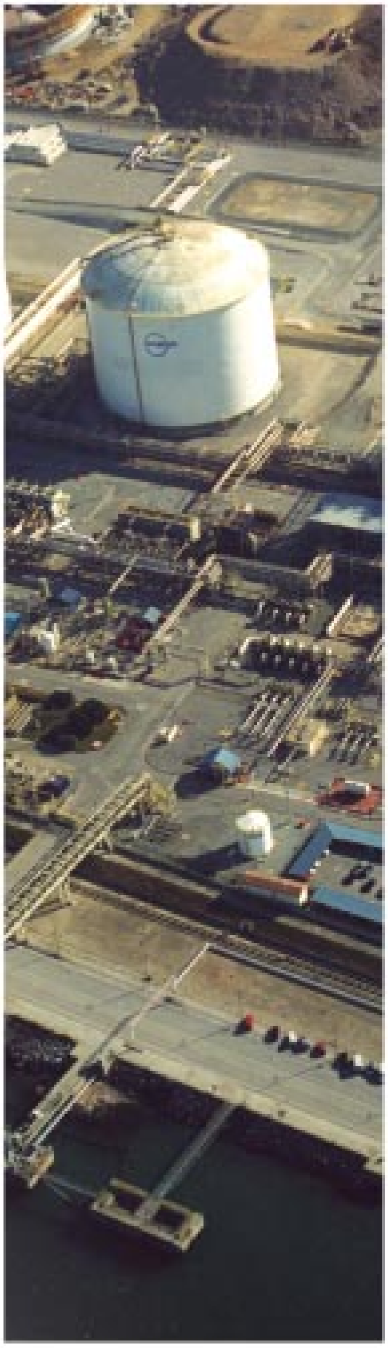
Annual Report 04



enagas

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Annual
Report

04

enagas

Summary

Main Aggregates

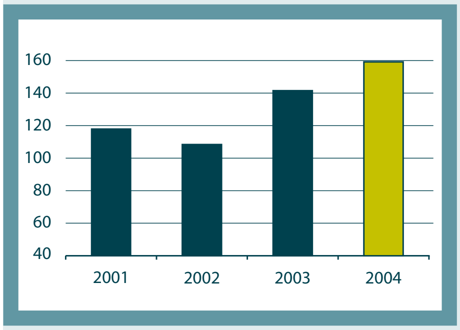
CONSOLIDATED FINANCIAL DATA (Millions euros)

	2001	2002	2003	2004
Net Income	117.8	110.1	142.0	158.1
Operating Profit	138.1	207.2	249.5	274.3
Operating Cash-Flow	249.4	333.7	383.0	419.1
Investments	216.8	192.3	426.3	468.6
Net Debt	1,062.2	1,253.0	1,278.7	1,426.6
Shareholders'Equity	779.6	852.4	932.4	1,017.3
Assests	2,754.6	2,895.7	3,093.0	3,471.7

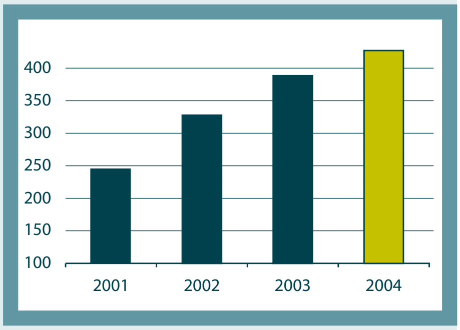
FINANCIAL DATA PER SHARE (euros)

	2001	2002	2003	2004
Net Income	0.49	0.46	0.59	0.66
Dividend	0.49	0.23	0.30	0.33
Operating Cash-Flow	1.04	1.40	1.60	1.76
Nº Shares (millions)	11.95	238.7	238.7	238.7

- The gross dividend of 0.33 euros per share in 2004 is subject to the approval of its distribution by the General Shareholders' Meeting.
- The financial data per share in 2001 have been standardised, using the total number of shares as of 31/12/2002 for the calculation.
- The results for 2001 and 2002 are not comparable due to the change in the regulatory framework on 19/02/2002.
- On 3/05/2002 a split of 20 new shares for one old share was carried out.



Net Income
(Millions of euros)



Operating Cash-flow
(Millions of euros)

TRANSPORTED NATURAL GAS DEMAND (GWh)

	2001	2002	2003	2004
Tariff Market	130,838	109,846	80,703	61,866
Liberalised Market	80,969	133,192	194,535	257,733
Total Demand	**211,807**	**243,038**	**275,238**	**319,599**

Conversion Tables

ENERGY UNITS

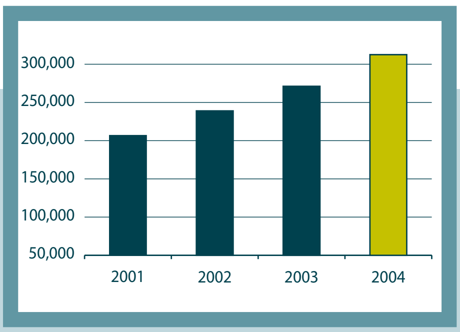
Equivalent to	kWh	MBtu	cal	therm
1 kilowatt-hour (kWh)	1	0.003411	0.8601	0.03411
1 Million BTU (MBtu)	293.2	1	252	10
1 calorie (cal)	1.162	0.00397	1	0.0397
1 therm	29.32	0.1	25.2	1

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

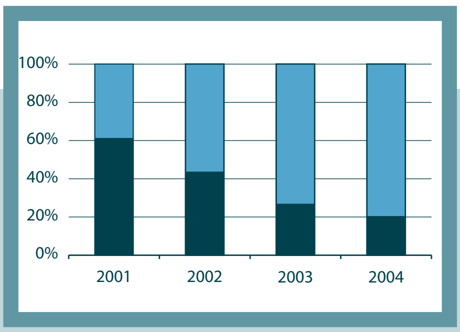
VOLUME UNITS

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

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



Transported Natural Gas Demand (GWh)



Tariff Market Liberalised Market

Main
Aggregates

TRANSPORT ASSETS

	2001		2002		2003		2004	
	Unit	Km	Unit	Km	Unit	Km	Unit	Km
Kms or pipeline in use		6,123		6,383		6,522		7,158
Compression Stations	8		9		9		11	
RMS-MS*	215		248		280		291	

* Regulating and Measuring Stations (RMS) and Measuring Stations (MS).

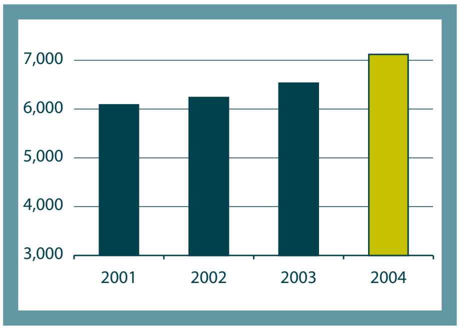
REGASIFICATION ASSETS

	2001		2002		2003		2004	
	Unit	Capacity	Unit	Capacity	Unit	Capacity	Unit	Capacity
LNG Tanks	8	455,000 m^3 LNG	8	560,000 m^3 LNG	8	560,000 m^3 LNG	9	710,000 m^3 LNG
Regasification*		2,100,000 m^3 (n)/h		2,100,000 m^3 (n)/h		2,250,000 m^3 (n)/h		2,700,000 m^3 (n)/h

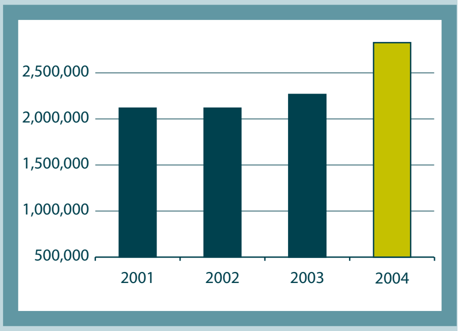
* Nominal Regasification Capacity.

STORAGE ASSETS

	2001	2002	2003	2004
	Capacity	Capacity	Capacity	Capacity
Injection Capacity	7.3 Mm^3(n)/d	8.4 Mm^3(n)/d	8.4 Mm^3(n)/d	8.4 Mm_3(n)/d
Exctraction Capacity	10.3 Mm^3(n)/d	10.3 Mm^3(n)/d	12.5 Mm^3(n)/d	12.5 Mm^3(n)/d

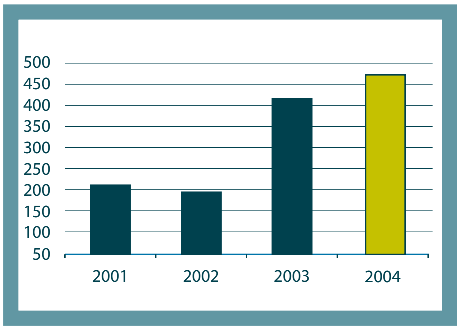


Kms of pipeline in use

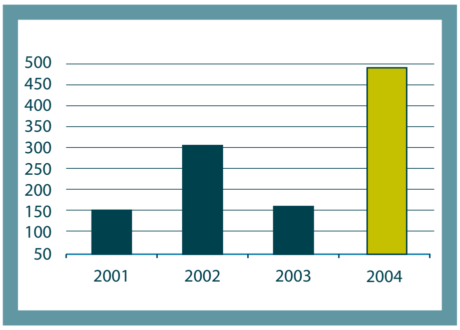


Nominal Regasification Capacity
m^3 (n)/h

Basic Gas Infrastructure



Investments
(Millions of euros)



Assets put into operation
(Millions of euros)

Letter from the Chairman

Dear Shareholder,

It is a pleasure for me to address you again on this, the occasion of the publication of the Annual Report for 2004, a year which, although not without its challenges, has enabled us to continue to make strides towards attaining our strategic objectives and reinforcing the future solidity of our company.

2004 was a year full of significant achievements, which I will comment on in this annual letter and which are analysed in detail in this report.

In recent years, and particularly during the past year, Enagas has shown its efficiency, transparency and independence when responding to the challenges of an operating environment marked by strong growth, in a sector with greater liberalization and competition than in other similar sectors in both Spain and other European Union countries.

Enagas has played a key role in this process, by progressing in the start-up of the infrastructures necessary for achieving the capacity the system requires, and thus providing access to all new operators that have requested this.

Enagas also recorded the largest volume of investments in its history. As you know, these investments will guarantee the future growth of our Company.

2004 was also a good year for economic results. All this, together with transparent and professional management, has once again been rewarded by the markets through the excellent performance of our shares.

I would also like to highlight the progress that we are continuing to make in the area of corporate governance. Accordingly, and as in previous years, this Report is accompanied by the Corporate Governance Report and the Environmental Report, the result of our commitment to transparency and respect for the environment in which we carry on our activity.

Operating Environment

The pace of liberalization of the sector in Spain has proven to be one of the fastest and most efficient in the European Union, enabling the number of customers accessing the liberalized market to grow continually. In 2004, as proof of the opening up of the market, the liberalized segment handled over 80% of total transported natural-gas demand. This segment already includes most industrial customers and combined gas turbines burning natural gas to generate electricity.

Demand for transported gas climbed 16% in 2004 with respect to the amount transported the previous year. Once again, there was a noteworthy increase in gas demanded for generating electricity, and which accounted for 20.8% of total demand at the end of 2004, compared to 10.5% in 2003.

However, 2004 was not a year without challenges. These were tackled successfully by the Company's excellent human team, strengthening even further Enagas' independent and neutral role as the System Technical Manager. The pressure on gas supply to the system at the end of 2004, as a result of an expected system gas shortage, was resolved efficiently, with a minimum of supply cuts to customers with interruptible gas supply contracts, a measure envisaged in European and Spanish legislation and commonly used as a mechanism to guarantee the flexibility of the system.

In view of this scenario, Enagas guaranteed supply to customers remaining in the tariff market during the whole of 2004, as well as to agents with non-interruptible gas supply contracts.

Results

I should now like to detail the development of Enagas' results during 2004, a year which we have viewed as a transition year with lower operational growth, but a key year in terms of investments and assets put into operation. The Company achieved record figures in connection with both variables, and this will enable results and profitability to continue to grow in the coming years.

Our net profit in 2004 was 158.1 million euros, 11.3% higher than last year, increasing the profit per share to 0.66 euros. Operating results rose to 274.3 million euros, up 9.9% over 2003. This increase is due fundamentally to the increase in revenues and, in particular, to the Company's policy of operational efficiency and cost containment.

As I mentioned earlier, in 2004 Enagas sped up the implementation of its investment plan, an initiative that will act as a source of income and foster stable growth and greater generation of future value. As a result, investments totalled 468.6 million euros, an increase of 10% over those made in 2003, and 489.1 million euros' worth of infrastructure were put into operation, more than three-fold the figure achieved in 2003.

In this respect, the good results obtained by Enagas in 2004 have enabled us to propose that the Shareholders' Meeting approve a gross dividend per share of 0.33 euros, 11% more than the year before. This would mean a pay-out ratio of 50% of the Company's net profit amongst its shareholders.

Financial Efficiency and Solidity

The Company's financial policy maintained its objective in 2004 of minimizing risks at the lowest possible cost. Furthermore, and in line with the strategy for creating value, Enagas seeks to optimise the balance sheets structure by financing its activities mainly with long-term, fixed-cost debt under the best possible conditions.

Following these criteria, in 2004 Enagas renegotiated the conditions of certain credit facilities in order to reduce their cost and extend the corresponding repayment periods. Thus, in the case of the syndicated loan for 1 billion euros, it extended the repayment period from 2008 to 2010.

The average cost of debt for the Company in 2004 was 2.98%, one of the lowest levels in the sector. This figure was reached thanks to the shrewd handling of the Company's financial policy in a scenario of lowering interest rates.

Stock Exchange Development

2004 was another good year for Enagas' shares. With an annual revaluation of 41.86%, Enagas has registered the highest appreciation of all the Ibex-35 utilities and the fourth highest in the entire index.

Consequently, our shares have appreciated in value by 88% since they were offered on the stock market, making Enagas one of the most profitable public stock offers in recent years.

Enagas' shares continue to appeal to investors, as revealed by the 14.5% increase in volumes contracted in 2004 over the 2003 figure. The appreciation of the value of our shares, coupled with greater liquidity, strengthens our solidity in the main reference index of the Spanish stock market.

In short, Enagas's shares have been consolidated on the market as a stable and growing investment instrument, constituting a unique alternative that combines low risk and high profitability in a sector immersed in a process of strong development.

Commitment to the Environment and Sustainability

During 2004, Enagas continued to develop its activities through a business approach that makes economic results compatible with environmental friendliness and social responsibility. In this connection, Enagas is committed to contributing to the transportation of cleaner and more efficient fuel to a larger number of users in all sectors, thus helping to improve quality of life and economic, environmental and social development in both the short and long-term.

I would also like to emphasize our commitment based on respect for and protection of the environment that has always characterized our actions. One again this year, we have provided full and detailed information about our environmental activities in this Annual Report.

In labour and social matters, Enagas continues to do its utmost to support the professional and personal development of its employees, endeavouring always to introduce best practices and respect the social concerns of the environment in which we operate.

Corporate Governance and Transparency

I would also like to highlight the new initiatives launched in 2004 geared towards improving Corporate Governance practices, including most notably the approval of the new Regulations of the Board of Directors and a new internal Code of Conduct. The Shareholders' Meeting also approved new Regulations adapted to the most recent legislative requirements.

Last year we also continued to develop our commitment to transparency, increasing the amount and quality of information and generating greater confidence amongst shareholders and investors.

The year 2005

Lastly, now that the year 2004 has ended, I must draw attention to the publication, on last 31 January, of Ministerial Order ITC/102/2005, which establishes the remuneration for regulated gas-sector activities applicable to 2005.

Under this Order, the estimated total remuneration Enagas will receive for regulated activities in 2005 will increase by a maximum of 16% over the previous year, confirming the stability of the regulatory framework defined in 2002, and highlighting the profitability and growth of the Company's strategy.

2005 will be a crucial year for the Company. In this sense, this year we envisage a review of the Mandatory Planning Document relating to gas and electricity transport networks, which we expect will incorporate the investments required to guarantee supply and smooth network operation.

We also envisage the urgent approval and publication of the System Technical Management Standard and the establishment of the technical and economic parameters of the first stable regulatory 4-year period.

However, at Enagas we believe that the current system has proven its efficiency, fostering the growth and rapid liberalization of the sector in Spain and the subsequent increase in competition. This is evidenced by the reduction of system access tools, by 10.2% in nominal terms and by 24% in real terms, in the period 2001-2005.

We will also maintain a high level of investment in key strategic projects, in a scenario once again marked by strong growth in gas demand. This is a great challenge, and at the same time an opportunity to continue growing in the long-term with profits.

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

Closing remarks

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

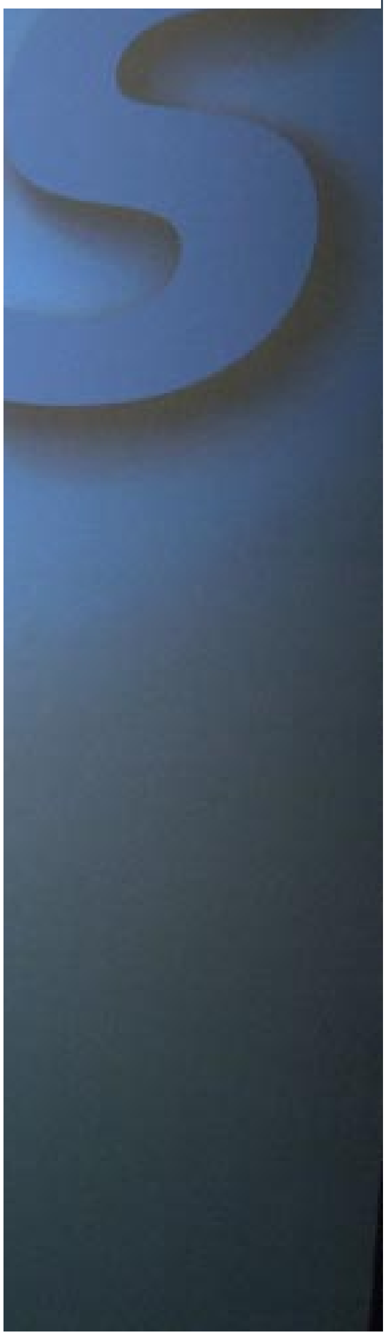
Our strategy will continue to focus on creating value for our shareholders, reinforcing our objectives from a conservative but highly profitable financial standpoint. This strategy is combined with an attractive dividend policy that seeks to provide shareholders with substantial remuneration in a climate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

Lastly, dear shareholders, as the Chairman of Enagas, I would like to thank you in my name and on behalf of the Board of Directors for your confidence in the Company. And, I would also like to thank the outstanding people who work at Enagas, because their dedication and effort make it possible for our company to be a standard of reference for the Spanish and European energy sectors.

Thank you.

Antonio González-Adalid
Chairman

Governing Bodies



Governing Bodies

Board of Directors

Chairman
Antonio González-Adalid García-Zozaya
(Executive Director)

Board Members
Jesús David Álvarez Mezquíriz
(Independent)
- Director of Bodegas Vega Sicilia, S.A.
- Director of Eulen S.A.
- Director of El Enebro, S.A.

Ramón Blanco Balín
(Controlling Director proposed by Gas Natural SDG, S.A.)
- Director of Ercros, S.A.
- Director of NH Hoteles, S.A.
- Director of CLH, S.A.

Carlos Egea Krauel
(Controlling Director proposed by Sagane Inversiones, S.L.)
- Director of the Spanish Confederation of Savings Banks (CECA).
- Chairman of Ahorro Corporación.

José Manuel Fernández Norniella
(Independent)
- Chairman of the Ebro Puleva Group.
- Director of Iberia, S.A.
- Director of Endesa, S.A.
- Member of the Abengoa, S.A. Advisory Council.

Salvador Gabarró Serra
(Controlling Director proposed by Gas Natural SDG, S.A.)
- Chairman of Gas Natural SDG S.A.
- First Vice-President of La Caixa.
- Director of Caixabanc Francia.
- Member of the Chamber of Commerce of Barcelona.
- Member of the Economy Circle of Barcelona.
- Advisor to the Head of the Roca, S.A Corporation.

Sir Robert Malpas
(Independent)
- Chairman of "Evolution".

Dionisio Martínez Martínez
(Independent)
- Director of Invercaixa.
- Member of the State Codification Commission.
- Chairman of Boysep Investment SICAV, S.A.
- Secretary to the Board of Directors of EBN Banco, S.A.
- Secretary to the Board of Trustees of the Foundation of Applied Economy Studies (FEDEA).

Manuel Menéndez Menéndez
(Controlling Director. Representative of Peña Rueda S.L. Unipersonal).
- Chairman of the Board of Directors of the Caja de Ahorros de Asturias.
- Chairman of the Board of Directors of Hidrocantábrico.
- Chairman of Naturcorp Redes S.A.U.
- Member of the Board of Directors of the Spanish Confederation of Savings Banks.
- Member of the Board of Directors of UNESA.

