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

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

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

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

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

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

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

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

The depreciation rates applied are as follows:

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

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

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

f) Inventories. The raw material, liquefied natural gas, is stated at its purchase price. At the end of each month gas purchases are increased or reduced in order to balance sales and shrinkage with purchases, giving rise to zero inventories. The remaining materials are stated at average acquisition cost, also resulting in a value which is equal to or lower than market value.

Provisions for depreciation are recorded as necessary to cover obsolete inventories.

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

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

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

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

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

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

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

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

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

m) Income and expense

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

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

Up to 18 February 2002

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

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

As from 19 February 2002

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

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

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

Legislation regulating Enagas, S.A.'s activity as of that date is described in Note 3 to these accounts.

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

3. Regulation of compensation

a) Income from regasification, storage and transport activities

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

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

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

- Compensation for depreciation of assets used in the system. Compensation is calculated based on the book value of the assets after the restatement of 1996 (Royal Decree Law 7/1996), less capital grants received to finance these assets. An annual restatement rate based on the adjusted average of the retail price index (IPC) and the industrial price index (IPRI) is applied to the difference. The depreciation rate relating to the useful life of the asset is applied to the resulting value, thereby obtaining the amount of income for this item. No compensation for depreciation is recorded for fully-depreciated assets. The resulting amount relating to fixed assets used as a basis for the calculation of compensation in 2002 totals K€ 2,639,200.

  With respect to new infrastructures being brought into service, the standard value of each investment set by the regulator will be used as a basis for calculating the relating compensation for depreciation.

- Financial compensation for the investment. This figure is calculated by applying a financial compensation rate equal to the annual average for 10-year Government bonds or a replacement interest rate plus 1.5% to the value obtained in the previous paragraph. For fully-depreciated assets the financial compensation rate is applied to 50 % of the value obtained in the previous paragraph. The resulting rate in 2002 stands at 6.77%.

a.1.2. Compensation for operating costs relating to assets used in the system is calculated in accordance with authorised costs for gas system installations in 2000 for each activity, standardised by physical and technical unit. The annual restatement rate (IPC and IPRI average) is applied to the resulting standard value, adjusted by a maximum efficiency factor of 0.75. Income for this item is obtained by applying these restated standard figures to physical units.

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

a.2) Authorised variable cost. The authorised variable cost is calculated based on the number of kW/hr actually regasified and the variable unit regasification cost for the period in question. For 2002, this cost is set at

0.000243 euros per kW/hr regasified. The authorised variable cost is taken to profit and loss on an accruals basis in accordance with the amount of gas actually regasified each month.

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 Enagas, S.A.'s obligations as Technical Manager of the System, which include coordinating development, operating and maintaining the transport network, supervising the safety of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2002, the quota allocated to compensate GTS 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 0.63% for tolls and royalties and 0.3% for prices. This quota will be recorded by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission will open for these purposes.

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

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

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

Invoicing and collection of compensation for regulated activities subject to assessment (third-party access to the network and technical system management) is carried out in compliance with the assessment procedure.

d) Income for gas purchases and sales

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

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

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

– Selling price. The selling price includes the cost of the raw material to be sold on the regulated market, natural gas purchase and sale management expenses and the average regasification cost. The selling price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

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

e) Income from Management of gas purchases and sales

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

– Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The percentage fixed for 2002 is 0.005 %.

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

  - Regasification: 0.5% of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.
  - Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in subterranean gas storage facilities to be sold on the regulated market.
  - Transport: 0.43% of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the regulated market.

– Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 21.8% to the value of end customer demand (based on the average cost of the raw material to be sold on the regulated market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. The rate for 2002 is 4.5%.