Luis Javier Navarro Vigil
(Controlling Director proposed by BP Energía, S.A.).
- Chairman of BP España, S.A.
- Director of CLH, S.A.

José Luis Olivas Martínez
(Controlling Director. Representative of Bancaja)
- Chairman of the Valencian Federation of Savings Banks.
- Chairman of the Bancaja Group.
- Chairman of the Bank of Valencia.
- Director of Metrovacesa, S.A.
- Director of Abertis, S.A.
- Director of the Spanish Confederation of Savings Banks (CECA).

Martí Parellada Sabata
(Independent)
- Professor of Applied Economics Universidad de Barcelona.
- President of the Asociación Española de Ciencia Regional.
- Director of the Instituto de Economía de Barcelona.
- Director of the Agrupación Mutua del Comercio y de la Industria.

Ramón Pérez Simarro
(Independent)

José Riva Francos
(Independent)
- Vice-President and Executive Director of the Suardiaz Group companies.
- Director of Aldeasa, S.A.
- Director of Logista, S.A.
- Director of Red Eléctrica de España, S.A.

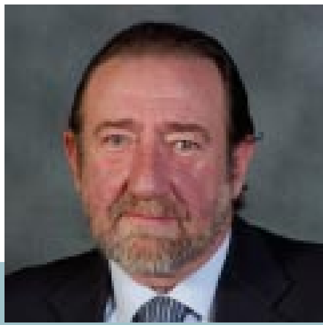
Vicente Sala Belló
(Controlling Director. Representative of Caja de Ahorros del Mediterráneo)
- Chairman of the Board of Directors of the Caja de Ahorros del Mediterráneo (CAM).
- Chairman of the Board of Directors of Euroinfomarket.
- Chairman of the EBN Bank, S.A.

Rafael Villaseca Marco
(Controlling Director proposed by Gas Natural SDG, S.A.)
- Executive Director of Gas Natural SDG S.A.
- General Executive Director of Grupo Panrico, S.A.
- Chairman of Túneles y Accesos de Barcelona C.S.A.
- Chairman of Túnel del CADI C.S.A.

Secretary to the Board
Luis Pérez de Ayala Becerril

Vice-Secretary to the Board
Beatriz Martínez-Falero García

Antonio González-Adalid García-Zozaya



Jesús David Álvarez Mezquíriz

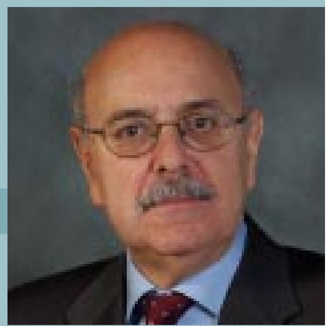
Ramón Blanco Balín

Carlos Egea Krauel

José Manuel Fernández Norniella

Salvador Gabarró Serra

Sir Robert Malpas



Dionisio Martínez Martínez

Manuel Menéndez Menéndez

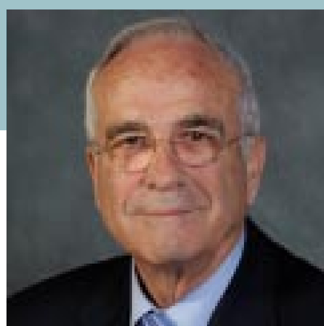
Luis Javier Navarro Vigil

José Luis Olivas Martínez

Martí Parellada Sabata

Ramón Pérez Simarro

José Riva Francos



Vicente Salá Belló

Rafael Villaseca Marco

Mr. Juan Badosa Pagés was Member of the Board until May 21st, 2004. He was replaced by Mr. Ramón Pérez Simarro, who was appointed on June, 17th, 2004.
Mr. Antonio Brufau Niubó was Member of the Board until November, 18th, 2004. He was replaced by Mr. Salvador Gabarró Serra.
During 2005, on February, 17th, Mr. Enrique Locutura Rupérez was replaced as Member of the Board by Mr. Rafael Villaseca Marco, who was previously an independent member and is now Controlling Director proposed by Gas Natural SDG, S.A.
On March, 15th, 2005, Mr. Martí Parellada Sabata was appointed Member of the Board as independent.

Audit and Control Committee

Chairman: **Luis Javier Navarro Vigil.**

Members: **Sir Robert Malpas.**
José Luis Olivas Martínez.
Martí Parellada Sabata.

Secretary: **Luis Pérez de Ayala Becerril.**

Appointments and Remuneration Committee

Chairman: **Salvador Gabarró Serra.**

Members: **Dionisio Martínez Martínez.**
Ramón Pérez Simarro.

Secretary: **Luis Pérez de Ayala Becerril.**

Management Committee

Antonio González-Adalid García-Zozaya
(President)

Antonio García Mateo
(Director-General of Technology, Engineering and Environment)

Javier González Juliá
(Director-General of Operations)

Juan Manuel Llabrés Estabén
(Director-General of Strategy and Regulation)

José Ferrándiz Alarcón de la Lastra
(Technical Secretary)

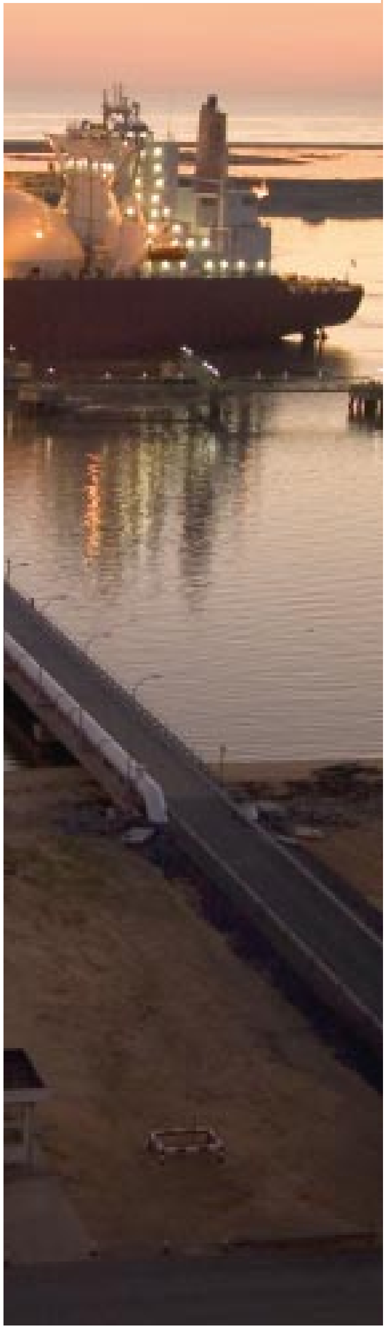
Diego de Reina Lovera
(Finance Director)

Erundino Neira Quintas
(Human Resources Director)

Luis Pérez de Ayala Becerril
(Director of Legal Affairs)

Ramón Sánchez Valera
(Infrastructure Director)

Summary of 2004



Summary of 2004

16th January: Standard & Poor's raised the Company's credit rating from "AA-stable" in the long-term and "A-1+ stable" in the short-term, highlighting the better perspectives for generating profits and the strengthening of the Company's financial position.

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

Additionally, that same day the Ministerial Orders ECO 32/2004 and ECO 33/2004 were published, establishing the natural gas rates for the regulated market and the third party access tolls and fees to gas facilities.

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

1st March: Enagas Board Member, Bancaja, replaced Mr. Arturo Alario Mifsud as its Board representative, appointing Mr. José Luis Olivas Martínez to carry out the relevant tasks in its name and on its behalf.

3rd March: The demand for natural gas in Spain broke a new record on reaching 1,246 Gigawatts hour (GWh).

11th March: Enagas signed a long-term Framework Cooperation Agreement with the European Investment Bank (EIB) in which the Company expressed its interest in having European Institution participate in the financing of its investment projects over the next few years.

24th March: Enagas sent the 2003 Corporate Governance Report to the CNMV (National Securities Market Commission).

25th April: Enagas held its General Shareholders Meeting at its second call, at which the seven motions for resolutions submitted to the shareholders were approved.

After approving the second motion, Enrique Locutura Rupérez and the company "Peña Rueda, S.L. Unipersonal", proposed as a Board Member by the shareholder Cajastur, were appointed as Controlling Directors of the Company.

Additionally, Antonio González-Adalid García-Zozaya was re-elected as Executive Director, and Ramón Blanco Balín, as Controlling Director, for a new four-year term.

24th May: The company Peña Rueda, S.L. Unipersonal appointed Manuel Menéndez Menéndez as its Board representative. On the other hand, Juan Badosa Pagés stepped down from his position as a Board Member after presenting his resignation at the Board session held on 21st May 2004.

21st June: The Enagas Board of Directors appointed Ramón Pérez Simarro as Controlling Director, at the proposal of the Appointment and Remuneration Committee. He was also appointed as a Member of the Enagas Audit and Control Committee.

That same day, Enagas signed a loan agreement for 450 million euros with the European Investment Bank (EIB) to partially cover its financial needs up to 2006.

6th July: The credit rating agency Moody's reviewed the long-term rating perspective for Enagas, currently A2, raising it from stable to positive. At the same time, Moody's assigned the Company a short-term credit rating of Prime-1.

7th July: Enagas paid a gross additional dividend per share of 0.17744 euros charged to the profits for 2003, as approved by the General Shareholders Meeting.

On that same day Enagas was awarded the pipeline project, which will join the peninsular network with Ibiza and Majorca.

19th November: The Enagas Board of Directors appointed Salvador Gabarró Serra as the new Controlling Director, replacing Antonio Brufau Niubó who presented his resignation in compliance with the provisions of article 82 of Act 24/1988, of 28th July.

Likewise, the Board of Directors agreed to appoint Salvador Gabarró Serra as Chairman of the Enagas Appointment and Remuneration Committee, a post held by Board Member Antonio Brufau Niubó up to his resignation.

24th November: Enagas renegotiated the terms of the 1,000 million euro syndicated loan signed on April 2003, which will allow Enagas to reduce the cost of the debt and extend the repayment term for this loan.

2nd December: Enagas renegotiated the terms of the loans signed with the Official Credit Institute (ICO) for a total amount of 350 million euros.

13th December: In keeping with stock market regulations, Ibex 35 Index Technical Assessment Committee resolved to increase Enagas' weighting on the Ibex 35 from 60% to 80% of its market capitalization. The increase in the Company's free float, 44.978% at 31 December, was taken into account in this change.

17th December: The Enagas Board of Directors approved the payment of a gross dividend of 0.13 euros per share, charged to the Net Profits for 2004. This dividend was paid out on 12th January 2005.

20th December: The Energy Journalists Club (Club de Periodistas de Energía) awarded the Enlightened Prize (Premio Iluminado) for the best communication department to the Enagas External Relations Department.

Development in 2005

20th January: The new Huelva-Madrid pipeline and the Villafranca de Córdoba compression station were inaugurated. The act was presided by Their Royal Highnesses, the Prince and Princess of Asturias, the Minister for Industry, José Montilla, the Secretary General for Energy, Antonio Fernández Segura and by the Presidents of the Autonomous Communities of Andalusia, Manuel Chaves and Castilla-La Mancha, José María Barreda, amongst other authorities.

The Huelva-Sevilla-Córdoba-Madrid pipeline has five stretches with a total length of 636 kilometres.

27th January: The demand for natural gas, after several consecutive days of hitting maximum highs, reached 1,503 GWh as a result of the cold snap registered throughout the country.

This historic record represented a 20.5% increase with regard to the 2004 winter peak, registered on 3rd March, when a daily consumption of 1,247 GWh was reached.

31st January: Ministerial Order ITC/102/2005 was published, establishing the 2005 remuneration for regulated gas-sector activities.

On the same day, Orders ITC/103/2005, establishing the tolls and fees for third party access to gas facilities, and ITC/104/2005, regarding the natural gas tariffs, were published.

18th February: Enrique Locutura Rupérez resigned as a Member of the Enagas, S.A. Board of Directors. To replace him, Gas Natural SDG proposed Board Member Rafael Villaseca Marco, who held an independent status, and who was appointed as Managing Director for Gas Natural in January 2004. Rafael Villaseca Marco thus became a Contro-

lling Director at the proposal of Gas Natural SDG.

Similarly, Rafael Villaseca Marco resigned as Member of the Enagas Appointment and Remuneration Committee. His post was occupied by Ramón Pérez Simarro who, in turn, left the Audit and Compliance Committee of which he was a member up to this time.

17th March: The Enagas Board of Directors appointed Martí Parellada Sabata as independent Director. He was also appointed as a member of Enagas Audit and Control Committee.

Development of the Regulatory Framework

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

The Ministerial Order establishing the remuneration scheme applicable to 2004 for regulated gas sector activities was published in January 2004.

In accordance with this Order, the total estimated remuneration for Enagas in 2004 arising from regulated activities would entail a maximum increase of 9% over the previous year.

Ministerial Orders ECO 32/2004 and ECO 33/2004

These Ministerial Orders established the 2004 natural gas transport rates for the regulated market, which dropped 0.8% for domestic consumers and SMEs. Similarly, tolls and fees associated with third-party access to gas facilities, which dropped 0.6%, were also published.

Royal Decree 1716/2004, regulating the obligation to maintain the minimum safety stocks, the diversification of the natural gas supply and the creation of strategic oil product reserves.

With regard to the maintenance of minimum safety stocks, the Royal Decree establishes the obligation to maintain a volume of natural gas equal to 35 days of firm sales or consumption from the last 12 months, fixing a three month period for the calculation between the end of the 12 months taken into consideration and the date of calculating the stocks.

The following are computable as safety stocks:

- Regasification plants in the basic system network, as liquid natural gas.
- Extractable underground storage (average stocks for the last 12 months).
- Tanks at regasification plants that are not part of the basic network in relation to the consumption they supply.

Safety stocks also include:

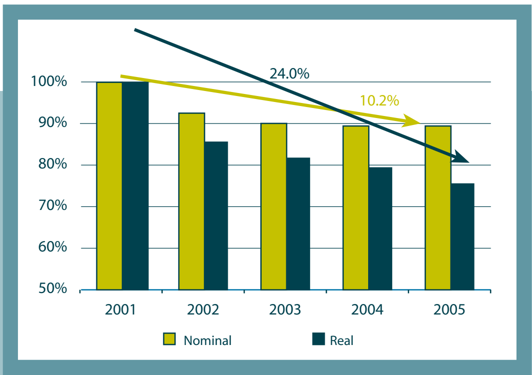
- Operational storage included in the transport fee.
- In the case of gas onboard ships, the gas that is onboard methane tankers in port is considered a safety reserve, as well as the gas in cabotage within the borders of or in transit to the Spanish market, with a scheduled unloading date of no later than 3 days.

In any case, the stocks must be stored in such a way that ensures a 60-day supply to firm consumers under average weather conditions.

With regard to the obligation to diversify natural gas supplies, the text establishes that operators who supply gas into the system are obliged to diversify their supplies when the proportion of gas originating from a single country exceeds 60% of the total.

These obligations affect transport companies who supply gas to the system, as well as the distributors and consumers who make use of the rights of access to the gas network, in relation to their firm sales or consumption.

Additionally, the new text sets out the conditions necessary to consider a supply as interruptible for the sole purpose of determining the obligations to



Evolution of the transport network access fees 2001-2005.

maintain minimum stocks and diversify supply. Thus, so that the supply of natural gas to an end customer may be interrupted, that customer must have alternative fuel, a minimum consumption of 10 GWh/year and be supplied at a pressure above 4 bars.

Moreover, the contract between the customer and the marketer must envisage interruption of the supply by the System Technical Manager, where such interruption is allowed, with 24-hour prior warning in the event of an emergency or possible threat of shortage to the supply.

Directive 2004/67/EC of the European Union Council of 26 April 2004, with regard to guaranteeing the security of the natural gas supply.

This Directive defines the measures aimed at guaranteeing a suitable level of security in the gas supply for the European Union Member States. These measures contribute to the successful operation of the internal gas market and establish a common framework in accordance with which the Member States determine certain transparent and general non-discriminatory policies for the security of the supply, which are compatible with the competition demands of the internal gas market.

The text sets out the general functions and responsibilities of the different agents that participate in the market and establishes the non-discriminatory procedures for guaranteeing the security of the gas supply.

Development 2005

Order ITC/102/2005, establishing the remuneration scheme applicable to 2005 for regulated gas-sector activities.

On 31 January 2005, Order ITC/102/2005 was published, which established the remuneration scheme applicable to 2005 for regulated gas-sector activities in Spain.

In keeping with this Order, the total estimated remuneration for Enagas in 2005 arising from regulated activities would entail a maximum increase of 16% over the previous year.

This total remuneration includes the fixed cost of assets put into operation until 31 December 2003, plus the remuneration for assets put into operation in 2004 and the projected remuneration allocated for the estimated assets put into operation throughout the year 2005.

Furthermore, it includes a provision for management of the sale and purchase of gas for supply to the market at tariffed prices and remuneration for system technical management.

The majority of the increase in remuneration in 2005 is due to the significant volume of assets put into operation in 2004, which amounted to 489.1 million euros.

The CPI and IPI forecasts for 2003 were adjusted when updating remuneration for 2005, as the definitive data for that year is now available.

The main reference variables (efficiency factor, ten-year bond differential and utilisation factor of regasification plants) have remained the same as in previous years.

The recognised remuneration for Enagas confirms the stability of the regulatory framework established in 2002, and underscores the profitability and growth potential of the Company's activities.

Ministerial Orders ITC 103/2005 and ITC 104/2005

Also published on 31 January 2005 were Orders ITC/103/2005, establishing the tolls and fees for third-party access to gas

the facilities and ITC/104/2005, concerning the applicable tariffs for natural gas. The tolls and fees for third party access to the gas facilities have remained constant with respect to 2004 and average prices have increased 0.14% for domestic customers and 0.57% for industrial customers.

Since 2001 the tolls for access to the system have decreased by 10.2% nominally and 22% in real terms, taking into account the Government inflation forecast for 2005.

Shareholders and Investors

Shareholders and Investors

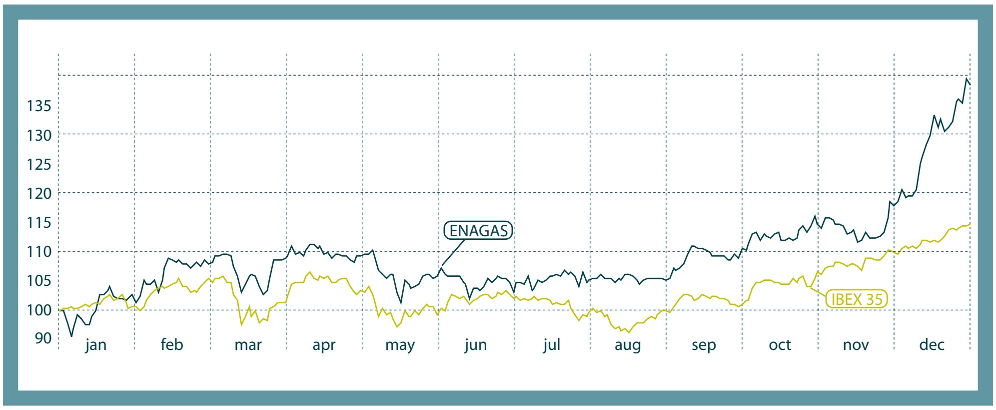
The stock markets in 2004 clearly showed that the economy is well on its way to recovery since last year, despite the fact that the increase has been modest as petrol prices are on the rise and the geopolitical situation is uncertain. All these factors slowed down the stock exchange in the first half of the fiscal year.

During the following six months, however, the markets improved significantly allowing the year to end on a much more positive note for the main international stock exchanges. For a second consecutive year, the markets have been bullish, as can be seen by the main indexes in Europe and the United States.

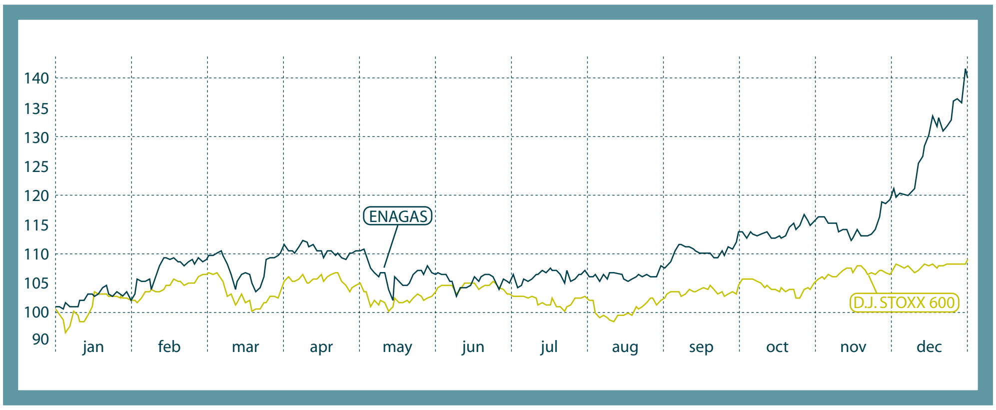
The Ibex 35 was no exception, closing the fiscal year at 9,081 points with its annual revaluation reaching 17.37%, placing it among Europe's best indexes of the year.

Evolution of Market Value

In 2004, the Enagas share rose 41.86%, up to 12.20 euros per share. Its performance had a more positive outcome than all its reference indexes: IGBM (+18.70%), Ibex 35 (+17.37%), Ibex Utilities (+18.39%) and Dow Jones Stoxx 600 (+9.60%).



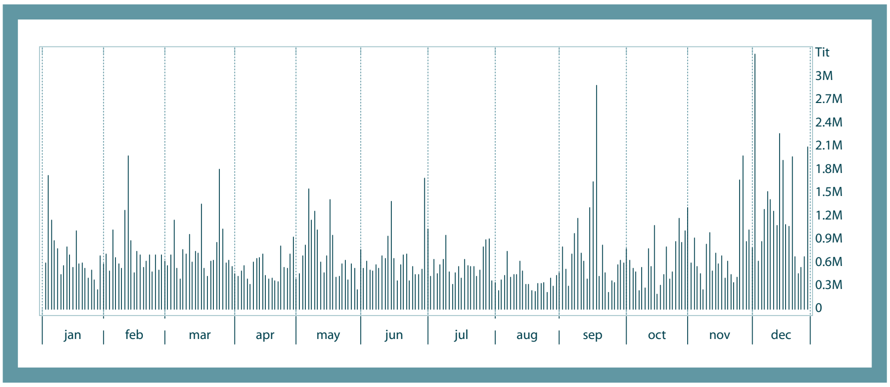
Enagas vs Ibex 35 in 2004



Enagas vs D.J. Stoxx 600 in 2004

Enagas' profitability rating positioned it fourth amongst all the Ibex 35 companies, and it had the best performance of all the European utility companies.

The maximum annual value was reached on 30 December, closing at 12.20 euros per share, and the lowest price registered was on 8 January at 8.19 euros per share. The average quoted price was 9.44 euros. The number of Enagas shares traded in 2004 reached 255.7 million, 14.5% higher than the figure registered in December 2003. The turnover came to 2,416.2 million euros, which ranked it twenty-fifth in



Enagas' traded volumes in 2004

STOCK MARKET & FINANCIAL VARIABLES PER SHARE

	2002	2003	2004
Nº of shares (million)	238.7	238.7	238.7
Capitalisation (million euros)*	1,384.5	2,053.1	2,912.6
Price at 31 December	5.80	8.60	12.20
High	6.49	8.68	12.20
Low	5.11	5.79	8.19
Average	5.73	7.13	9.44
Days quoted	128	250	250
Share volume (millions)	304.5	223.3	255.7
Turnover (millios of euros)	1,903.5	1,574.5	2,416.2
Net earnings per share (EPS)*	0.46	0.59	0.66
Cash-flow per share (CFPS)*	0.86	1.04	1.19
Book value per share *	3.57	3.91	4.26
PER (Price/earning ratio)*	12.61	14.58	18.42
PCF (Price/net cash flow per share)*	6.74	8.27	10.29

* Data at 31 December.

terms of the highest trading position on the market.

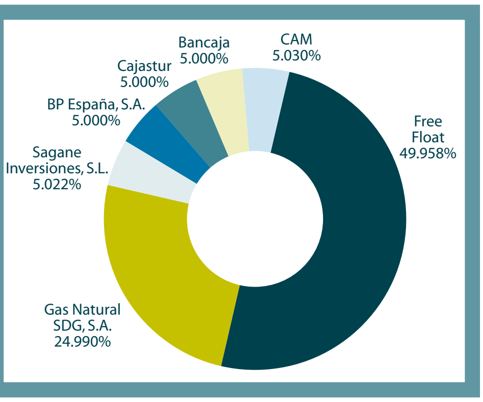
The Company's capitalisation at 31 December was 2,912.6 million euros, placing it for three consecutive years as one of the medium capitalisation shares with the best selling rate. Enagas' shares on the Ibex 35 reached 0.51% at year's end.

In keeping with the stock market regulations, the Ibex 35 Index Technical Assessment Committee reduced Enagas' weighting in the Ibex 35 to 60% of its capitalisation as of 1 July 2004. Yet, once the revision was carried out in the month of December, and considering its free float reached 44.978%, its capitalisation increased to 80%, effective as of January 2005.

Shareholder Structure

At 31 December 2004, Enagas' fully subscribed, paid-in share capital was 358,101,390 euros, divided into 238,734,260 shares of common stock with a par value of 1.5 euros per share. The Company's book-entry securities were recorded by Iberclear and its member institutions, which were responsible for the accounting records of Enagas' shares.

In 2004, there were variations in significant segments of Enagas' capital. Gas Natural SDG lowered its stake by 14.562% during the year, ending fiscal 2004 with 24.990% of Enagas' shares. On the other hand, Caja de Ahorros del Mediterráneo notified the Spanish National Securities Market Commission (CNMV) on 23 March 2004 that its stake in Enagas' capital had risen to 5.030%, a 1.511% increase in shares compared to year-end 2003.
In terms of the remaining core shareholders and stakes, there were no major changes with respect to 31 December 2003: Sagane Inversiones held 5.022% of Enagas' capital, B.P España S.A had a 5,000% stake, and Caja de Ahorros de Asturias (Cajastur), as well as Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), had another 5.000% each.
The Company's free float at 31 December stood at 49.958% of all of Enagas' shares.
Of the shareholders identified as free float, and according to data supplied by Iberclear for the 2004 General Shareholder's Meeting, approximately 20% is national, while the remaining 80% corresponds to international investors, primarily located in the United States, the United Kingdom, and Germany.



Board of Directors

At 31 December 2004, the Enagas Board of Directors owned a total of 23,957,258

Nº of shares per Shareholder	Shareholder	Total shares	Stake
Up to 500	91,437	18,376,724	7.70%
501 - 10,000	8,265	9,732,713	4.08%
10,001 - 30,000	237	3,975,493	1.67%
30,001 - 50,000	54	2,053,243	0.86%
50,001 - 100,000	46	3,156,288	1.32%
100,001 - 500,000	65	13,877,782	5.81%
500,001 - 2,000,000	21	18,880,625	7.91%
Over 2,000,001	10	168,681,392	70.66%
Total	**100,135**	**238,734,260**	**100%**

* Source: Iberclear (General Shareholders Meeting 2004).

shares in direct and indirect holdings, or 10.03% of the share capital. At 31 December, the shareholdings reported to the National Securities Market Commission (CNMV) were the following:

- Caja de Ahorros del Mediterráneo (Controlling Director): 12,002,000 shares.
- Caja de Ahorros de Valencia, Castellón y Alicante (Controlling Director): 11,936,713 shares.
- Sir Robert Malpas (Independent Director): 12,000 shares.
- Antonio González-Adalid García-Zozaya (Chairman of the Board): 6,069 shares.
- Rafael Villaseca Marco (Controlling Director): 356 shares.
- Ramón Pérez Simarro (Independent Director): 100 shares.
- Salvador Gabarró (Controlling Director): 10 shares.
- Luis Javier Navarro Vigil (Controlling Director): 10 shares.

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

Dividends

The motion presented at the General Shareholders' Meeting, in view of the results obtained by Enagas in fiscal 2004, was to distribute a gross dividend of 0.33 per share which, if approved, would represent an 11.3% increase over the amount distributed the previous year, and an accumulated increase of 43.5% in the last three years.

With this dividend, 50% of the Consolidated Net Profit after taxes will be distributed amongst the shareholders, in keeping with Enagas' commitment to maximising the creation of value for shareholders.

The dividend yield was 2.71% over list price at year-end 2004.

DIVIDENDS

	2002	2003	2004
Total amount (million euros)	55.035	71.009	79.063
Interim Dividend	21.486	28.648	31.035
Additional	33.549	42.361	48.028
Gross dividend per share (euros)	0.23	0.30	0.33(**)
Interim Dividend	0.09	0.12	0.13
Additional	0.14	0.18	0.20(**)
% on par value	15.3%	20.0%	22.1%
Dividend Yield*	4.0%	3.5%	2.7%
Pay-out (%)***	50%	50%	50%

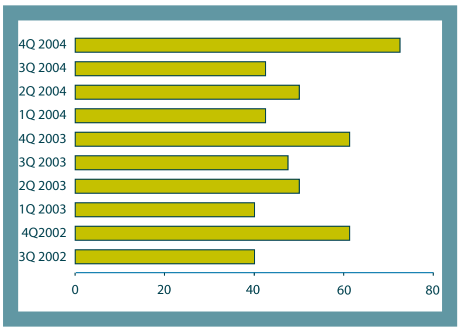
* Data at 31 December.
** Subjet to approval by the Shareholders' General Meeting of final dividend to be distributed.
*** Percentage of Net Profit to be distributed as dividend.

Transparency and Communication

The transparency of the information furnished to the financial markets has been one of Enagas' priorities since it first went public in 2002. In order to comply with this commitment, Enagas favours all channels of communication through which the relationship between the Company and its shareholders can be established, regardless of whether they are independent or institutional investors.

In 2004, Enagas continued to intensify its transparency and communication policy with its shareholders, institutional investors, and stock market analysts. The most commonly used channels are presentations at forums, meetings, conferences, and road shows at significant locations in the financial sector. The following are some highlights of 2004:

- Four conference calls were run to present the quarterly results. This has been a common practice in the Company since it went public in 2002. The average of participants at these conference calls showed an increasing trend.



Number of participants in the conference calls

- Meetings were held with over 500 institutional investors and analysts both at Enagas' head office, as well as at different locations in Europe and the United States.

During the past fiscal year, a total of 34 financial institutions published opinions on the Company, as compared to 33 in 2003. Analysts' opinions on Enagas' performance is continually being updated on the Company's website (www.enagas.es) in the Shareholders and Investors section.

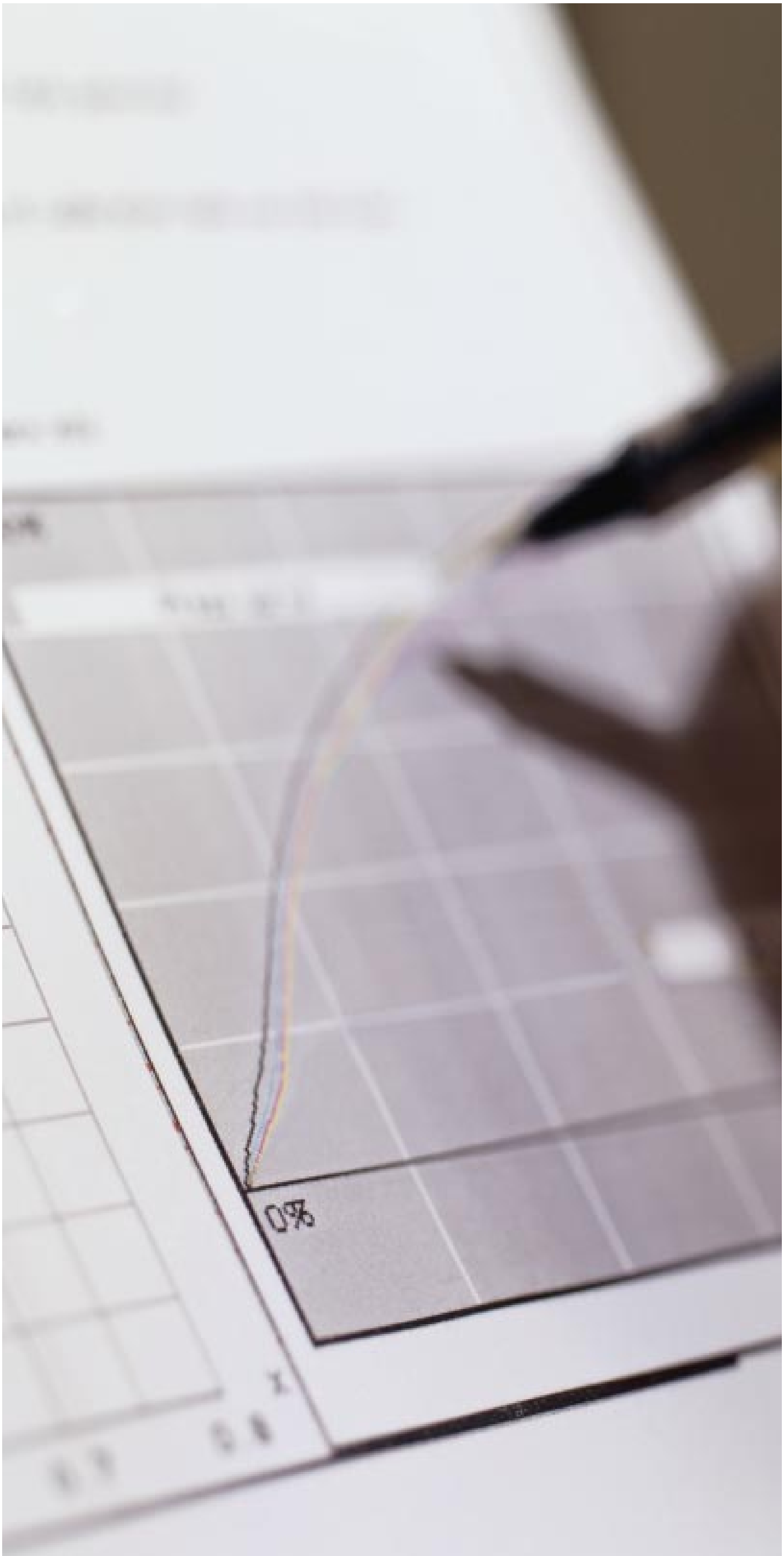
Enagas' Investor Relations Director sits on the Board of Directors of the Spanish Investor-Relations Association, AERI and is an honorary member of the European Council on Investor Relations.

Moreover, and in accordance with the legislation in effect, Enagas reported all relevant Company events that occurred during the year to the National Securities Market Commission (CNMV) and the Federation of Stock Exchanges. During the course of 2004, 32 such reports were made to this effect.

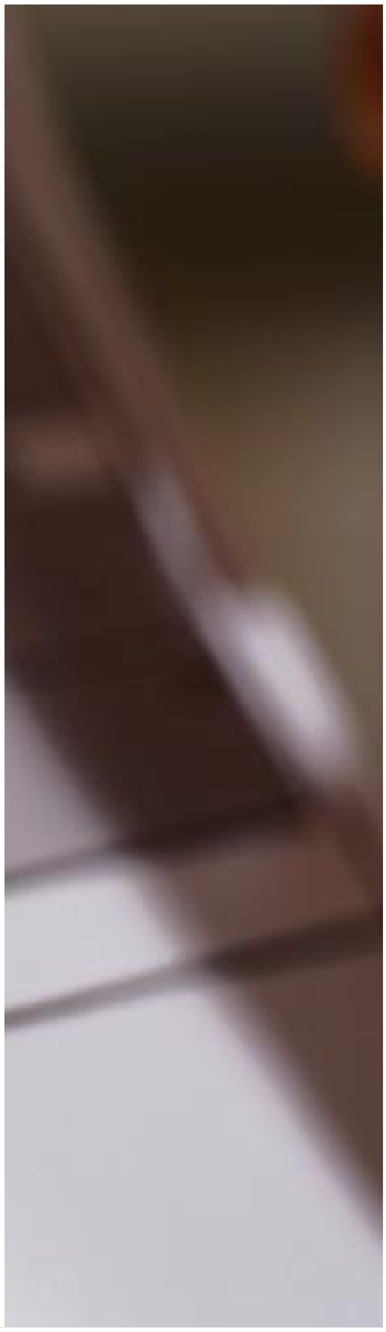
Investors and shareholders may contact the Company both by phone and by e-mail at the following addresses: for investors at (investors@enagas.es) and for shareholders at (accionistas@enagas.es).

These two new additional means of communication were frequently used in the last year. A total of 800 e-mails were answered and all of the shareholders' requests were responded to, as well as consultations made by those simply interested in the Company.

The Enagas Shareholders' Office toll-free line (900 100 399) registered a total of 1,350 calls during this year, and over 900 documents were sent by post.



Consolidated Management Report



Consolidated Management Report

Main Figures

Enagas earned a Consolidated Net Income of 158.1 million euros, up 11.3% from the figure for 2003.

It is important to note that the figures for both years are comparable for the first time since Enagas went public, as the same regulatory framework, which entered into effect on 19 February 2002, was applicable.

CONSOLIDATED ANNUAL RESULTS (Millions euros)

	2001	2002 (*)	2003	2004	Var.% 03/04
Operating Cash Flow (EBITDA)	249.4	333.7	383.0	419.1	+9.4%
Operating Profif (EBIT)	138.1	207.2	249.5	274.3	+9.9%
Profit from Ordinary Activities	98.1	167.8	217.8	241.3	+10.8%
Net Income before Extraordinary Items	78.7	109.3	142.3	157.3	+10.5%
Net Income after Taxes	117.8	110.1	142.0	158.1	+11.3%

FINANCIAL FIGURES (Millions euros)

	2001	2002 (*)	2003	2004
Total Assets	2,754.6	2,895.7	3,093.0	3,471.8
Shareholders' Equity	779.6	852.4	932.3	1.017.3
Net Financial Debt	1,062.2	1,253.0	1,278.7	1,426.6
Investments	216.8	192.3	426.3	468.6
Net Cash Flow	142.3	205.2	248.8	283.0
Net Debt/EBITDA	4.26 x	3.75 x	3.33 x	3.40x
Interest cover over EBITDA	6.88 x	8.47 x	12.1 x	12.7x
Net Debt/Total Assets	38.6%	43.3%	41.3%	41.1%
ROE after tax	9.6%	13.4%	15.9%	16.2%
ROCE after tax	5.0%	6.9%	7.5%	7.7%

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

Results

Revenues

In 2004 Enagas' Gross Margin over Revenues totalled 620.9 million euros, 6.7% higher than the figure reached in 2003.
The increase in total remuneration from regulated activities, established in Ministerial Order ECO/31/2004, was a contributing factor in this gain.
This figure breaks down as follows:

- Revenue from sales of natural gas was 726.1 million euros, 30% lower than the previous year. Supply for these contracts amounted to 720.6 million euros. This revenue was earned through the sale of natural gas to distribution or transport companies for subsequent distribution to the tariff market at prices officially approved by the Government. The decline in this item is due to the evolution of market share in this market, 19.7% at the end of 2004 as compared to the 23.3% reached at 31st December 2003.
- Revenue for provision of services: earned in regulated activities and revenue from the rest of the companies in which Enagas has holdings for non-regulated activities. This heading amoun-

PROVISION OF SERVICES (Millions euros)

Company	2001	2002	2003	2004
Enagas	165.7	418.1	517.6	554.7
Gasoducto Al-Andalus, S.A	5.7	6.2	6.4	6.6
Gasoducto Extremadura, S.A	1.2	5.3	5.5	5.2
Gasoducto Campo Maior-Leiria-Braga, S.A	2.2	2.2	2.3	2.2
Gasoducto Braga-Tuy, S.A	-	0.2	0.2	0.3
Total	**174.8**	**432.0**	**531.9**	**569.0**

ted to 569 million euros, or 7% higher than the 531.9 million euros earned at year-end in 2003.

– Other operating revenues: this heading contains three sub-items: first, the subsidies reflected on the balance sheet and applied to revenues according to the useful life of the tangible assets they subsidise, other auxiliary and ordinary trading revenues and finally, work done by the Company for fixed assets. The sum reached by the end of the fiscal year was 46.4 million euros.

Expenditure

Enagas' net operating expenses remained in line with those recorded in 2001, 2002 and 2003, in keeping with the Company's objective of improved operating efficiency.

– Personnel expenses came to 57.9 million euros, 0.2% lower than the figure for 2003. As of 31 December the work-

OTHER OPERATING EXPENSES (Millions euros)

	2001	2002	2003	2004
Leases and fees	62.4	57.9	56.9	58.8
Repairs and conservation	18.9	21.6	20.8	20.8
Independent professional services	6.6	9.2	9.0	9.6
Transport	16.3	17.0	15.6	16.6
Premiums and insurance	2.2	4.4	6.7	5.3
Banking services and similar	0.3	0.2	0.2	0.4
Publicity, adversiting and public relations	0.4	4.0	1.3	1.3
Supplies	9.0	10.5	14.2	13.9
Other services	19.2	12.9	6.7	8.6
Total	**135.3**	**137.7**	**131.4**	**135.3**

force consisted of 904 employees, as compared to the 878 employees recorded in 2003.

– Other operating expenses reached a total of 135.3 million euros, up 1.4% from the figure for 2003. It is important to note that this figure includes the net expenses arising from port charges, which are entered as other operating revenues once they arise.

Operating Cash Flow (EBITDA)

The Company's Operating Cash Flow (EBITDA) rose 9.4%, reaching 419.1 million euros, as a result of the positive performance of the Gross Margin over Revenues.