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

4. Formation expenses

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

	Balance at 01.01.02	Increases	Amortisation	Balance at 31.12.02
Start-up costs	37	5	(37)	5
Share capital increase expenses	5	—	(5)	—
Net balance	**42**	**5**	**(42)**	**5**

5. Intangible assets

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

	Balance at 01.01.02	Increases	Balance at 31.12.02
Research and development expenses	11,827	912	12,739
Concessions, patents, licences, trademarks and similar items	4,752	2,515	7,267
Computer applications	3,802	3,142	6,944
Accumulated amortisation	(14,710)	(2,516)	(17,226)
Net balance	**5,671**	**4,053**	**9,724**

6. Tangible fixed assets

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

	Balance at 01.01.02	Increases	Decreases	Transfers	Balance at 31.12.02
Land and buildings	72,731	804	—	173	73,708
Plant and machinery	2,727,548	80,548	(5,436)	226,449	3,029,109
Fixtures, fittings, tools and equipment	9,628	1,320	—	—	10,948
Payments on account and assets in course of construction	350,523	97,860	(1,532)	(226,622)	220,229
Other fixed assets	19,246	2,992	(774)	—	21,464
Net balance	**3,179,676**	**183,524**	**(7,742)**	**—**	**3,355,458**

The heading Decreases mainly relates to the sale of a LNG plant to Gas Natural SDG, S.A. for the amount of K€ 1,406, the sale of optical fibre cable to Sociedad para el Desarrollo del Cable, S.A. for K€ 3,562, the sale of three mobile units for verifying containers used by industrial customers in the amount of K€ 824 and the disposal of fixed assets from the Cartagena plant due to the write-off of fully-depreciated units as result of extending the installations, in the amount of K€ 1,255.

The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of K€ 16,914 in the fixed asset depreciation charge for 2003.

Movements in restated tangible fixed assets are set out below:

Balance as at 01.01.02	248,262
Depreciation charge for the year	(17,611)
Balance at 31 December 2002	**230,651**

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

The financial costs applied during the year to infrastructure being constructed totalled K€ 4,080 and as at 31 December 2002 K€ 144,508 was recorded as an increase in gross tangible fixed assets.

Movements in accumulated depreciation during the year are as follows:

	Balance at 01.01.02	Increases	Decreases	Balance at 31.12.02
Buildings	24,187	2,566	—	26,753
Plant and machinery	858,132	118,958	(1,516)	975,574
Fixtures, fittings, tools and equipment	7,879	830	—	8,709
Other fixed assets	15,562	1,587	(726)	16,423
Net balance	**905,760**	**123,941**	**(2,242)**	**1,027,459**

Of total decreases, K€ 2,242 relates mainly to the disposal of installations from the Cartagena plant in the amount of K€ 1,256 and the sale of vehicles totalling K€ 726.

Details of provisions for fixed assets and movements during the year are set out below:

	Balance at 01.01.02	Increases	Decreases	Balance at 31.12.02
Provisions	(12,732)	(104)	1,484	(11,352)
	(12,732)	**(104)**	**1,484**	**(11,352)**

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

7. Investments

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

	Balance at 01.01.02	Increases	Decreases	Balance at 31.12.02
Loans to Group companies	36,446	1,287	(8,335)	29,398
Long-term securities portfolio	1,320	180	—	1,500
Other loans	572	596	(411)	757
Long-term deposits and guarantees	617	17	(18)	616
Government debentures – long term	5,330	100	(722)	4,708
Provisions	(312)	—	—	(312)
Net balance	**43,973**	**2,180**	**(9,486)**	**36,667**

Loans to Group companies fall due in 2011 and bear market interest rates. Balances relate to Transgas, S.A.'s share of loans to Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior – Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A. The loans are repaid in accordance with each company's cash resources.

8. Deferred expenses

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

	Balance at 01.01.02	Increases	Decreases	Balance at 31.12.02
Enagas, S.A.	567	—	(67)	500
Gasoduto Campo Maior - Leiria - Braga, S.A.	11,820	—	(572)	11,248
Gasoduto Braga -Tuy, S.A.	7,511	1,934	(441)	9,004
Net balance	**19,898**	**1,934**	**(1,080)**	**20,752**

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

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

The K€ 1,934 increase relates to higher prices for gas transport rights held by Gasoduto Braga-Tuy, S.A. and invoiced by Transgas, S.A. during the year.

9. Inventories

Inventories at 31 December 2002 relate basically to materials used to maintain regasification plants and gas pipeline networks.