The investments put into operation during the course of the year, amounting to 489.1 million euros, entailed an increase in the provision for depreciation of fixed assets, which reached 144.8 million euros, up 8.5% from the figure registered in 2003.

Operating Profit (EBIT)

As a result of all the foregoing, the Operating Profit (EBIT) was 274.3 million euros, 9.9% higher than the 249.5 million recorded in December 2003.

Financial Results

The Consolidated Result of Financial Transactions, considering the activation of financial costs (7.1 million euros), showed a 33 million euro loss. Financing costs were registered at 35.2 million euros in December 2004, which remained practically steady with respect to 2003. The last quarter shows a financing cost of 3.1 million euros, for the early amortisation of the commitment fee for the syndicated loan signed in April 2003 and renegotiated in November 2004.

The interest cover over EBITDA at 31 December 2004 was 12.7x, one of the highest multipliers in the sector that clearly evidences the current liquidity and financial soundness of Enagas.

Extraordinary Items

In the course of fiscal 2004, extraordinary, non-recurrent revenues totalling 1.3 million euros were entered. The main items comprising this total figure are broken down in note 24 in the consolidated financial statement for the 2004 fiscal year.

Net Income

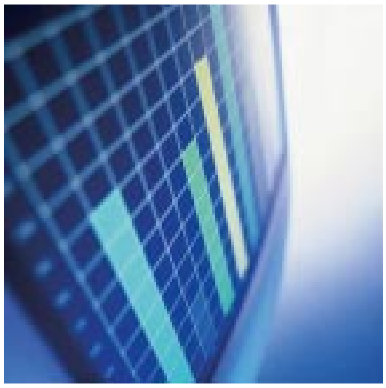
Enagas' Consolidated Profit after tax in 2004 was 158.1 million euros, representing a growth of 11.3% with respect to the figure earned in the previous year.

Investments

During 2004, 489.1 million euros worth of assets were put into operation, thus confirming progress toward the strategic goals announced by Enagas and ensuring growth by expanding the Company's solid remunerable infrastructure base.

This volume of assets is a record high for Enagas, and more than triples the figure for the previous year.

Investments for the year totalled 468.6 million euros, 9.9% higher than the figure for 2003. Of the total investments made, 53.5% were devoted to the construction or expansion of the gas transport network, 45.5% to regasification projects and



the remaining 1% to underground storage infrastructures and other projects.

Moreover, the Board of Directors of Enagas approved 342.2 million euros worth of investment projects in the course of the year. Of particular note amongst the approved investments is the undersea gas pipeline to the Balearic Islands, a project awarded to Enagas on 7 July 2004. The Company has already carried out studies on both its land and undersea sections to find the best possible option for the environment and maximum efficiency in the infrastructures that will supply the Balearic Islands with natural gas.

Financing

Net Cash Flow

The Net Cash Flow from transactions in fiscal year 2004 came to 283 million euros, up 13.7% from the figure registered in 2003.

Evolution of Financial Debt

In finance, throughout 2004 Enagas took a number of significant steps in keeping with the Company's objective of minimising risk and optimising the structure of the balance sheet, financing its activities primarily with long-term, fixed-cost debt under the most favourable market conditions.

The Company's net financial debt at 31 December 2004 amounted to 1,426.6 million euros, up 11.6% from the 1,278.7 million recorded in December 2003. At year-end, 95% of the financial debt was long-term and 70% was covered by instruments at a maximum fixed cost of 4.66%.

The net debt ratio (net financial debt over total assets) at the end of fiscal 2004 was 41.1%, in keeping with Enagas' policy of raising its indebtedness moderately in function of its investment plan and mirroring the regulated, stable nature of the Company's activity.

NET CASH FLOW FROM TRANSACTIONS (Millions euros)

Company	2001	2002	2003	2004
Year Results	**117.8**	**110.1**	**142.0**	**158.1**
Provision for depreciation	111.3	126.5	133.6	144.8
Expenses to distributed over various years	1.1	-0.8	0.6	0.9
Revenues to be distributed over various years	-25.6	-29.7	-28.6	-26.9
Net allocation of provision for contingencies and expenses	-58.8	0.8	1.0	6.5
Variation in provision for tangible assets	-5.3	-1.4	0.3	-0.4
Disposal of fixed assets	-3.0	-0.2	-	-
Cash Flow from transactions	**142.3**	**205.2**	**248.8**	**283.0**

The Enagas Business Plan entailed the Company entering into a series of loans that would cover its financial needs until the year 2006.

Thus, in February 2004, Enagas signed a loan agreement in the amount of 200 million euros with the Official State Credit Institute (Instituto de Crédito Oficial - ICO) with a 15-year repayment term. In addition, and by virtue of the framework agreement signed with the European Investment Bank in March 2004, Enagas signed a further loan agreement with this entity for 450 million euros structured in two tranches and with repayment terms of between 10 and 15 years.

Cost of Debt

The average cost of debt was 2.98%, compared to 2.86% for 2003. Enagas closed out fiscal 2004 with one of the lowest finance costs in the sector, largely due the way the Company's financial and treasury policy was steered and to the stability of interest rates. During the course of 2004, Enagas arranged for coverage of the interest-rate risk through several underwriting operations that will involve a total financing overhead of 2.83% applied to a total of 1 billion euros for the syndicated loan signed in April 2003.

The 2005-2008 period is likewise covered by financial instruments applicable to the amount of the syndicated loan which minimise the interest-rate risk, thus financing investments under the best conditions possible at the long-term for a known maximum cost of 4.66%.

Ratings

As a consequence of the financial management carried out, the successful implementation of the investment plan and the solid liquid position of the Company, the rating agencies Standard & Poor's and Moody's upgraded Enagas' ratings in 2004, confirming it as the most secure and financially sound company in the Spanish energy sector.

Standard & Poor's

Standard & Poor's upgraded the Enagas long-term rating "AA-" with a stable ou-

DEBT AT DEC-31-04 (Millions euros)

Institution	S.T.		L.T.		TOTAL	
EIB	8.8	1%	176.8	12%	185.6	13%
CREDIT LINES	46.9	3%	4.6	0%	51.5	4%
SYNDICATED LOAN	7.3	1%	1,000.0	70%	1,007.3	71%
ICO	0.0	0%	150.0	11%	150.0	11%
TRANSGAS	4.3	0%	29.9	2%	34.2	2%
TOTAL DEBT	67.3	5%	1,361.3	95%	1,428.6	100%
CASH	2.0	0%	0.0	0%	2.0	0%
TOTAL NET DEBT	65.3	5%	1,361.3	95%	1,426.6	100%

tlook. In its report, Standard & Poor's underscores the enhanced prospects for generating profits and the strengthening of the Company's financial position. Furthermore, the agency positively evaluated the progress made in the Regulatory Framework, which it describes as "stable and favourable", and, thus, conducive to the "predictability of the Company's revenue" in an environment of high growth and substantial investments.

Moody's

In the month of July, Moody´s revised the Enagas' long-term rating outlook, upgrading it from stable to positive.

Moody's report highlights the successful implementation of the Company's investment programme while maintaining a solid financial and operational profile, and remarks that the excellent annual liquidity and solvency ratios published in the Company's Annual Re-

RATING AGENCIES

Standard & Poor's			Moody's		
Date	Rating	Outlook	Date	Rating	Outlook
16/01/2004	AA-	Stable at the long-term	05/07/2004	A2	Positive at the long-term
05/11/2002	A+	Stable at the long-term	12/11/2002	A2	Stable at the long-term

port were far above the agency's expectations.

Moody's viewed the progress made and the stability of the Regulatory Framework that establishes Enagas' remuneration as positive, allowing for suitable financial returns on the growing base of regulated activities.

Morevoer, Moody's gave Enagas a short-term credit rating of Prime-1 for the first time.

Refinancing of Loans

In the last quarter of the year, the rating upgrades given by Moody's and Standard & Poor's enabled Enagas to re-negotiate the conditions of the syndicated loan for billion euros signed in April 2003 and those signed with the ICO in December 2002 and February 2004, for 150 and 200 million euros respectively, with repayment terms of 10 and 15 years.

The refinancing of both loans entailed a significant reduction in the financial cost associated to the financing, and in the case of the syndicated loan, the repayment period was extended from 2008 to 2010.

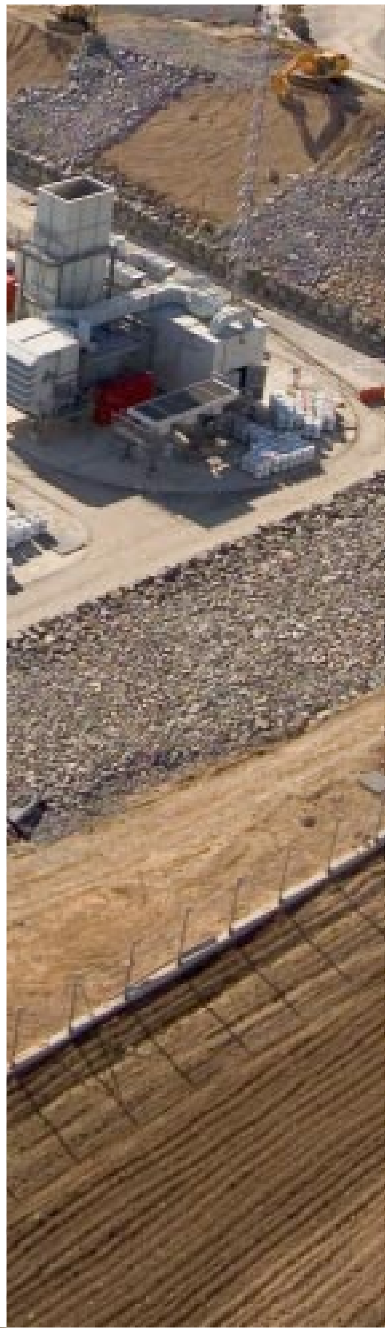
LIABILITIES (Millions euros)

	2001	2002	2003	2004
Short-term debt with financial institutions	83.4	1,016,0	24.9	63.0
Long-term debt with financial institutions	78.6	190.8	1.215,3	1,331.1
Short-term debt with Group and Associated companies	323.2	157.0	146.9	259.9
Long-term debt with Group and Associated companies	862.1	8.5	8.5	4.6
Short-term Trade Accounts Payable	82.9	107.2	212.8	262.2
Short-term non-Trade Accounts Payable	19.1	49.0	64.6	69.3
Long-term Accounts Payable	44.8	36.7	31.7	28.0
Total Gross Debt	**1,494.1**	**1,565.2**	**1,704.7**	**2,018.1**

SHAREHOLDERS' EQUITY (Millions euros)

	2001	2002	2003	2004
Share Capital	358.7	358.1	358.1	358.1
Revaluation Reserve	342.5	342.5	342.5	342.5
Legal Reserve	47	60.1	70.8	71.6
Voluntary Reserves	15.9	2,0	44.0	111.2
Reserves in co.'s using proportional consolidation method	-0.7	1.1	3.5	6.8
Consolidated Profit and Loss	117.8	110.1	142.0	158.1
Interim Dividend	-101.6	-21.5	-28.6	-31.0
Total Shareholders' Equity	**779.6**	**852.4**	**932.3**	**1,017.3**

Operating Highlights



Operating Highlights

During 2004, natural gas continued progressing in its contribution to the Spanish energy balance, becoming the second primary energy source in Spain.

According to data from 2003, natural gas represented 15.8% of the primary energy consumed in Spain and 16.3% of the energy marketed. In the European Union, natural gas accounted for 24.9% of the energy balance, a similar figure to that obtained on worldwide, where natural gas represented 24.3% of the total primary energy consumed at the end of 2003.

The commitments arising from the Kyoto protocol and the European Directive on reducing emissions confer a vitally important role on the consumption of natural gas in the upcoming years, to enable Spain to meet its environmental aims and gas emissions causing the greenhouse effect do not exceed 15% of those recorded in 1990.

Thus, the electricity production structure in Spain varied considerably in 2004, when 14.3% of electricity was generated in natural gas combined conventional and gas turbines, compared to 7.7% reached in 2003.

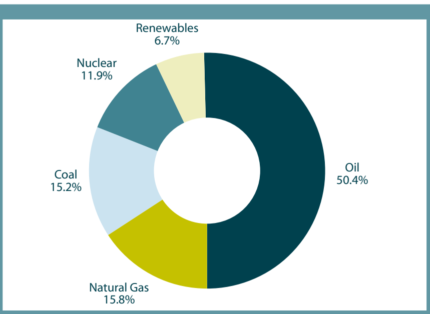
The use of natural gas as a fuel for the generation of electricity implies a reduction of approximately 40% in carbon dioxide emissions, the main cause of the greenhouse effect, with the consequent positive effects for society regarding quality of life and sustainable development.

Demand for natural gas

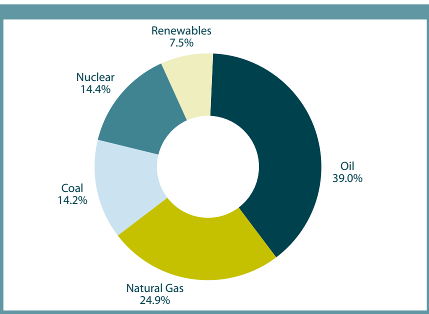
In 2004, the demand for transported gas for the national market reached 319,599 GWh,

The maximum record for daily demand of natural gas in Spain was registered on 27 January, 2005. On that day 1,503 GWh were consumed, 20.5% more than the figure reached in March 2004.

The infrastructures put into operation between 2002 and the end of 2004 enabled the capacity of the system to be increased by 50% with a 10% reserve margin over the peak rate for the year.



Primary energy consumption in Spain in 2003



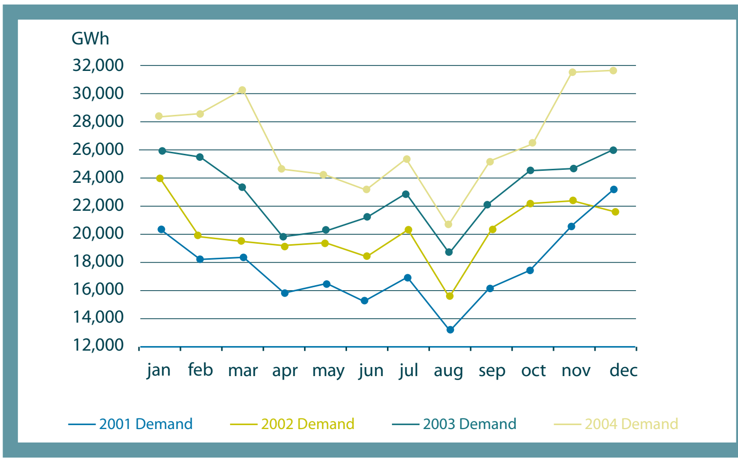
Primary energy consumption in the EU in 2003

16.1% higher than that registered at the end of 2003.

90.6% of this demand (289,590 GWh) was transported by Enagas, and the rest by other transport companies.

Significant peaks in demand were registered in 2004. The first occurred specifically on 2 March, reaching 1,246 GWh as a result of the low temperatures affecting the country.

The cold spell registered in December made the demand for natural gas rise dramatically, reaching an average daily consumption of 987 GWh in that month, 22.1% over the average for December 2003.



Natural Gas average monthly demand evolution

Operating Highlights

Winter 03-04
2-mar-04 134,3 GWh/day

Winter 04-05
27-Jan-05 224,8 GWh/day (+67%)
% s/(Total) 15%

Winter 03-04
2-mar-04 50,5 GWh/day

Winter 04-05
27-Jan-05 58,0 GWh/day (+15%)
% s/(Total) 4%

Winter 03-04
2-mar-04 26,3 GWh/day

Winter 04-05
27-Jan-05 22,5 GWh/day (–14%)
% s/(Total) 1%

Winter 03-04
2-mar-04 77,8 GWh/day

Winter 04-05
27-Jan-05 85,5 GWh/day (+10%)
% s/(Total) 6%

Winter 03-04
2-mar-04 34,4 GWh/day

Winter 04-05
27-Jan-05 41,1 GWh/day (+20%)
% s/(Total) 3%

Winter 03-04
2-mar-04 338,1 GWh/day

Winter 04-05
27-Jan-05 399,4 GWh/day (+18%)
% s/(Total) 27%

Winter 03-04
2-mar-04 2,0 GWh/day

Winter 04-05
27-Jan-05 2,4 GWh/day (+21%)
% s/(Total) 0%

Winter 03-04
2-mar-04 22,7 GWh/day

Winter 04-05
27-Jan-05 25,2 GWh/day (+11%)
% s/(Total) 2%

Winter 03-04
2-mar-04 14,0 GWh/day

Winter 04-05
27-Jan-05 19,3 GWh/day (+38%)
% s/(Total) 1%

Winter 03-04
2-mar-04 137,6 GWh/day

Winter 04-05
27-Jan-05 137,6 GWh/day (+25%)
% s/(Total) 11%

Winter 03-04
2-mar-04 32,8 GWh/day

Winter 04-05
27-Jan-05 36,2 GWh/day (+10%)
% s/(Total) 2%

Winter 03-04
2-mar-04 54,9 GWh/day

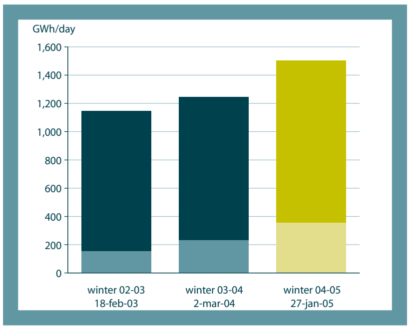
Winter 04-05
27-Jan-05 60,2 GWh/day (+10%)
% s/(Total) 4%

Winter 03-04
2-mar-04 135,6 GWh/day

Winter 04-05
27-Jan-05 166,9 GWh/day (+23%)
% s/(Total) 11%

Winter 03-04
2-mar-04 157,5 GWh/day

Winter 04-05
27-Jan-05 164,8 GWh/day (+5%)
% s/(Total) 11%



	Winter 02-03 18-feb-03	Winter 03-04 2-mar-04	Winter 04-05 27-jan-05	% over previous winter
Conventional	993	1,014	1,148	13%
Gas emission	950	968	1,102	14%
LNG cisterns	44	46	45	-2%
Electric Sector	154	233	355	53%
Power stations	43	35	53	50%
ccgt	112	198	303	53%
Total market	**1,148**	**1,247**	**1,503**	**21%**

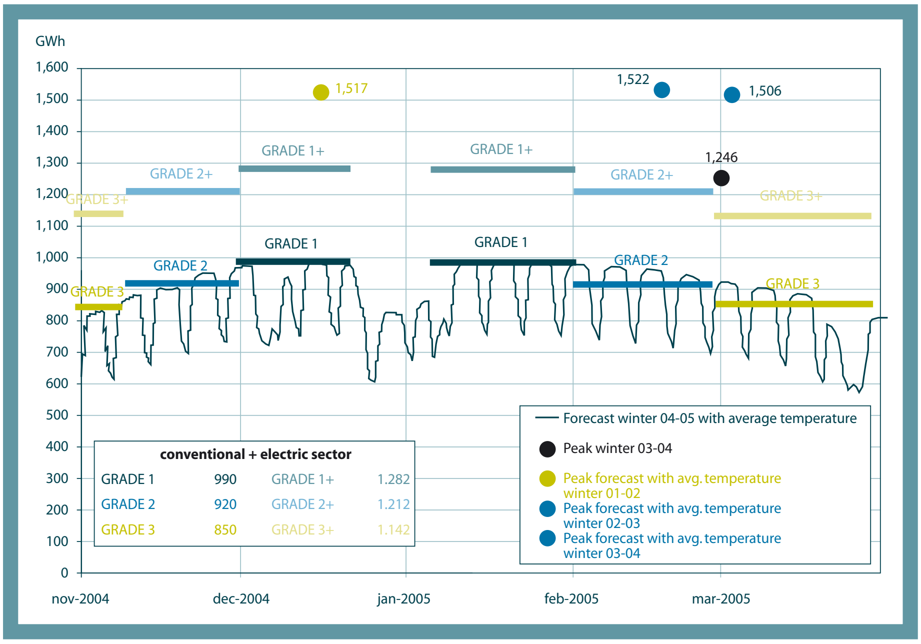
PEAK DEMAND OF NATURAL GAS CONSUMPTION (GWh)

The forecast for natural gas demand is essential so that, when faced with anomalous situations caused by abrupt changes in the weather, Enagas as a System Technical Manager may carry out its key task of guaranteeing the continuity and security of the supply and the smooth operation of the network.

Thus there are I.T. programs, such as "Templates" and "Level 1", developed by the Company, which make daily estimates covering 18-month periods, considering the behaviour of the demand for both hot and cold seasons.

The study done in 2004 was highly precise. Thus, the series of the total forecast demand for the residential and industrial market and for the generation of electricity in power plants and combined conventional and gas turbines produced an average daily consumption of 1,282 GWh at its highest.