10. Debtors

Amounts owed by Group and associated companies basically relate to natural gas sales and gas transport services. Figures indicated in Note 3 are the result of new legislation in force as from 19 February 2002.

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

11. Capital and reserves

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

	Balance at 01.01.02	Distribution of 2001 result	Other	2002 profits	Balance as at 31.12.02
Share capital	358,705	—	(604)	—	358,101
Revaluation reserve	342,505	—	—	—	342,505
Legal reserve	46,988	13,072	—	—	60,060
Voluntary reserve	15,942	(14,554)	604	—	1,992
Reserve in consolidated companies	(741)	1,682	179	—	1,120
Consolidated profit and loss account	117,844	(117,844)	—	110,071	110,071
Interim dividend	(101,600)	101,600	—	(21,486)	(21,486)
Net balance	**779,643**	**(16,044)**	**179**	**88,585**	**852,363**

a) On 3 May 2002 the General Shareholders' Meeting resolved to split Enagas, S.A. shares by 20 to 1 and to divide the par value of the shares by 20. As a result, the par value of each share fell from 30 euros to 1 euro 50 cents and the number of shares was multiplied by 20. In order to carry out the share split, share capital has been decreased by K€ 604 with a charge to the legal reserve and no amount has been paid out to shareholders.

   In accordance with the above, share capital consist of 238,734,260 shares with a par value of 1.5 euros each, all of the same class and series.

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

   At the 2002 year-end, the price of Enagas, S.A. shares stood at 5.80 euros.

c) The most significant shareholdings exceeding 3% in Enagas, S.A. are as follows:

	% interest
Gas Natural SDG, S.A.	40.900
B.P.España, S.A.	5.000
Caja de Ahorros de Valencia, Castellón y Alicante.	3.234
Atalaya Inversiones S.R.L.	3.022

Gas Natural SDG, S.A.'s interest includes 5.9% relating to the "green-shoe" option which was not exercised by the underwriter banks in the sale of 65% of the share capital.

Given that the purchase option Gas Natural SDG, S.A. granted to the underwriters of institutional tranches has not been exercised, Gas Natural SDG, S.A.'s shareholding in Enagas, S.A. exceeds 35%, the maximum interest that may be held in Enagas, S.A. in accordance with Additional Regulation No. 20 of Law 34/1998. Gas Natural is required to sell the shares exceeding 35% in an orderly manner once the "lock up" period ends (26 December). This period of 180 days as from 26 June 2002, the date Enagas, S.A. shares were listed. In compliance with Additional Regulation No. 20 of Law 34/1998, Gas Natural SDG, S.A. may not exercise the voting rights relating to the shares that exceed 35% of Enagas, S.A.'s capital.

d) During the year, Enagas, S.A. approved the dividend relating to the 2001 profit in the amount of K€ 117,644, of which K€ 101,600 was paid in 2001 and K€ 16,044 was paid in June 2002.

   On 22 November 2002 the Board of Directors of Enagas, S.A. resolved to pay an interim dividend out of 2001 profits in the amount of K€ 21,486. The Company has prepared the following liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

	Amount
Reported net profit at 31.10.02	87,030
10% legal reserve	(8,703)
Profit available for distribution	**78,327**
Forecast interim dividend	(21,486)
Forecast cash at bank and in hand between 31.10.02 and 31.12.02	
– Cash at bank and in hand at 31.10.02	323
– Collections forecast for the period under consideration	280,000
– Credit facilities and loans granted by banks	306,116
– Payments forecast for the period under consideration (including interim dividend)	(350,486)
Cash at bank and in hand at 31December 2002	**235,953**

The approved interim dividend was paid out in January.

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

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

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

Gasoducto Al-Andalus, S.A.	2,433
Gasoducto de Extremadura, S.A.	212
Gasoduto Campo Maior - Leiria - Braga, S.A.	86
Gasoduto Braga-Tuy, S.A.	71
Enagas International Finance, S.A.	—
Adjustments on consolidation	(1,682)
Consolidation reserves	**1,120**

12. Deferred income

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

	Balance at 01.01.02	Increases	Applications	Balance at 31.12.02
Capital grants	410,579	26,317	(21,260)	415,636
Canon Gasod. de Extremadura, S.A.	26,934	—	(5,949)	20,985
Canon Gasod.Al-Andalus, S.A.	42,040	—	(2,521)	39,519
	479,553	**26,317**	**(29,730)**	**476,140**

The K€ 83 difference between the amount of capital grants (K€ 21,260) released to income and the amount recorded on the profit and loss account (K€ 21,343) relates to operating grants.