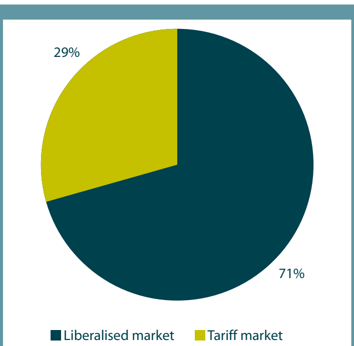
Additionally, and considering the impact of real temperatures during the last few winters, on a daily level a peak in the demand of 1,500 GWh a day was forecast, 20% higher consumption the figure registered on 2 March 2004.



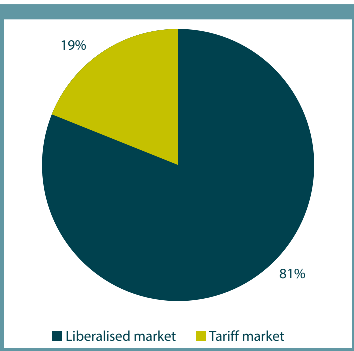
Liberalisation of the market

The process of liberalisation of the gas sector in Spain moved forward considerably in 2004, proving to be one of the fastest and most efficient in the European Union. Spain currently occupies first place amongst the continental European countries for its real level of liberalisation. In 2004, the Liberalised Market continued gaining ground against the Tariff Market, with regard to volume as well as number of clients. Enagas, as the main transport company in Spain and as System Technical Manager, contributed significantly to regasification, transport and storage of natural gas to the agents operating in the Liberalised Market and which, in turn, handle over a million clients.

The accumulated consumption of natural gas for this sector of the market on 31 December 2004 amounted to 257,734 GWh, representing an 80.6% share of the total transported demand. This volume of transported gas is 32.5% more than the volume reached in 2003, when the Liberalised Market represented 71% of the total.



Market share 2003



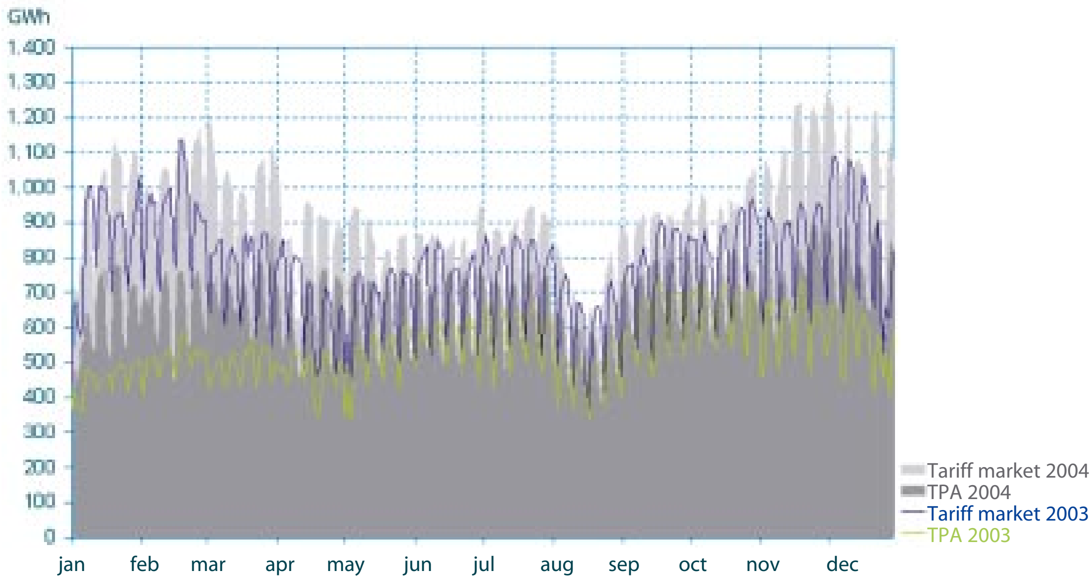
Market share 2004

Demand by sectors

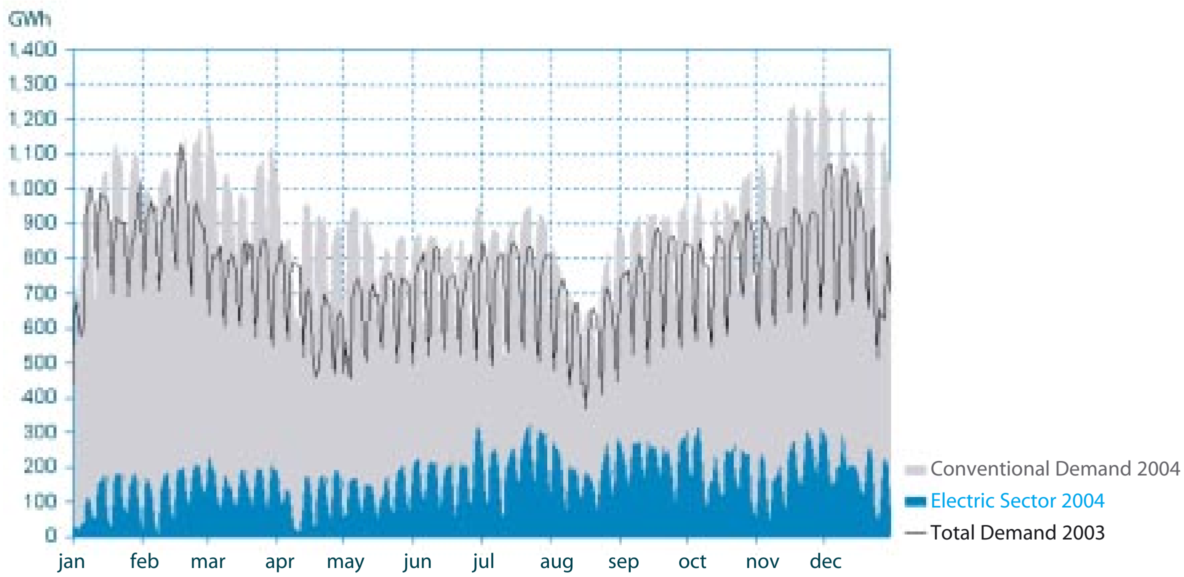
In 2004, of the total demand for transported natural gas in Spain, 79.1% was destined for consumption by the conventional

DEMAND BY SECTORS (GWh)

Units GWh	2001	2002	2003	2004
Liberalised Market				
Conventional market	80,969	122,000	165,664	199,527
Combined conventional gas turbines	-	11,192	28,871	58,206
Total	**80,969**	**133,192**	**194,535**	**257,733**
Tariff Market				
Conventional market	118,186	93,695	69,545	53,401
Electricity generation	12,652	16,151	11,158	8,465
Total	**130,838**	**109,846**	**80,703**	**61,866**
Total Demand	211,807	243,038	275,238	319,599



EVOLUTION OF DEMAND BY MARKETS



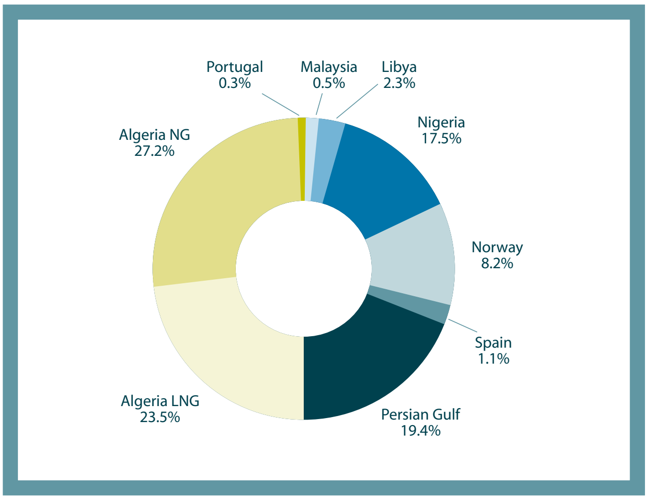
EVOLUTION OF DEMAND BY SECTORS

sector comprised of residential and industrial customers. The difference lies in consumption by combined conventional and gas turbines and conventional power plants for the generation of electricity from natural gas.

Within the Liberalised Market, the consumption of 16 combined conventional and gas turbines in commercial operation and that of the 5 additional ones being tested accounted for a volume of 58,206 GWh, up 101.6% from 2003. The conventional sector of domestic-commercial and industrial customers in the free market consumed 199,527 GWh.

Within the Tariff sector, 86.3% of the total demand in this market was transported for the domestic, commercial and in-

dustrial sectors and the rest was allotted to conventional power plants and the occasional supply of natural gas for testing combined conventional and gas turbines.



Supply Sources 2004

Natural Gas Supply

In 2004, natural gas stocks increased to 320,175 GWh, 14.8% over the previous year. Domestic production of natural gas amounted to 3,664 GWh, 1.1% of the needs for Spain, thus the difference corresponded to imports from other countries undertaken by the marketing companies, distributors, final customers and by Enagas for supply to the Tariff Market.

In 2004, natural gas supplies were done in a variety of ways, from the point of view of the origin of the supply as well as the natural gas intake into the system; emission natural gas or liquid natural gas (LNG).

The volume of supply in 2004 confirms the importance of LNG, which represented 63% of the total supply in that year. In 2004, Spain continued to be the European Union country most active in the LNG spot market, given the advantages in flexibility of the origins and quantities, the smaller periods for the installation of the necessary intake capacity and the competitiveness of the LNG prices in the Spanish system.

All of the aforementioned advantages, coupled with the saturation of the international pipelines explain the clear commitment to LNG as the basis of the supply structure.

The remaining natural gas supply (118,467 GWh) came from domestic natural gas and the imports done through the Tarifa, Larrau and Tuy international connections.

The 2004 year witnessed a diversification in the origin of supply by the operators supplying the Tariff Market and the Liberalised Market and, as specified in the current regulations, no country represented

SYSTEM INTAKES (*) (GWh)

	2001	2002	2003	2004
Natural Gas				
Tarifa	62,285	72,669	74,509	87,540
Larrau	26,840	26,433	26,640	26,356
National	5,868	5,830	2,529	3,664
Tuy	-	-	-	908
GNL				
Barcelona Plant	58,612	69,361	71,962	79,948
Cartagena Plant	19,156	43,903	57,792	61,998
Huelva Plant	36,673	30,564	36,730	34,015
Bilbao Plant	-	-	8,608	29,307
Total Supply	**209,434**	**248,760**	**278,770**	**323,735**

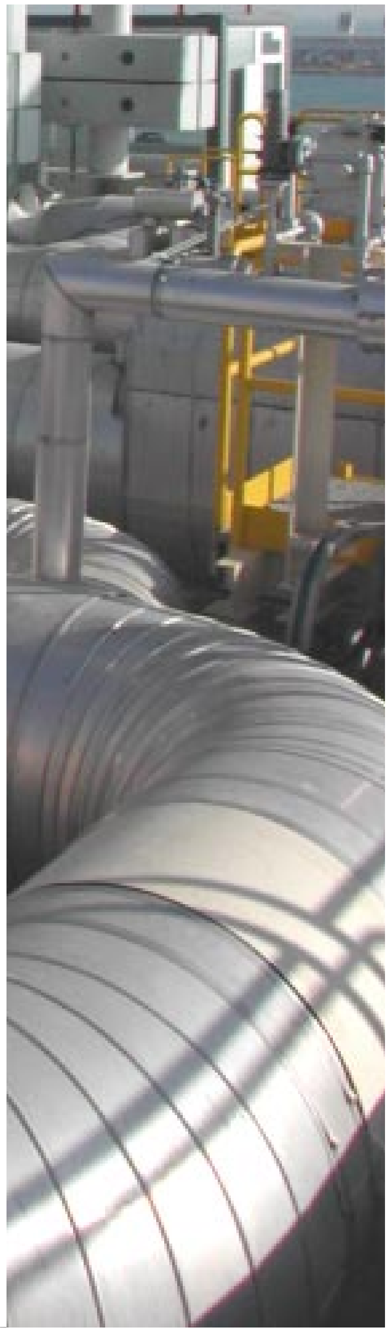
(*) This includes the LNG transfers from regasification plants to tankers, either destined for other regasification plants in the Spanish gas system or for a different country.

more than 60% of the total supply. Algeria continued to be the main supplier to the Spanish gas system due to its geographical proximity to Spain and the long-term contracts in place with this country. Algerian natural gas accounted for 50.2% of the total; the natural gas consumed in Spain originated at 10 different sources, highlighting two intakes in December from Malaysia.

As established in the current regulations, in 2004 Enagas centralised the majority of the natural gas purchases for supplying the Tariff Market, whilst in the Liberalised Market it is the marketers that undertake the supply of their customers.

The Tariff Market was mainly covered by natural gas from Algeria transported through the Maghreb-Europe pipeline, whilst the Liberalised Market was primarily supplied using liquid natural gas and Norwegian gas via the Larrau international intake.

Activities



Activities

Enagas is the number one natural gas transport, regasification and storage company in Spain, with a market share of approximately 90%.

At the end of 2004, the Company's gas infrastructure was comprised primarily of:

- A total network of 7,158 km of gas pipeline, designed to operate at pressures of 72 and 80 bars.
- Eleven compression plants and 291 regulation and measurement stations.
- Three regasification plants, located in Barcelona, Cartagena and Huelva, with a regasification capacity of 2,700,000m3/h and storage capacity of 710,000 m3 of liquid natural gas (LNG).
- Two underground storage facilities, the Serralbo facility in Huesca, which is owned by the Company, and the Gaviota offshore platform in Vizcaya, leased from Repsol YPF and Murphy Eastern Oil.

To ensure the global operation of the gas system, Enagas has developed and enlarged the gas transport facilities in Spain, thus guaranteeing third party access and performing its role as the gas

System Technical Management efficiently, transparently and with complete neutrality.

Moreover, Enagas is responsible for supplying the needs of the tariff market, purchasing natural gas from suppliers and selling it to the distributor and transport companies who supply those end customers who have chosen not to operate on the liberalised market.

All of the above activities are undertaken under stringent controls that foresee and minimise all possible impacts on the environment.

Activities 2004

Regasification

The gas is transported in methane tankers at 160 ºC below zero in a liquid state, and is unloaded into the regasification plants where it is stored in cryogenic tanks.

REGASIFICATION PLANT ACTIVITY

	2004			2003			Var.%		
	Ships	Mm³ GNL	GWh Produced	Ships	Mm³ GNL	GWh Produced	Ships	Mm³ GNL	GWh Produced
Barcelona Plant	200	12.1	79,315	235	10.5	71,247	-14.9%	15.2%	11.3%
Cartagena Plant	92	9.4	61,649	94	8.7	59,276	-2.1%	8.0%	4.0%
Huelva Plant	57	5.1	29,833	54	5.5	37,368	5.6%	-7.3%	-20.2%
Total	349	26.6	170,797	383	24.7	167,891	-8.9%	7.7%	1.7%

At these facilities, the temperature of the liquid natural gas (LNG) is raised through a physical process generally using seawater vaporisers, thus transforming it to a gaseous state. The gas is then pumped into the pipelines for transport throughout the entire Peninsula.

The gradual liberalisation of the market in 2004 had direct repercussions on the increase in the emission of natural gas from the regasification plants, due to the growing importance of LNG imported by the marketers.

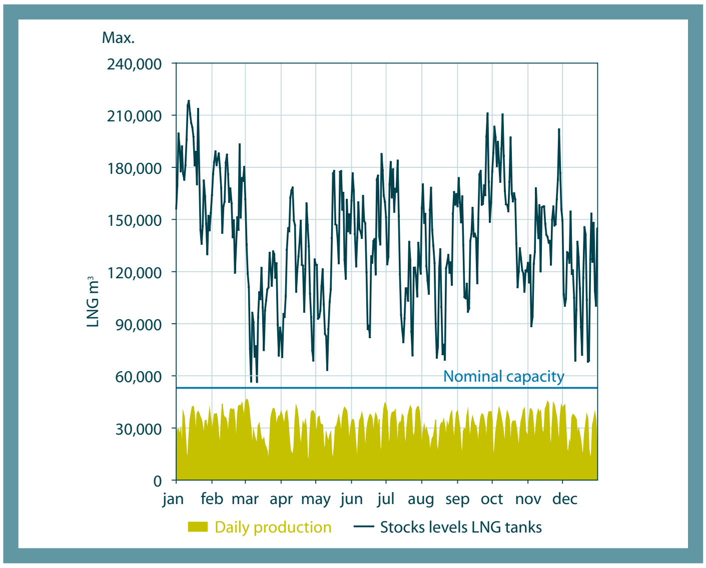
Barcelona Plant

The Enagas regasification plant is located at the port of Barcelona, on a surface area of 155,000 m2.

During the course of 2004, a total of 200 methane tankers docked at the plant, unloading 12.1 million m3 of LNG, a 15.2% rise in volume over the figure reached in 2003.

BARCELONA PLANT

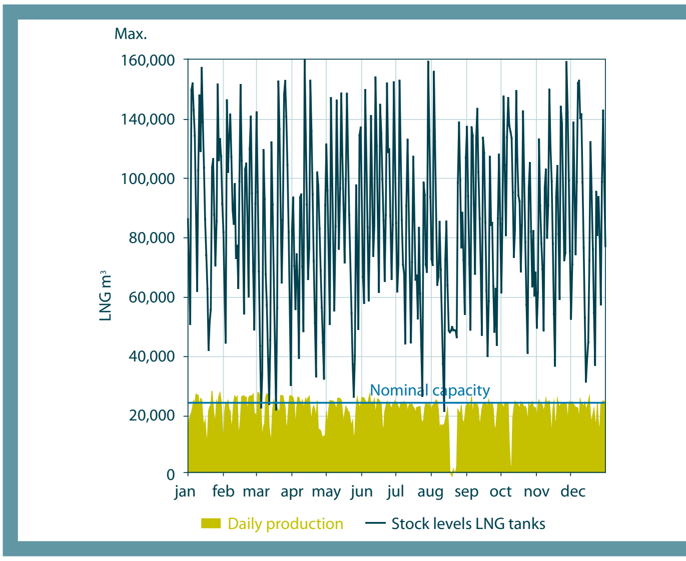
Regasification plant	Number of tanks	Storage capacity m^3 LNG	Vaporisation capacity m^3 (n)/h	Berth capacity m^3 LNG	Tank loading capacity million m^3 (n)/h
Barcelona	2	40,000	600,000 (72 bars)	80,000	1.5
	2	80,000	600,000 (45 bars)	140,000	
Total		**240,000**	**1,200,000**		**1.5**



ACTIVITY BARCELONA PLANT

The commencement of operations of a methane tanker berth able to accommodate up to 140,000 m3/h made this significant increase in the volume of liquid natural gas unloaded possible, despite lesser vessel traffic.

The total plant production, vaporisation and tank loading reached 79,315 GWh, up 11.3% from the total recorded for the



ACTIVTY CARTAGENA PLANT

CARTAGENA PLANT

Regasification plant	Number of tanks	Storage capacity m³ LNG	Vaporisation capacity m³ (n)/h	Berth capacity m³ LNG	Tank loading capacity million m³ (n)/h
Cartagena	1	100,000		80,000	1.5
	1	60,000	600,000 (72 bars)	140,000	
Total	**2**	**160,000**	**600,000**		**1.5**

2003 fiscal year. In 2004, the number of dispatches supplying LNG to satellite plants rose to 13,454, representing a total of 4,040 GWh. This activity is undertaken by the marketers, which supply areas located far from the gas pipelines by tanker-truck.

Cartagena Plant

The Cartagena plant, located at the Dársena de Escombreras, commenced operations at the end of 1989 and occupies a surface area of 100,000 m2.

In 2004, 92 methane tankers docked at the Cartagena regasification plant, unloading a total of 9.4 million m3 of LNG from their holds.

The total plant production was 61,649 GWh, 4% higher than that registered in 2003 and LNG supply to satellite plants rose to 4,374 GWh.

Huelva Plant

The Huelva regasification plant is located in the town of Palos de la Frontera, at the mouth of the Tinto and Odiel Rivers, on a surface area of 141,000 m2.

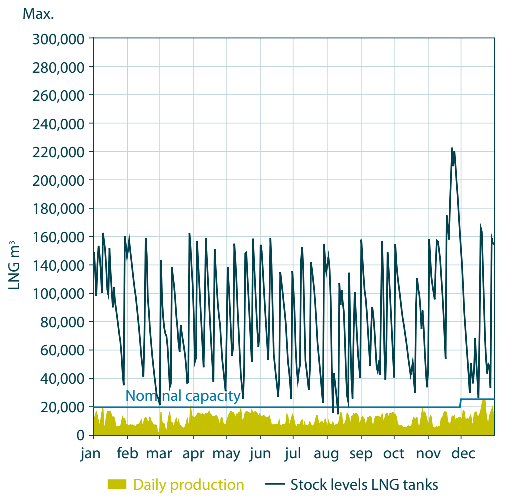
Throughout the year, 57 methane tankers unloaded 5.1 million m3 of LNG, down 7.3% from 2003.