13. Provisions for liabilities and charges

The balance in Other provisions as at 31 December 2002 relates to provisions set up for probable liabilities arising from identified contingencies. Movements in this account are set out below:

	Balance at 01.01.02	Appropriations	Applications	Balance at 31.12.02
Other provisions	1,290	(177)	974	2,087
	1,290	**(177)**	**974**	**2,087**

14. Bank loans

These items break down as follows:

	Long-term	Short-term
Enagas, S.A. credit facilities and bank loans	186,414	1,012,659
Gasoduto Braga-Tuy, S.A. credit facilities and bank loans	4,361	—
Accrued interest	—	3,316
	190,775	**1,015,975**

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

2004	51,009
2005	8,629
2006	8,629
2007	12,990
2008	23,629
In more than five years	85,889
	190,775

Short-term amounts owed basically relate to the one-year bridge loan, obtained in June 2002 in the amount of € 1,000,000 as a result of the IPO and the repayment of the outstanding amount recorded with the parent company Gas Natural. Given the terms of the agreement initially entered into, this amount owed to the parent company is recorded under Amounts falling due after more than one year (see Note 24).

15. Other creditors

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

	Long-term
Loan from Transgas, S.A. to Gasoducto Al-Andalus, S.A.	17,561
Loan from Transgas, S.A. to Gasoducto de Extremadura, S.A.	11,412
Loan from Transgas, S.A. to Gasoduto Campo Maior-Leiria-Braga, S.A.	5,377
	34,350

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

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

16. Tax situation

a) As from 26 June 2002, and due to the public offering of Enagas, S.A. shares by Gas Natural SDG, S.A., the Company has commenced paying tax as an individual company with retroactive effect as from 1 January 2002.

   The companies Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A., Gasoduto Braga-Tuy, S.A. and Enagas International Finance, S.A. pay taxes under the individual reporting system.

b) Enagas, S.A.'s returns are open to inspection for 1999 and subsequent years.

   During the year, inspections have been completed relating to Gasoducto Al-Andalus, S.A. for value added tax and personal income tax for 1998 and 1999 and corporate income tax for 1997, 1998 and 1999. The taxpayer accepted the assessments raised and the tax authorities therefore decided to treat payments made as definitive. This company's returns are open to inspection for the years that are not statute-barred.

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

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

Gasoduto Braga – Tuy, S.A.'s returns are open to inspection for 1998 and subsequent years.

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

c) Corporate income tax expense as at 31 December 2002 breaks down as follows:

Company	
Enagas, S.A.	54,639
Gasoducto Al-Andalus, S.A.	2,450
Gasoducto de Extremadura, S.A.	1,048
Gasoduto Campo Maior - Leiria - Braga, S.A.	541
Gasoduto Braga- Tuy, S.A.	298
Enagas International Finance, S.A.	—
	58,976

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

Reported profit before taxes	**162,461**
Permanent differences:	
• Other	50
Timing differences	
• Free depreciation R.D.-L. 3/1993	636
• Other	(1,779)
INITIAL TAX BASE	**161,368**

Tax credits for double taxation applied to the tax base in 2002 amount to K€ 5,578.

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

	Gasoducto Al-Andalus, S.A.	Gasoducto Extremadura, S.A.	Gasoduto Campo Maior-Leiria-Braga, S.A.	Gasoduto Braga Tuy, S.A.
Reported profit	6,998	2,994	1,201	684
Permanent differences	(2)	—	—	—
Taxable income	**6,996**	**2,994**	**1,201**	**684**

d) At the year end a total of K€ 40,974 in corporate income tax was paid by Enagas, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A.

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

	Balance at 01.01.02	Variation	Balance at 31.12.02
Tax paid in advance			
• Capital grants	2,109	(161)	1,948
• Other	3,221	(461)	2,760
	5,330	**(622)**	**4,708**
Deferred tax			
• Accelerated depreciation	2,549	(222)	2,327
	2,549	**(222)**	**2,327**

17. Net turnover

Details of net turnover are as follows:

Gas sales	1,387,542
Services rendered	432,007
Other sales	2,243
	1,821,792

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

Company

Enagas, S.A.	418,071
Gasoducto Al-Andalus, S.A.	6,256
Gasoducto de Extremadura, S.A.	5,266
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,247
Gasoduto Braga-Tuy, S.A.	167
	432,007

18. Raw materials and consumables

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

19. Staff costs

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

Executives	44
Technicians	351
Administrative staff	129
Workers	344
	868

All personnel are employed by Enagas, S.A. as the other companies do not have any employees.

20. Other operating charges

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

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

	2002	2001
Leases and royalties	57,897	62,353
Repairs and maintenance	21,657	18,918
Independent professional services	9,205	6,607
Transport	17,000	16,264
Insurance premiums	4,414	2,212
Banking and similar services	208	260
Advertising and public relations	3,959	412
Supplies	10,502	9,047
Other services	12,878	19,241
	137,720	**135,314**

21.Contribution of Group companies to consolidated results

A breakdown is as follows:

	Contribution of Group companies to consolidated results
Enagas, S.A.	102,244
Gasoduto Al-Andalus, S.A.	4,802
Gasoduto de Extremadura, S.A.	1,981
Gasoduto Campo Maior - Leiria - Braga, S.A.	659
Gasoduto Braga-Tuy, S.A.	386
Enagas International Finance, S.A.	(1)
	110,071

22. Transactions with associated companies

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

Income

Gas sales	1,339,925
Maintenance of fibre optics for Desarrollo del Cable, S.A.	1,187
	1,341,112

Expenses

Gas purchases	1,332,631
Rental of minimum security stocks (35 days)	6,811
Interest from loans	15,797
Leases and maintenance	41,591
Corporate services	7,524
Computer royalty	2,979
	1,407,333

23. Other information

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

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

c) During 2002, the Board of Directors accrued remuneration amounting to K€ 1,160 in relation to their duties as Board members, salaries and executive duties, if applicable.

The Company records pension commitments and life insurance policies for Board members totalling K€ 7.5 and K€ 24, respectively.

At 31 December 2002, loans granted to Board members total K€ 455.

In addition to the above-mentioned amounts, Enagas has paid a severance indemnity of K€ 3,081 owing to the termination of a senior manager contract.

d) At 31 December 2002 the Group's gas transportation rights amount to 527,363 thousand therms and gas transportation obligations amount to 401,474 thousand therms for the period 2002 to 2020. All contracts include "ship or pay" clauses.

e) In November 2002 the rating agencies Standard & Poor's and Moody's assigned a stable, long-term A+ rating and a stable, long-term A2 rating, respectively, to Enagas.

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

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

h) In 2002 PriceWaterhouseCoopers invoiced fees for auditing the Group companies in the amount of K€ 91. Other services rendered, totalling K€ 365, basically relate to Enagas, S.A.'s flotation.

i) On 3 May 2002, the Universal, Extraordinary General Meeting resolved to establish its registered office in Madrid, Paseo de los Olmos, 19.

24. Environment

During 2002, the Company has continued to perform activities aimed at minimising the environmental impact. In addition to other improvements, the renewal, obtainment and maintenance of AENOR ISO 14001 environmental management certificates, landscaping, controlled drilling and archaeological conservation are worthy of note.

In 2002, these environmental activities have involved investments totalling K€ 4,328, which are recorded on the balance sheet.

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

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

25. Post-balance sheet events

a) On 16 January 2003 the Ministry of Economy approved four Ministerial Orders updating prices, tolls, royalties and remuneration in 2003 for gas industry regulated activities, applicable to all companies carrying on regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 17 January.

b) On 23 January the Board of Directors of ENAGAS authorised the negotiation and formalisation of a syndicated loan in the amount of K€ 750,000. This loan may be increased to K€ 1,000,000 for a period of five years applying market conditions.