The total plant, vaporisation and tank loading production reached 29,833 GWh, 20,2% less than the figure recorded at 31 December 2003. This decrease was due to the lower volume of LNG supplied to the system caused by a breakdown at the LNG liquefaction plant in Skikda, Algeria in January 2004, and to the increased supplies entering through the international connection at Tarifa.

In 2004, a total of 2,182 GWh of LNG was transferred from the Huelva plant to ships bound for other European markets. Furthermore, and due to operational system needs, a total of 1,404 GWh

HUELVA PLANT

Regasification plant	Number of tanks	Storage capacity m^3 LNG	Vaporisation capacity m^3 (n)/h	Berth capacity m^3 LNG	Tank loading capacity million m^3 (n)/h
	1	105,000			
Huelva	1	55,000	900,000 (72 bars)	140,000	1.5
	1	150,000			
Total		**310,000**	**900,000**		**1.5**



ACTIVITY HUELVA PLANT

was transferred from the Huelva plant to the regasification plants in Barcelona and Cartagena.

The total LNG supply to satellite plants in 2004 reached 10,233 dispatches, with a total volume of 2,991 GWh.

In 2004, the third LNG storage tank was put into operation at the Huelva regasification plant, while at the same time nominal vaporisation capacity at the facility was boosted to 900,000 m3/h.

The construction of this third tank, capable of holding 150,000 m3 of LNG, brought the plant's storage capacity to 310,000 m3 of LNG at the end of 2004.

The aboveground tank, cylindrical in shape and of the full containment type, enables the storage of liquid natural gas at approximately –160º C. The structure is 75 metres in diameter and 38 metres high, with a spherical dome with a 77-metre diameter.

Inside the tank are five vertical primary cryogenic pumps and a submerged engine that sends the LNG to be reliquified in the regasification plant.

The design, construction and commissioning of this infrastructure was carried out under strict quality, safety and environmental impact controls, to guarantee the protection of the environment, employees, quality of service to system agents and to the public at large.

The increased LNG storage and regasification capacity that Enagas plans to undertake in the upcoming years is of paramount importance in ensuring the continual operation and security of the gas supply and the suitable operation of the system as a whole.

Investments

Investments in regasification assets were particularly significant in the 2004 financial year. Of the 468.6 million euros invested by the Company, 45.5% was allotted to this activity.

The most relevant infrastructure put into operation within this area was the third liquid natural gas storage tank at the Huelva plant, capable of holding 150,000 m3 of LNG. Moreover, the vaporisation capacity of this same plant was increased up to 900,000 m3/h.

Transport

At the end of 2004, Enagas was managing 7,158 Km of gas pipelines, up 9.8% from 2003, designed to function at maximum pressures of 72 and 80 bar.

The gas pipeline network for the transport of natural gas throughout the Iberian Peninsula is comprised of five main lines:

- Central Line: Huelva-Cordoba-Madrid-Burgos-Cantabria-Basque Country (the Huelva-Sevilla-Cordoba-Madrid stretch doubled)
- Easter Line: Barcelona-Valencia-Alicante-Murcia-Cartagena
- Wester Line: Almendralejo- Cáceres- Salamanca- Zamora-Leon- Oviedo.
- Spanish-Portuguese Wester Line: Cordoba- Badajoz- Portugal (Campo Maior-

Leiria-Braga)- Tuy- Pontevedra- A Coruña- Oviedo.
- Ebro Line: Tivisa- Zaragoza- Logroño- Calahorra- Haro.

The natural gas transported through the pipeline network and imported largely through the Company's international connections at Larrau, Tarifa and Tuy rose to 114,803 GWh, up 13.5% from 2003. Domestic pipelined gas reached 3,664 GWh, which was of enormous significance in covering peak demand, and rose 44.9% higher than the amount transported in 2003.

In 2004 Enagas enlarged the compression stations in the Spanish gas system and at the end of the year managed 11 facilities where gas pressure was raised up to 72/80 bars to maximise the gas pipeline transport capacity. The total installed power at 31 December was 226,946 HP.

There are currently 291 regulation and measurement stations, which are used to reduce gas pressure to 16 bars, commencing the process of adaptation to the final pressure used by companies and private individuals, which may go as low as 20 millibars. In addition, these stations measure the gas supplied.

Investments

Of the total investments made in 2004, 53.5% were allotted to new transport projects that will enable the expansion of natural gas supply to new areas, with the subsequent advantages that such supply entails with regard to quality of life and sustainable development.

In 2004, the Board of Directors of Enagas approved investment projects totalling 342.2 million euros. One of the most outstanding of these approved investments was the Mainland-Balearic-Islands undersea gas pipeline, awarded to Enagas in July 2004.

Enagas carried out studies on both its land and undersea sections to find the best possible option for the environment and maximum efficiency in the infrastruc-

tures that will supply the Balearic Islands with natural gas.

The most significant transport asset put into operation in 2004 was the new Huelva-Sevilla-Cordoba-Madrid gas pipeline.

The new Huelva-Madrid gas pipeline was inaugurated on January 20, 2005. The ceremony was presided by Their Royal Highnesses, the Prince and Princess of Asturias, the Spanish Minister of Industry, José Montilla, Secretary General of Energy, Antonio Fernández Segura and the Presidents of Andalusia, Manuel Chaves, and Castile-La Mancha, José María Barreda, amongst other public figures.

The Huelva-Sevilla-Cordoba-Madrid gas pipeline consists of five stretches totalling 620 kilometres.

- Huelva-Seville stretch, 88.2 at 30 inches
- Seville-Cordoba stretch, 156.2 Km at 30 inches
- Cordoba-Sta Cruz de Mudela stretch, 168.3 Km at 32 inches
- Sta Cruz de Mudela- Gas pipeline outlet at Cuenca, de 162.2 Km at 32 inches
- Stretch from the gas pipeline outlet at Cuenca –Getafe, 61.5 Km at 32 pulgadas.

The new gas pipeline will relieve the saturation reached by the Huelva-Cordoba and Cordoba-Madrid pipelines, which after doubling will provide an outlet for greater production capacity at the Huelva regasification plant, as well as for the international connection for the entry of natural gas from the Maghreb.

The maximum gas transport capacity between Huelva and Seville was 376,250 cubic metres per hour for most of the year, due to the concurrence of the present gas pipeline with the entrance of gas into the

system from the Poseidon well and the international connection at Tarifa.

Given that regasification capacity to 16 bars allotted to the local Huelva network is 50,000 cubic metres per hour, the maximum processing capacity of the plant under those conditions is 10.2 million normal cubic metres per day.

Thanks to the Huelva-Madrid line, as well as the new compression stations in Seville and Cordoba, this limitation will no longer affect the Huelva regasification plant, which will be able to operate at maximum capacity, 21.6 million normal cubic metres per day as of the end of 2004.

The new gas pipeline ensures the continued supply to the centre and western peninsula, and will be vitally important, once the Transversal Axis* is completed, in supplying gas to the Mediterranean line in the event of possible disruptions in supply from the entry points.

*It will link Alcazar de San Juan and Montesí. According to the Mandatory Planning, it will be 224 km. long. It is an important infrastructure to ensure the correct functioning of the gas system.

The transversal line will join the towns of Alcázar de San Juan and Montesí. According to the Mandatory Planning Document, it will be 224 km in length, with a diameter of 30 inches. This infrastructure will be of the utmost importance for system reinforcement, ensuring the smooth operation of the gas system.

Other assets put into operation in 2004 were:

- Malaga-Estepona gas pipeline. Stretch I "Alhaurín Grande-Mijas"
- Split of the Algete-Manoteras gas pipeline.
- Partial splitting at Campo de Gibraltar.
- Expansion of the Paterna Compression Station.
- Compression Station at Villafranca de Cordoba
- Compression station at Crevillente.

Underground Storage

Enagas currently has two underground storage facilities, one at Serrablo, between the towns of Jaca and Sabiñánigo (Huesca), which is owned by the company, and the Gaviota offshore platform, owned by Repsol YPF and Murphy Eastern Oil, located close to Bermeo (Vizcaya).

During the course of 2004, to mould the natural gas supply to fit the demand and deal with seasonal peaks in consumption and other variations in operating needs, 1,009 million m3 of natural gas were injected into both storage facilities, and 1,131 million m3 were extracted.

In 2004 Enagas ensured the supply of natural gas to the tariff market, primarily comprised of domestic clients and representing 20% of the total, with storage reserves. Until the month of May, programmes of injection in storage facilities by agents on the liberalised market (80% of total gas consumption in Spain) did not guarantee the seasonal demand in winter. Likewise, the operational security margin provided by the tariff market for stocks recognised at

UNDERGROUND STORAGE OPERATING HIGHLIGHTS

Underground storage	Maximum injection Mm^3 (n)/day	Maximum production Mm^3 (n)/day	Injection 2004 Mm^3 (n)	Extraction 2004 Mm^3 (n)	Final stocks 2004 Mm^3 (n)
Serrablo	3.9	6.8	444	585	828
Gaviota	4.5	5.7	565	546	2,101
Total	**8.4**	**12.5**	**1,009**	**1,131**	**2,929**

tolls to different subjects was reduced in line with the loss of share in that market.

Thus, in the course of 2004, Enagas advocated the importance of natural gas storage in a number of public forums, with a view to ensuring and guaranteeing the supply, particularly at peak demand caused by seasonal variations.

On July 23 Royal Decree 1716/2004 was published, which established and specified the obligation to hold minimum security stocks, the diversification of natural gas supply and the creation of strategic oil product stocks.

With respect to the minimum security stocks, the Royal Decree establishes the obligation to hold a volume of natural gas equal to 35 days worth of firm sales in the last twelve months. Likewise, the stocks must be stored in a place and manner as to ensure the supply for 60 days to firm consumers in normal weather conditions.

Investments

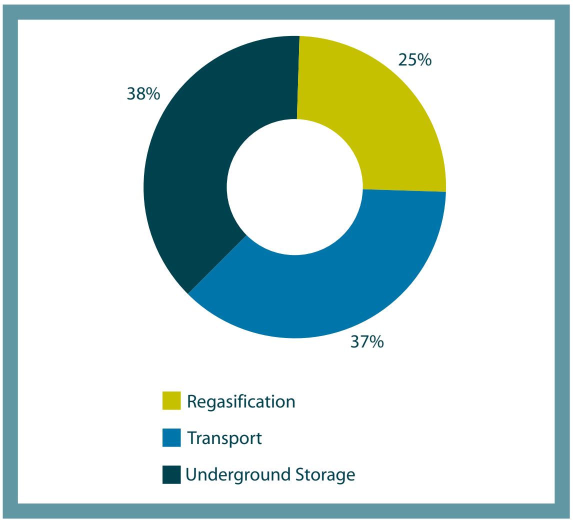
The most significant infrastructure put into operation during 2004 in this area was the drilling of the Jaca 22 well at the Serrablo underground storage facility, which enabled the facility to increase its emission flow.

Contracting of Transport Services

Enagas, as the leading company in transport, regasification and storage of natural gas in Spain, took steps in 2004 to develop the transport network in line with the needs of all the marketers and distributors operating on the gas market, and all Company clients, who supply natural gas to over six million final consumers.

At the end of 2004, 24 marketers, who purchase gas for sale to qualified consumers (a term applicable to all consumers as of 1 January 2003) or for other marketers, were registered as such with the Ministry of Industry, Tourism and Commerce.

During the course of 2004, Enagas provided third-party network access servi-



CONTRACTS IN FORCE IN 2004 BY TYPE

ces to 12 marketers, under 184 operations contracts held with them, as compared to the 83 operations contracts held at December 2003, clearly evidencing the growth of the liberalised segment both in volume of transported natural gas and the number of final clients.

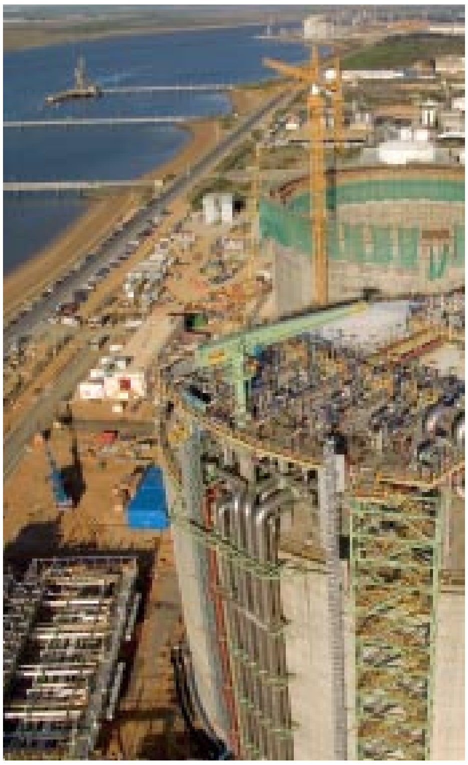
Of the aforementioned contracts in effect until 31 December 2004, 167 were for short-term capacity reservations, whilst the rest were for long-term capacity.

Enagas also supplied natural gas for the tariff market to all the distributors and transporters operating on this market.

Given the high operational and contractual growth witnessed in 2004, Enagas played an essential role in this process by putting into operation the necessary infrastructures to achieve sufficient capacity of the system and thus facilitate access to all the new operators. The Company's investments in previous years contributed to the 16% increase in the nominal intake capacity of natural gas into the system in 2004. In total, the system capacity rose 50% from 2002 to the end of 2004.

The strong growth of demand and the gradual liberalisation of the market will again be key features for the sector in the future. In 2004 Enagas acquired new commitments with different companies to render third-party access to the network services (ATR) in the upcoming years with a total of 14 marketers.

63% percent of the contracts signed are short-term capacity reservations, while the rest are for long-term capacity and represent 75% of the total contracted capa-



city, in accordance with Royal Decree 1434/2002.

In line with Enagas' policy of transparency, all the data on the capacity at Company facilities that is available and contracted by operators within a ten-year time span is posted and updated quarterly on the corporate website.

Operation and System Technical Management

During 2004, Enagas continued to develop the duties assigned it by virtue of Royal Decree Act 6/2000 of 23 June and Royal Decree 949/2001 of 3 August as System Technical Manager, with the objectives of ensuring the continuity and security of the supply and smoothly coordinating all entry points, storage, transport and distribution, acting under the principles of transparency, objectivity, independence and non-discrimination.

The 2004 year confirmed the significant growth of the liberalised market, which reached a market share of 80% and, subsequently, the relevance of the agents operating in that segment with regards to the security of the Spanish gas system supply.

Enagas, as System Technical Manager, focused its efforts largely on the managing and coordinating the different agents, necessary tasks in ensuring the smooth operation of the system.

Together with the rest of the agents and regulatory bodies, in 2004 Enagas continued working on the development of the operational procedures and directives required for the efficient management of the gas system. With this in view, a draft of the System Technical Management Regulations, essential for its smooth operation, was distributed at the end of the year to all the agents in the system by the Ministry of Industry, Tourism and Commerce, prior to its expected publication.

Gas System Operation

The Spanish gas system is operated, supervised and controlled continuously from the Principal Control Centre (PCC), which can thus be considered the "nerve centre" of the system.

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

In the first days of the year, the smooth and efficient operation of the gas system was crucial, due to the accident that occurred at the LNG liquefaction terminal in Skika, Algeria, on 9 January 2004, which left part of the liquefaction facilities non-operational.

After Sonatrach's reorganisation of Algerian LNG to supply its clients, the Spanish gas system was unaffected, thanks to the urgent response in tanker programming to replace the supply that should have come from Skika and maintaining record entry levels at Tarifa.

During the first quarter, the collaboration agreement signed between Bahía Bizkaia Gas (BBG) and Enagas in reference to gas system operation was an important landmark. Based on this commitment, the two Companies established an agreement for the exchange of natural gas for technical or operational reasons, and, in the event of a breakdown at either party's facilities resulting in the total or partial incapacity to produced the programmed volumes of

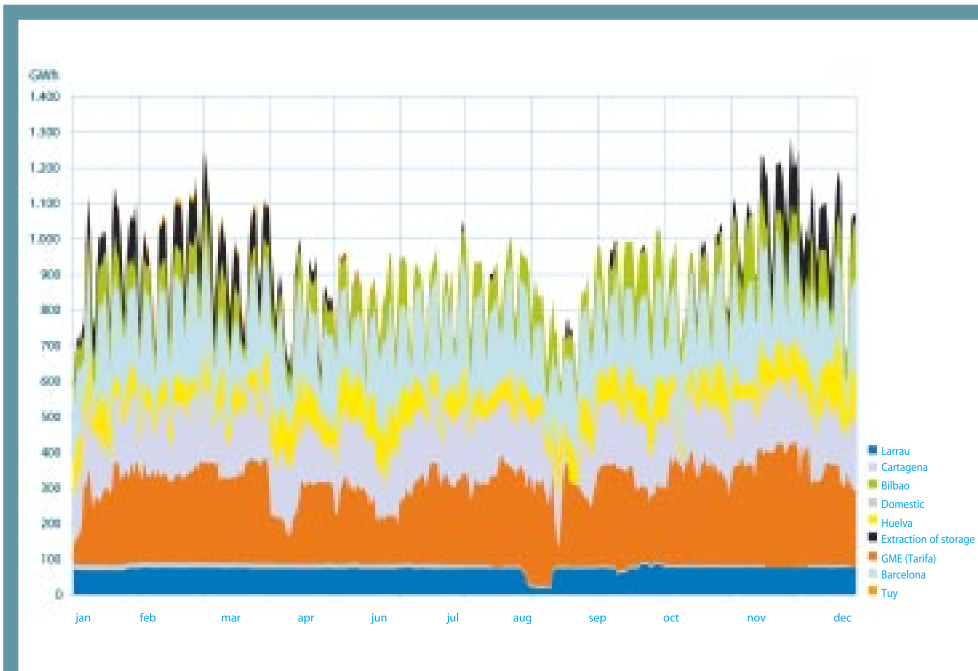
natural gas for the transport network, defined the mechanism by which the other party will supply the natural gas needed.

The smooth operation of the system and Enagas' independence and transparency in its role of System Technical Manager were also essential in ensuring the continuity and security of the gas supply and the proper operation of the gas network in the last month of the year.

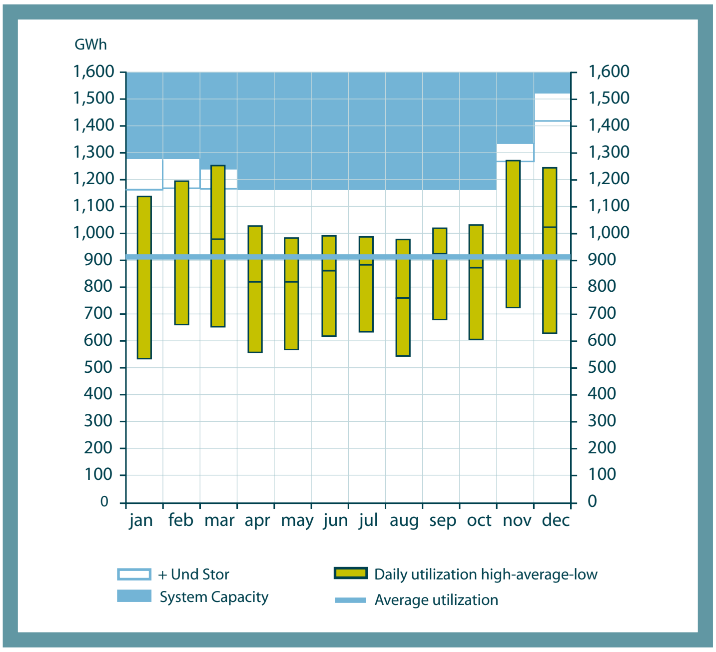
A series of circumstances in the month of December - the high demand for natural gas due to a cold spell, the decrease in flow from the Maghreb pipeline caused by a problem in the SC3 Algerian compression station, and a breakdown in the Ascó nuclear power plant in Tarragona - required Enagas, as the System Technical Manager, to apply various mechanisms to guarantee the continuous security of the system.

As such, Enagas undertook various selective and temporary cuts in the natural gas supply to clients with contracts for uninterrupted supply, a measure set out in both European and Spanish legislation, and used habitually as a mechanism to ensure the flexibility of the system.

Supply cuts at the combined cycle facilities were done according to the directives of the Spanish Electrical Grid with regards to location and times, and had no adverse effects on the generation of electricity, as all combined cycle plants are designed to use other alternative fuels.



STRUCTURE OF THE MEANS OF PRODUCTION IN 2004



USE OF THE GAS SYSTEM IN 2004

Enagas guaranteed the supply of natural gas to all tariff market clients (domestic and small industry), as well as to the gas agents with firm (uninterruptible) gas supply contracts, informing all the agents in the Spanish gas system at all times of the system status with total transparency, independence and non-discrimination.

During the course of 2004, and in line with the forecasts, natural gas demand in Spain rose 16.1% with respect to 2003.

This rise in demand was basically due to the commencement of operations at 9 400-MW groups of combined cycle generation. The consumption of natural gas for the generation of electricity in this type of facilities doubled in 2004 with respect to the previous year, consolidating the importance of this segment in the development of the sector.

The high growth in demand and seasonal peaks were dealt with thanks to the aforementioned increase in capacity, the suitable management of existing infrastructures and the new assets put into operation throughout the year.

However, and even after increasing the entry capacity of the Spanish gas system, the use factor, calculated as the coefficient between the gas transported (gas sold plus gas injected into storage facilities for later consumption) and the nominal transport capacity reach a maximum figure of 97%, while the average figure of 73% was similar to the 75% reached in 2003.

Purchase and Sale of Gas for the Tariff Market

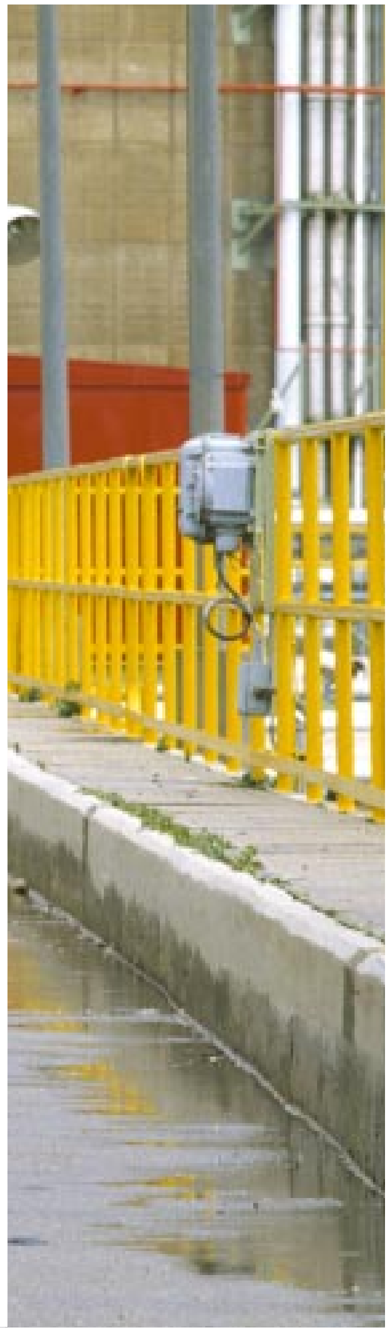
Throughout the past fiscal year, Enagas continued supplying the needs of the tariff market and guaranteeing the supply the customers in that segment.

By the end of 2004, the demand for natural gas transported for the tariff market reached 61,866 GWh. Enagas purchased a total of 56,357 GWh of natural gas from suppliers, selling it to the distributors, who in turn supply the final clients who did not choose a marketer in 2004.

Of the total gas assigned to this market, 94,8% was natural gas piped through the Company's international connections, while the rest arrived in the form of LNG.

The sale or assignment price, determined by the Government, reflected the cost of the raw material, the average cost of regasification and the management of gas sale and purchase on the tariff market.

Commitment to Society and Sustainability



Commitment to Society and Sustainability

Human resources

The administration of human resources during 2004 and measures enacted to ensure continued improvement resulted in an increase in efficiency at the corporate and personnel levels in 2005. Thus, the kilometres of pipeline per employee rose 9.4% and the transported natural gas demand increased by 15.7%. The Operating Cash Flow ratio generated per employee experienced a 9.1% increase.

In terms of efficiency, these figures position Enagas among the top companies in the sector throughout Europe.

During 2004, the Department of Human Resources promoted and reinforced the development of the operational and administrative capacities of the Company's human resources through policies which affected:

- Technical training provided to Company personnel
- The development of effective management models
- The alignment of human resources with the attainment of Company objectives

Technical training provided to Company personnel

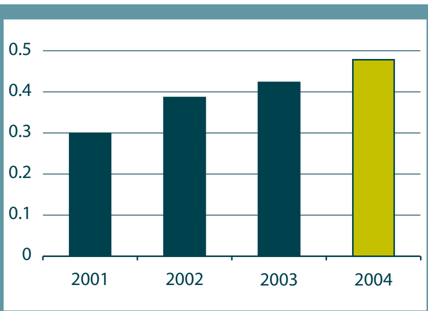
Training and development

The commitment to the continued training of Enagas employees was upheld during 2004 in order to facilitate their smooth adaptation to technical and business requirements.

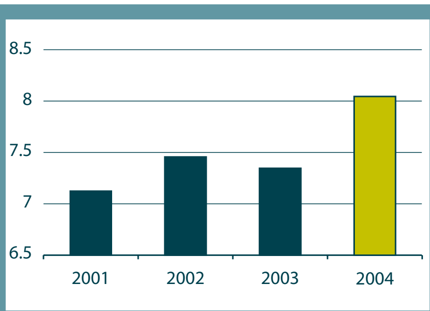
A total of 607 Company employees participated in training sessions held during 2004; the training investment per employee reached 488 euros, a 23.8% increase over the previous fiscal year.

A large part of the training was devoted to aspects relating to Safety, as well as the development of technological and operational training, with a view to adequately administrating know-how and responding to the Company's strategic objectives.

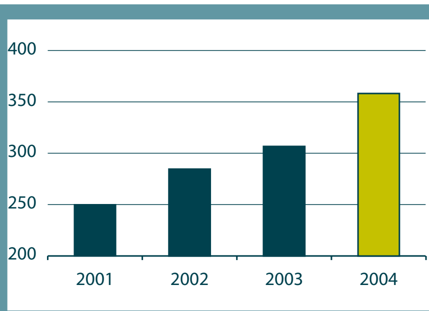
This continuous development of human capital not only enabled Enagas to respond efficiently to the challenges faced by



Operational Cash-Flow per employes (Millions of euros)



Km of gas pipelines per employes.



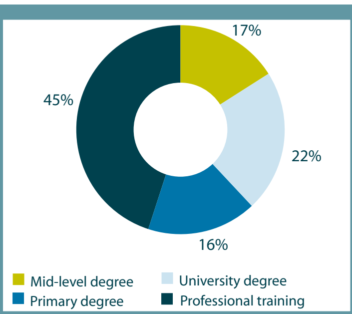
GWh transported per employee.

Number of employees	2001	2002	2003	2004	% Var
Transport	335	338	327	334	2.1%
Regasificaton	212	217	213	221	3.8%
Storage	26	27	23	23	–
System management	35	39	41	41	–
Gas sales	16	15	15	15	–
Corporate structure	189	206	216	227	5.1%
Others	44	42	43	43	–
Total	**857**	**884**	**878**	**904**	**3.0%**

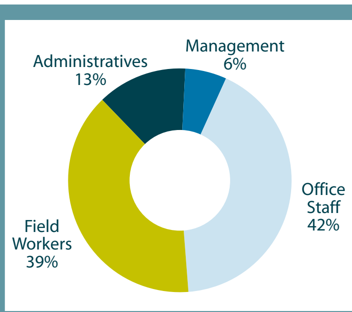
in its role as System Technical Manager, but also positioned the Company as a technological standard of reference in the sector. Of particular note in 2004 was the technical assistance provided at the transport company BBG; the commencement of operations at its regasification plant in Bilbao was made possible by the presence of Enagas experts at the BBG facilities.

Workforce

Forty-four new professionals, the majority of whom hold university or mid-level degrees, joined the Enagas workforce, thus updating and expanding the Company's intellectual capital.



Workforce's composition by level 2004.



Workforce's composition by level 2004.

At the end of the fiscal year, Enagas had a workforce of 904 employees, a 3% rise from the previous year.
In 2004, the average age of the workforce in 2004 stood at 44.

Agreements and collaborations

During the 2004 fiscal year, new professionals with degrees continued to enter the job market through the Company trainee program, which gave rise to 39 internship agreements formalised with several universities and business schools.

Development of efficient organisational models

Continued improvement of the Company organisational structure and business procedures are priorities for Enagas, and represent the foundation for the development of management excellence.
Of particular note amongst the various improvement programs launched in 2004 was the development of the current organisational model of the regasification plants, structured to efficiently undertake the duplication of facilities by incorporating new technologies and increasing levels of safety and availability. Furthermore, this development allowed for the creation of an Organisational Quality Model applicable to the management of all regasification plants operated by the Company.

Alignment of human resources with Company strategy and objectives

Fiscal 2004 witnessed further developments in the ongoing policy of training and alignment of human resources with Enagas' Strategy and Objectives.
The consolidation of the Company's overall remuneration strategy at management level and the definition of the gradual extension of management models in terms of objectives and performance evaluation at mid-level allowed Enagas to face its challenges effectively, by basing its efforts on team work and identifying employees with the Company profits.

Commitment to human resources

Enagas is committed to defending Human Rights and Fundamental Freedoms. As of 2003, the Company has adhered to the UN Global Compact and the principles related to the area of Human Resources, which state that:

- Enagas will support and respect the protection of internationally recognised human rights within its sphere of influence.
- Enagas vows not to participate in Human Rights violations.
- Enagas will support freedom of association and will recognise the right to collective bargaining.
- Enagas will promote the abolition of all forms of forced and mandatory labour.
- Enagas will promote the abolition of child labour.
- Enagas will promote the abolition of labour and occupation-related discrimination.

Additionally, the Company's commitment to its employees was consolidated in 2004, encouraging the balance between work and family life, as recommended in the "Family-Responsible Company Certificate" signed by the Company last year.

Health and Risk Prevention

Activities focused on Enagas' Risk Prevention Management System (Sistema de Gestión de Prevención de Riesgos-SIGPRI) were furthered in 2004. The first obligation established was the continued adaptation and updating of compliance with increasingly more stringent legal obligations in issues of both safety and employee health, in accordance with the stipulations of the Occupational Risk Prevention Act, amended in December of 2003, as well as prevention of and protection against serious accidents in keeping with the first adaptations of the new Basic Directive for Civil Protection. Likewise, the Company also fully adapted to new regulatory requirements in the traditional fields of industrial safety.

The ongoing updating of the SIGPRI entailed the incorporation and/or revision of procedures, regulations and other documents regarding new legal obligations and modifications in equipment, products, processes or activities, especially those relating to the activities of the Transport Department, where the System was hitherto less integrated.

National regulations, increasingly more in line with those in place throughout Europe and more frequently established considering technical and safety regulations, are applied in the new facilities added to the Enagas asset base; in their absence or as a complement to existing codes, other internationally recognised regulations are observed.

The Enagas infrastructures affected by legislation on the Serious Accident Prevention (Seveso II Directives/CORAG) are the three regasification plants, which once again satisfactorily passed compulsory regulatory inspections carried out in 2004. The incorporation of a team of professional firefighters on call 24 hours a day in the Barcelona plant was a significant improvement in the protection of these facilities; there are plans to incorporate a firefighting team in the Huelva and Cartagena plants in 2005. These professionals will complement the First and Second Intervention Teams currently in existence and comprised of personnel at the Plants. These teams have undergone specialised training, but do not exclusively devote themselves to fire prevention and protection.

The Self-Protection and Emergency Plans, which ensure the observance and updating of the procedures to be followed should the occasion arise, are put into practise and subject to annual revision as a result of the simulations carried out regularly. The competent authorities, present during the simulations and involved in their development, are informed of the simulation results. Among the simulations conducted in 2004 was one carried out in the building where the Company's Headquarters are located, in keeping with the recommendations set out in the Self-protection Plan approved by the Madrid City Council's Department of Safety.

The Direction of Human Resources, in coordination with the Department of Risk Prevention, is responsible for the ongoing training in safety and prevention issues provided to personnel. Amongst the procedures developed throughout 2004, those dealing with fire prevention and protection, emergency situations and first aid were of particular note.

Formal participation of Enagas employees in Health and Safety matters continued, through Enagas' legal representatives, the delegates from the regional Prevention Department, the four local committees established in keeping with the applicable legislation, and an Inter-centre Committee of Health and Safety, created under the Collective Agreement. Furthermore, to increase the participation of work centres that are not required by Law to have Health and Safety Committees, meetings were set up through the Prevention System in the form of "mini committees", which ensure the regularity and efficiency of employee participation.

Health surveillance continues to be carried out through medical examinations offered to all employees according to the risks associated to their positions, and through close collaboration with Occupational Medicine and the other preventive specialities that are part of the Enagas Prevention Service.

During 2004, expenses relative to risk prevention and safety reached 1.7 million euros, nearly a 9% increase with respect to the previous year.

However, each new installation or improvement in existing plants inherently incorporates passive and/or active safety elements that are included in the corresponding investment total. Thus, as in previous years, spending on safety was mainly allocated to maintenance and improvement of existing systems, adaptations of work equipment, acquisition of individual protective gear, improvements in collective protection systems and indicator signs.

A noteworthy activity which took place in 2004 was a result of the implementation of the obligations set out in the Royal Decree on the health and safety of employees exposed to risks produced by explosive atmospheres in the workplace, approved in 2003. This Royal Decree establishes a period of three years for the implementation of the stipulated obligations in facilities in existence as of the date in which the Decree came into effect.

Although Enagas, in compliance with its own internal regulations, has for years observed nearly all of the new requirements established in the Royal Decree, the need to detail these specifications in a Document of Protection Against Explosions - DPCE - led to the revision and formalisation of aspects such as specific methodologies for the evaluation of explosion risk, new work procedures, updating of specialists' training, and even new requirements concerning workplace clothing and footwear used by Enagas employees

and the personnel of contracting companies that render services within the company's facilities.

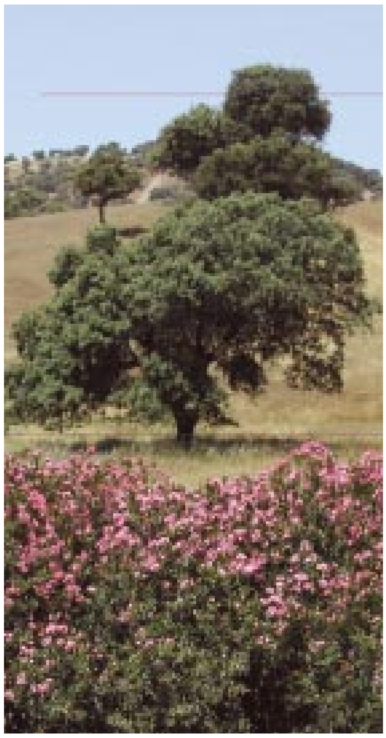
The review of these criteria and the establishment of new practices were completed during 2004; throughout 2005 and in the first half of 2006, the aforementioned DPCE, already underway, will be completed at all facilities.

Lastly, the accident rate significantly improved with respect to previous years; additionally, the accident rate for contractors was similar to the rate for Enagas personnel, in terms of contractors for jobs related to Enagas activity, as well as those involved in the construction of new infrastructures.

The environment

The conservation of the environment is one of the fundamental principles in Enagas' corporate activity. This publicly assumed responsibility is present in each decision made and every activity undertaken by the Company with a view to reconciling economic development with the sustainability of natural resources.

Enagas acts with conviction to conserve nature, and thus applies principles of



pollution prevention and minimisation of hazardous impacts to the environment at all its facilities and to each of its activities. The implementation of the Environmental Management System, created as a tool to control the impact of its activities, is clear evidence of the Company's firm belief in this commitment.

The Environmental Policy encompasses all of these commitments and principles, ensuring maximum respect for the environment in all Enagas activities and facilities, from their design to the end of their working life.

Environmental management

Implementation of the principles in the Environmental Policy requires a specific organisational structure. At Enagas, this organisation is comprised of the Environmental Committee, made up of the Company's executive management, which defines and approves the basic operational guidelines, and the Environment Groups, which are bodies in charge of implementing these guidelines. The Quality and Environment Unit coordinates between the two and proposes guidelines to the Committee to ensure that the requirements defined meet the environmental objectives of the strategic plan.

This structure makes environmental management a responsibility shared by the entire Company, and thus ensures maximum respect for the environment.

The Environmental Management System implemented by the Company complies with UNE-EN-ISO 14001 standards and is certified by the Spanish Association of Standardisation and Certification (AENOR). Documentation on this System is found in the Environment Guide and in a series of procedures and regulations whose objective is to promote awareness and monitor all aspects that may have an impact on the environment, comply with legislation in effect and ensure the ongoing improvement of the Company's activities with respect to the environment.

Throughout 2004, the most relevant environmental issues related to Enagas' activity underwent close surveillance: waste products and noise generated at its facilities, the emission of natural gas and carbon dioxide into the atmosphere and the consumption of energy resources.

In the course of 2004, 2,800 tons of waste were turned over to authorised waste managers. Of this total, 2,570 tons were hazardous waste material, and 230 tons were recyclable waste.

Carbon dioxide emissions stood at 0.94 tons per GWh transported, down 20.4%

with respect to data from 2003, and representing greater energy efficiency in the Company's transport facilities.

Moreover, methane emissions were 0.087% of the total amount of gas transported.

Environmental surveillance in infrastructure construction projects seeks to both minimise the impact of these activities on the environment and achieve maximum integration of the facilities into their surroundings, thus ensuring respect for nature.

In the design phase, the most ideal option from an environmental standpoint is selected and the potential impact which arises during the construction and operation phases is identified in order to take the necessary steps aimed at preventing, minimising or correcting any such impacts.

Environmental technical assistance and internal audits guarantee compliance with the environmental requirements of the project during the construction phase and ensure the effective implementation of corrective measures.

In 2004, over 800 km of pipeline and seven facilities underwent close environmental surveillance.

The end of this phase is marked by the land restoration stage, which consists of the restitution of land, water supplies and affected infrastructures. After restoration comes the replanting stage, in which ground cover is planted and maintained to return the affected environment to its original state.

The surface area of land restored in 2004 surpassed 10,715,528 m2, and replanting work was done in a total of 94,472 m2. Furthermore, the progress of corrective measures applied during the construction phase in previous years was monitored in over 450 km of operating pipeline.

Environmental expenditure and investment

A sum of 0.9 million euros was allocated for the implementation and monitoring of the Environmental Management System and 13.2 million euros were earmarked for activities related to environmental project surveillance.

Participation in National and International Organisations

Sedigas

Undertakes activities related to standardisation, training, professional certification, publications and support for the administration in the drafting of legislation concerning the gas sector.

Enerclub

Facilitates the dissemination and conception of ideas related to transformation, production, transport, consumption and energy storage in its different forms, as well as the most rational use of energy and its impact on the preservation of the environment and sustainable development.

Gas Infraestructure Europe

This organisation encompasses 45 sector companies and 30 countries. It seeks to improve the safety and reliability of transport systems by facilitating cross-border transport and represents the interests of transport network operators in European institutions. The organisation is divided into GTE (Gas Transmission Europe), GSE (Gas Storage Europe) and GLE (Gas LNG Europe). Thanks to its position as European leader in the LNG sector, Enagas sits on the GLE executive committee, thus allowing the Company to play an important role within the organisation.

EASEE-Gas (European Association for StreamLining of Energy Exchange Gas)

This association is comprised of 91 members. It promotes common codes of good practice in order to streamline and unify the processes related to gas transactions amongst its members, as well as to attain an efficient and effective gas market.

GERG (Groupe Européen des Recherches Gazières)

Coordinates research and technological development in the gas sector, guarantees gas supply, protects the environment, boosts energy efficiency and safety and reduces production, transport, storage, distribution and utilisation costs.

Marcogaz

Participates in drafting legislation, standards and European certifications that involve safety, the rational use of energy and protection of human beings and the environment in the fields of gas transport, distribution and use.

Eurogas

Promotes the scientific, economic, legal and technical development of the natural gas industry in Europe, through cooperation amongst the gas industries and taking positions on issues of common interest.

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

Promotes the development of LNG-related activities such as purchasing, importation, sea transport, regasification, etc.

IGU(International Gas Union)

The IGU is made up of gas associations representing the national industries in roughly 67 countries. IGU studies problems related to the gas industry with a view to boosting development both technologically and economically by fostering collaboration and the sharing of experience among gas technicians in EU member countries.

UNECE

Collaborates and participates in issues specific to the gas industry. Brings together government representatives of more than 55 countries which are members of the United Nations Economic Commission for Europe.

Technological Innovations

Technological innovation is an area of particular importance to the Company. The development of Enagas' activity demands a sizeable technological capacity and constant innovation. Research and development decisively contribute to boosting service quality, reducing the costs of building, operating and maintaining facilities, while making the gas transport business run smoothly with the environment.

R&D&I projects

Investment in R&D&I projects totalled over 1.1 million euros in 2004.

The LNG sector witnessed the implementation of the "Operational Safety of Liquid Natural Gas Tanks" project. The result of this programme was the introduction of the "LNG Master" computer tool into the Barcelona Plant; the tool will soon be implemented in the Huelva Plant. This program predicts LNG behaviour during the filling of tanks: stratification, roll over, boil off production, etc.

The "LNG Measurement and Simulation Project" was also introduced in the same field, the main objective of which is to draft energy and quality measurement procedures.