   On 21 February the Company intends to sign a mandate letter appointing four major banks as Mandated Lead Arranger (MLA) and Bookrunners for the syndicated loan. The Company expects to close the syndication phase in March and sign the loan agreement in the first week of April 2003. Management considers that this financing sufficiently covers the Group's financial, operating and investment needs for 2003.

26. Statement of source and application of funds

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

APPLICATION OF FUNDS	Thousand euros 31.12.02	Thousand euros 31.12.01
Formation expenses	5	—
Purchases of fixed assets	192,273	216,836
Prior-year dividends	16,044	214,240
Interim dividend	21,486	—
Debts falling due after one year	749,592	155,268
From banks	(112,163)	
From associated companies	853,603	
Other amounts owed	8,152	
Total applications of funds	**979,400**	**586,344**
Surplus of sources over application of funds (increase in working capital)		

SOURCES OF FUNDS	Thousand euros 31.12.02	Thousand euros 31.12.01
Funds generated from operations	205,237	142,284
Capital grants	26,317	28,583
Other reserves	179	154
Proceeds from disposal of fixed assets	15,152	74,467
Total sources of funds	**246,885**	**245,488**
Surplus of applications over sources of funds (reduction in working capital)	**732,515**	**340,856**

Change in working capital	Thousand euros 31.12.02 Increases	Thousand euros 31.12.02 Decreases	Thousand euros 31.12.01 Increases	Thousand euros 31.12.01 Decreases
Inventories	—	5,693	—	87,245
Debtors	92,353	—	32,788	—
Creditors	—	820,641	—	288,903
Current asset investments	1,678	—	—	720
Cash at bank and in hand	—	3,227	3,004	—
Accruals, prepayments and deferred income	3,015	—	220	—
TOTAL	**97,046**	**829,561**	**36,012**	**376,868**
Change in working capital		**732,515**		**340,856**

Consolidated funds generated from operations	Thousand euros 31.12.02	31.12.01
Profit for the year	**110,071**	**117,844**
Increases:	**95,166**	**24,440**
• Depreciation and amortisation	126,499	111,308
• Deferred expenses	(854)	1,102
• Deferred income	(29,730)	(25,606)
• Net application of the provision for liabilities and charges	797	(58,829)
• Change in provision for tangible fixed assets	(1,380)	(528)
• Profit on disposal of fixed assets	(166)	(3,007)
Funds generated from operations	**205,237**	**142,284**

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

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

Name	Country	Consolidation method	%	Book value	Share capital	Reserves	Result for 2002 (*)	Dividend received 2001
Gasoducto Al-Andalus, S.A.	Spain	Prop.	66.96	23,744	35,459	3,633	6,792	3,437
Gasoducto de Extremadura, S.A.	Spain	Prop.	51	9,732	19,082	415	3,815	1,117
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Prop.	12	3,195	26,946	400	5,497	590
Gasoduto Braga-Tuy, S.A.	Portugal	Prop.	49	2,127	4,398	86	788	434
Enagas International Finance, S.A.	Luxembourg	Full	99.99	124	124	—	(1)	—
Net balance				**38,922**				**5,578**

Full: Full consolidation method.

Prop.: Proportional consolidation method.

(*) Data relating to Gasoduto Campo Mayor- Leiria- Braga, S.A. and Gasoducto Braga-Tuy, S.A., as indicated in Note 1 a), relate to the 30 November 2002 close.

DIRECTORS' REPORT FOR THE ENAGAS GROUP.

Evolution of the Group in 2002

Net profit totalled K€ 110,071, representing a 6.6% decrease as compared to the prior year.

Net turnover amounted to K€ 1,821,792, 76.28% of which relates to gas sales and the remaining 23.72% to services rendered.

Resources generated by operations total K€ 205,237. These resources have partially financed the tangible fixed asset investment plan totalling K€ 183,524, aimed basically at extending and improving the transportation network, which reached 6,430.9 km at 31 December 2002.

The Group's capital and reserves total K€ 852,363.

On 15 February 2002 the Ministry of Economy approved the Ministerial Orders on prices, tolls, royalties and remuneration for regulated activities in the gas industry, establishing the remuneration for 2002 for all companies engaged in regasification, storage, transport or distribution activities, as well as formulae and criteria for updating remuneration in the coming years.

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

In accordance with the liberation framework provided by the Law on hydrocarbons, in 2002 two new companies have been incorporated to take advantage of third-party network access opportunities provided by the law, bringing the total of companies engaged in this activity to 11.

During 2002, the Company has continued to extend and improve its regasification installations and transport and storage facilities in order to prepare for forecast demand. The following actions are worthy of note:

- Increase of 150,000 m^3/h. in total nominal regasification capacity in the three plants, representing a capacity 7.75% higher than in 2001.
- Increase of 100,000 m3 in storage capacity for liquefied natural gas in the LNG plants, representing a storage capacity 18.75 % higher than in 2001.
- At the end of 2002 Enagas was operating pipes of 6,430.9 Km designed to operate at maximum bar pressures of 72 and 80, having a positive effect on the supply security and development of areas not previously served.
- The most significant transport assets brought into use in 2002 are: the gas pipelines Loeches-Rivas, Loeches-Arganda-Alcala, Gajano-Treto-Laredo, Puente Genil-Malaga, an extension to the Cartagena-Lorca phase I gas pipeline, Málaga-Estepona gas pipeline section I and the split section of the Manoteras branch line.
- During 2002 18 new regulating and measuring stations have been brought into service in relation to the new gas pipelines.
- The Paterna compression station (Valencia) became operational at the same time the new tank in Cartagena was brought into service.

- In 2002 new compressors have been put into use in the Serrablo storage facilities (Huesca), increasing the gas injection capacity by 1.5 million m3/day. In this respect, the most significant projects were: authorisation was obtained to drill a new well in Serrablo and drilling commenced for a new evaluation well in the Santa Barbara structure for future storage facilities in Yela (Guadalajara). Significant studies have been carried out regarding storage in Reus (Tarragona) and Sariñena (Huesca).

At the end of 2002, Enagas's gas structure, consisting of the basic natural gas network, is as follows:

Regasification plants in Barcelona, Huelva and Cartagena have a total LNG storage capacity of 560,000 m3 and an issue capacity of 2,100,000 m3/h.

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

Gas pipeline network with a total length of 6,430.9 Km., comprising the following main lines:

- Central line: Huelva-Cordoba-Madrid-Burgos-Cantabria-Pais Vasco.
- East line: Barcelona-Valencia-Alicante-Murcia-Cartagena.
- West line: Almendralejo-Caceres-Salamanca-Zamora-Leon-Oviedo.
- Spanish-Portuguese west line: Cordoba-Badajoz-Portugal (Campo Maior-Leiria-Braga) –Tuy-Pontevedra-A Coruña-Oviedo.
- Ebro connection: Tivisa-Zaragoza-Logroño-Calahorra-Haro.

Gas pumped into system through pipelines:

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

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

Post-balance sheet events

On 16 January 2003 the Ministry of Economy approved four Ministerial Orders updating tariffs, tolls, royalties and remuneration in 2003 for gas industry regulated activities, applicable to all companies carrying on regasification, storage, transport or distribution activities. These new rates were published in the Official State Gazette on 17th January.

On January 23rd the Board of Directors of Enagas authorised the negotiation and formalisation of a syndicated loan in the amount of K€ 750,000. This loan may be increased to K€ 1,000,000 for a period of five years and in accordance with market conditions.

On 21 February the Company intends to sign a mandate letter appointing four major banks as Mandated Lead Arranger (MLA) and Bookrunners for the syndicated loan. The Company expects to terminate the syndication in March and sign the loan agreement in the first week of April 2003. Management considers that this financing sufficiently covers the Group's financial, operating and investment needs for 2003.

Research and development activities

Technology innovation activities carried out by the Company in 2002 related to the evaluation, development and demonstration of new gas technologies, with the aim of increasing and improving the competitiveness of natural gas in different applications, focusing technological efforts on projects with strategic value for the Company.

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

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