In collaboration with the Plant Engineering Unit and other Enagas specialists, a series of general specifications regarding engineering, equipment and materials used in LNG plants were formulated for the purpose of updating and unifying the specifications applied in the plant extension work currently in progress. These

specifications encompass a significant part of the Company's technological know-how in the field of regasification plant design.

During the 2004 fiscal year, the "Map of the Demand" Application was developed in the **Area of Operations.** This tool predicts consumption of the existing networks for 3 years with daily analysis, considering dates, weather and economic factors. Additionally, it considers both conventional consumption and that of electric turbines, thus enabling the creation scenarios for heat waves and cold spells. It also allows the grouping of predictions by stretches, provinces, communities, demand sectors, etc.

In the **Area of Transport,** work is underway on Odorisation, changes in odorants and rationalising the odorant injection system. In line with the properties of natural gas in international transfers, work is also being conducted on the quantification of sulphur in its various states.

Also developed in 2004 was a computer tool that maps noise in the ERM (Regulating and Measurement Station) environment under the different operating conditions at the facility and with various types of construction and structure materials.

The **Area of General Studies** saw the development of the 2004 GERG Equation, which solves existing problems for the calculation of natural gas and LNG properties, mainly in the areas where the liquid and gaseous phases coexist.

During 2004, studies were conducted that focused on the optimal use of the residual thermal energy from turbine exhaust gases released by turbocompressors in Compression Stations for the generation of electric energy. A new electricity-generating technology based on an Organic Rankine Cycle (ORC), where the work fluid is organic and more beneficial for this type of process, was especially analysed. This is an indication of Enagas' ongoing concern for boosting energy efficiency at its facilities and reducing the emission of greenhouse gases into the atmosphere.

Similarly, studies are underway in collaboration with the Agencia de la Energía de Barcelona (Energy Agency of Barcelona), addressed at using the Barcelona Regasi-

fication Plant to produce residential cooling in the free trade zone of Barcelona, after having defined the most suitable technology to carry out the "District Cooling" Project in the aforementioned area.
Within the **Area of Safety,** the evaluation of a new system detecting third-party interference with pipelines, called SECURE PIPE, was concluded. This project, undertaken in collaboration with other gas companies within the GERG framework, studied the possibility of installing fibre optic cable throughout the pipelines to detect the presence of potentially dangerous activities carried out near the pipeline.
In collaboration with other gas companies, various projects and studies were done concerning the analysis of pipeline risks, mainly through the development of the calculating tool PIPESAFE. A study is now underway on the impact of the increase in operational pressure of pipelines and the risks this represents. A further study on improved calculation methods for pipeline failure frequency according to historical data of such incidents is also currently in progress.
In the **Area of Volume Flow Metering,** two projects were launched within the GERG on technologies concerning volume flow metering by ultrasound and the Coriolis effect. Both technologies, already developed and approved at different levels in other areas, are currently undergoing field experiments in the optimisation phase and show excellent promise for their application in metering the flow of gas in transport and distribution.
During 2004, a significant number of experiments and analyses were conducted in the **Enagas laboratories** at its specialised facilities: the Gas Meter Laboratory, the Instrument Laboratory and the Analysis Laboratory.

Information Systems

The 2004 fiscal year was an important year in the definition of needs and the evaluation of new technologies that will represent a qualitative leap in operational processes and the Company administration.
An analysis of the Purchase System was conducted and supplier, services and materials databases were incorporated; licences for the future Purchase Portal were also acquired.
The study of the requirements for the Company's content management was also completed. Its first stage focused on document management at the Central Technical Office, where various content management platforms were evaluated for the purpose of acquiring the platform that most adequately suits the needs of the Company.
Keeping in mind the importance of incorporating procedures, applications and data to boost the efficiency and quality of processes, several application incorpora-

tion platforms were evaluated via concept tests. The result of this evaluation was the acquisition of the technological platform that is best tailored to Enagas' needs.

Lastly, the Information System for Gas Operating Variables - SIVOGAS - was introduced and operating systems underwent technological updating.

Liberalised market systems

Implementation of new functions in the ATR Logistic System - (SL-ATR) and the remaining business systems continued throughout 2004, in keeping with the rapid evolution of the liberalised market and the number of agents participating in the same. Ongoing efforts were made to modify the SL-ATR to adapt it to the needs and requirements presented by the Administration.

Notable amongst the new functions of the SL-ATR are the loading of metering and distribution data, the management of nerve centres, the management of end-to-end transport, and the new multicontract management option. A new procedure was also added to the analysis and simulation systems for the calculation of demand in conditions of extreme cold. Tests were initiated establishing connections with the distribution logistic systems for data sharing, within the agreements sponsored by Sedigas. The automation and improvement of the invoicing and payment procedure, in accordance with CNE (National Energy Commission) procedures, was also concluded.

As part of the reinstatement of the Engineering and Construction roles that lay with the Economic Interest Group - AIE -

undertaken with Repsol YPF, new project management applications were implemented within Enagas systems as scheduled.

Other relevant systems

Mention must also be made of the other relevant systems implemented in the Company in fiscal 2004, such as the new Occupational Health Application, which enables compliance with all data protection regulations, the Geographic Information System (GIS) for the 7,200 km of pipeline, a new financial application for derivative management and debt administration, and the automation of the accounting consolidation of the six companies that comprise the Enagas group.

Systems Security

In 2004, Enagas furthered its firm commitment to applying the same philosophy and concern regarding security to its Information Systems as it implements in its physical facilities and operations.

To this effect, a series of studies were conducted during the 2004 fiscal year to minimise present risks in business processes. Detailed reports concerning critical applications (SL-ATR) and security controls in accordance with ISO UNE-17799 were also drafted. Additionally, the Security Master Plan was defined, the main objectives of which are the following:

- To implement an Information Security Management System compatible with the Business Objectives and consistent with Company needs, that is both sustainable and adaptable.
- To implement the Information Security feature
- To implement an Information Security Policy as well as Information Security Norms that are comprehensive, informative and adapted to external and internal requirements.
- To implement scalable, intuitive and simple Information Security Architecture that can be easily monitored.

Technological updating

In line with the modernisation of technological infrastructures, the data network technology was updated in 2004 by increasing broadband speed, thereby allowing Enagas to incorporate new applications with medium to high communication demand and access speed. These applications include: Voice over IP, videoconference, GIS applications, integration with security and access control services, wireless technology, document managers and e-learning.

The Enagas website

The Enagas website (www.enagas.es) is one of the most important means on which the Company relies to communicate with different interest groups and fulfil its goal of information transparency. Thus, the website content is constantly updated and information is added on a continual basis.

The Enagas website furnishes detailed data on gas demand in real time, as well as information about the organisation, operational infrastructures and system capacities, the environment, legal framework and economic and financial data, amongst other topics. The section for Shareholders and Investors offers ample

financial and stock market data, as well as information on all aspects of corporate governance.

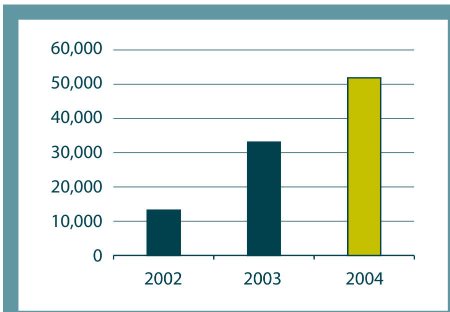
Enagas website hits continue to increase year after year, as observed in the following graph. Similarly, the number of files downloaded rose 60% as compared to the 2003 fiscal year.

Social Action

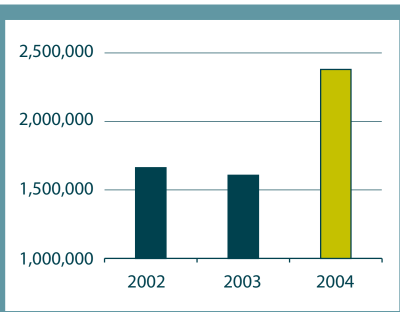
In its day-to-day work, Enagas has assumed the need to carry out its activities in an atmosphere where corporate profits are compatible with social responsibility and respect for the environment.

The Enagas commitment to the environment was reinforced in 2003 when the Company joined the UN Global Compact, adhering to its principles on human rights, labour regulations and the environment.

During the 2004 fiscal year, Enagas participated in a series of activities related to social assistance, sponsorship of cultural events and the conservation of nature.



Downloads (Gigabytes)



Visits to www.enagas.es

Sponsorships and cooperation

Enagas worked with a number of institutions and organisations in an effort to assist groups in particular need throughout 2004.

The Company placed special importance on showing its solidarity and assisting in the social integration of disabled people with limited resources through a financial contribution to the "Tungura-

hua" Educational Project (Ecuador), administered by the NGO Ayuda en Acción. A monetary contribution was also made to the "Proyecto Alzheimer" directed by the Reina Sofía Foundation, a project with both social and health components, which seeks to address the serious impact this disease has on those who suffer from the illness as well as their family units.

Enagas continues to support initiatives aimed at implementing social values, respect for nature and mankind, and the defence of human rights. Proof of this dedication lies in the cooperation between the Company and the ASE association (Acción Social Empresarial or Social Action by Business), which fosters the development of a more socially responsible corporate structure.

As one of its fundamental principles, Enagas adopts measures addressed at environmental conservation, paying special attention to the environment in which its operations are carried out. With this in view, the Company signed a collaboration agreement in 2004 with the Association for the Defence of Nature and Resources of Extremadura - ADENEX, for the upkeep of the Nature Reserve of Sierra Grande de Hornachos in Badajoz. Other environment-related activities carried out by Enagas are described in greater detail in the Environmental Report.

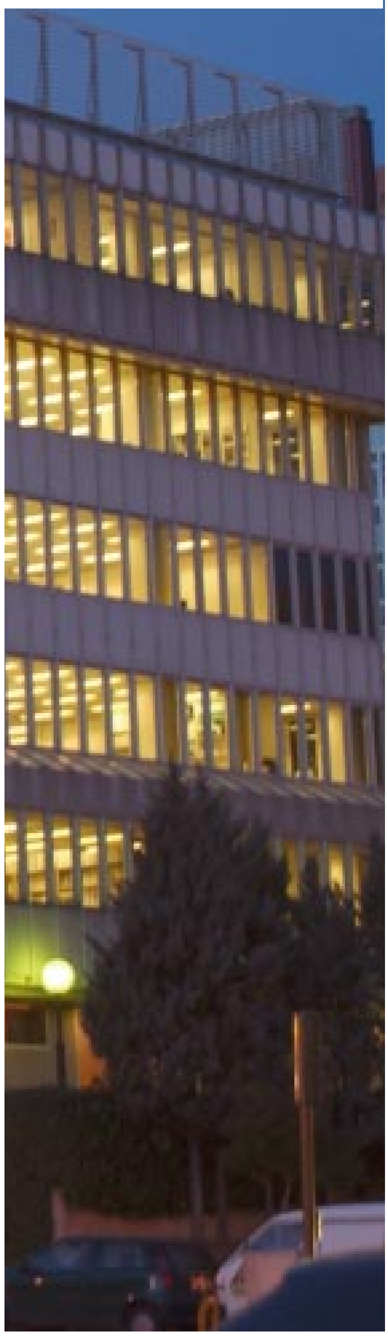
In the cultural sphere, the Company once again provided sponsorship to the Royal Theatre of Madrid's Lyric Theatre Foundation. Enagas also collaborated with the local governments of Yela and Brihuega in Guadalajara and Villafranca de Córdoba in Cordoba, providing economic support for cultural activities. The Company is also a corporate benefactor of the "El Cachirulo Cultural Association" in Huesca.

As a company that is an active part of society, Enagas continues to support certain initiatives aimed at improving economic and social development in the Spanish towns, especially those where it has operating facilities. To this end, Enagas made a donation to the Villafranca de Cordoba Town Council for the purchase of public safety equipment, as well as donating an industrial vehicle to the Sociedad Agraria de Larrés in Huesca to assist with its daily activities.

During 2004, Enagas participated in the foremost energy forums in Spain and Europe, led discussions, gave presentations and participated in exhibitions in Sedigas, the Spanish Energy Club, the Instituto Superior de la Energía, the International Gas Union, GTE and Eurogas, amongst others. Enagas also collaborated with other entities whose activities are not centred on the energy sector, but which are of special interest to the Company, such as the Biodiversity Foundation, the Spanish Geological and Mining Institute and the Navarre Institute of Occupational Health.

Additionally, the Company complied with requests to attend other types of forums such as business schools (IESE, Instituto de Empresa), universities, public administrations, etc.

Corporate Governance



↗ Corporate Governance

Act 26/2003 of 17 July, which amended Act 24/1998 of 28 July on the Securities Market and the Revised Text of the Joint Stock Companies Act, also known as the "Transparency Act", requires all listed companies to prepare an annual report on corporate governance that furnishes a detailed explanation of the Company's governance structure and operation, in accordance with the minimum requirements set out in the aforementioned act, and completed in Order ECO/3722/2003 of 26 December from the Ministry of Economy and Circular 1/2004 of 17 March of the Spanish National Securities Market Commission.

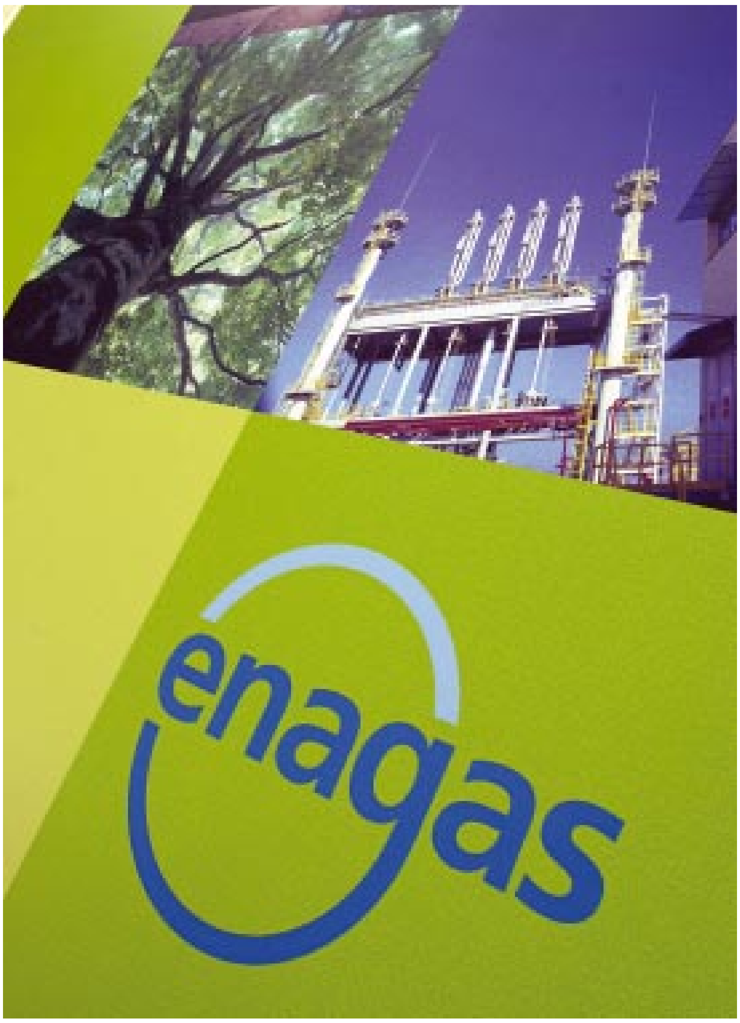
Since the 2002 fiscal year, in keeping with its commitment to observing all existing regulations and recommendations on good governance applied to listed companies, and aware of the need to transmit clear information as a highly valued asset, Enagas has adopted all of the measures established by the aforementioned legal regulations, and therefore has undertaken all the necessary changes in its internal regulations to this effect.

The following are some of the most important milestones concerning Corporate Governance in previous years:

- The Regulation Governing the Organisation and Operation of the Board of Directors, drafted in keeping with the recommendations contained in the Olivencia Code and the Aldama Report, was approved during fiscal 2002. Certain aspects were accorded special weight, such as the establishment of Directors' duties, the regulation of Board of Directors committees, and the assignment to the same of a series of duties and powers designed to reinforce the guarantees of objectivity with which the Boards should approach certain issues. In this respect, Enagas got a head start on legislation, and included quantified information on the overall remuneration to the Board of Directors in the corporate governance chapter of its 2002 Annual Report.
- Anticipating the Transparency Act, during fiscal 2003 year Enagas approved the Regulations of the General Shareholders' Meeting at the GSM held 25 April 2003, thus enabling all shareholders to familiarise themselves with the basic rules to which this body is subject and to better exercise the information and voting rights to which they are entitled.

As the Shareholders comprise the fundamental core of the Company, Enagas wished to provide them with broader and better tracking of all good governance recommendations. To this end, the 2004 fiscal year witnessed the adoption of several measures envisaged to guarantee the transparency of Company information, encourage shareholder participation in the General Shareholders' Meetings and inspire shareholder trust by informing them of the issues with the greatest clarity and fairness possible, thereby increasing the Company's market value. The following two fundamental measures are of significant importance:

- At the General Shareholders Meeting held 30 April 2004, a new text of its Regulations was adopted to adapt the document to the latest developments established in Act 26/2003 of 17 July and to guarantee fuller exercise of shareholders' basic rights. The amendments presented in the new text detail the reorganisation and further development of shareholders' information,



attendance, voting and representation rights with a view to achieving greater Company transparency. These regulations enable the Company to guarantee shareholders more resources that allow access to information about the matters on the Agenda of the General Shareholders' Meeting, and extend the Directors' obligation to release information to include the days subsequent to the Meeting.

- To ensure that Company information is divulged with transparency and published for the general knowledge of shareholders, investors and the market, and in compliance with the provisions of Circular 1/2004 of 17 March from the National Securities Market Commission, Enagas set up a website (www.enagas.es and www.enagas.com) that posts economic and corporate data, as well as other significant Company information. Thus, Annual Reports on Corporate Governance, the Company Bylaws, the Regulations of the General Shareholders' Meeting, Board of Directors and the Audit and Compliance Committee regulations, core shareholders and their representation on the Board, quarterly activity reports and yearly reports for previous years, as well as relevant facts reported to the markets may be consulted on the website. Calls for General Shareholders' Meetings and the information contained in the same, the motions proposed as well as the resolutions finally adopted may also be viewed on the website.

As the Enagas Board of Directors is the body entrusted with carrying out the management, representation and supervisory duties necessary to fulfil its corporate purpose, its new Regulations were approved on 19 February 2004, adapting them to the legal dictates and to existing recommendations on Corporate Governance. The novel features that the new text incorporated are fundamentally these:

- Adaptation of the regulations governing the Audit and Compliance Committee and the Appointments and Remuneration Committee so that they abide by Act 44/2002, on reform of the financial system and the latest trends in the Corporate Governance area.

- Re-drafting of the sections concerning the duties of Directors, adapting the text to the amendments introduced by Act 26/2003 on transparency.
- Redefinition of the types of Directors, distinguishing between Independent and Controlling or Executive directors, and endeavouring to guarantee a majority of the latter over the former in the composition of the Board.
- Systematic organisation of the definition of the functions of the Board, differentiating between objectives and duties, and grouping functions according to their nature, thus enabling the Board to operate with greater effectiveness.
- Rewriting of the regulations governing relations with shareholders to adapt them to the terms of Act 26/2003 regarding public applications to represent shares and the information to be furnished to shareholders.

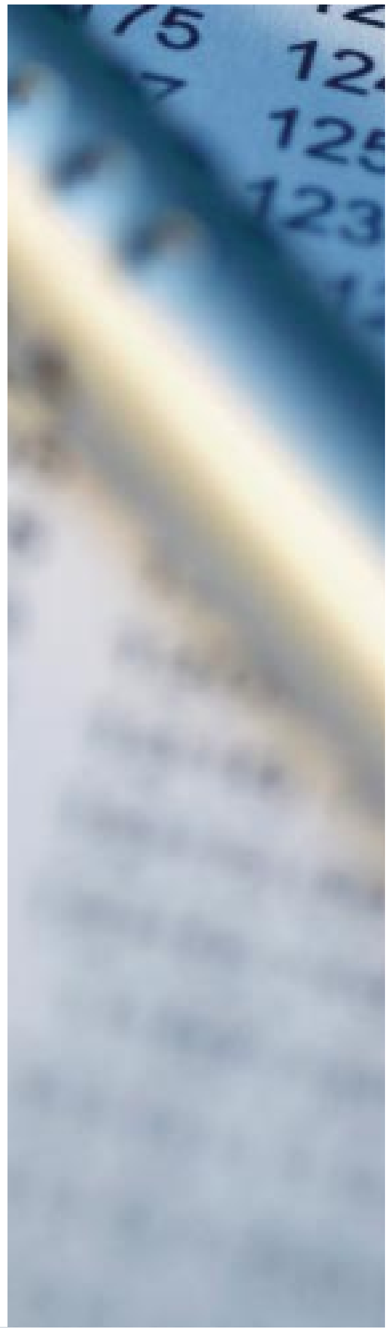
Furthermore, the Audit and Compliance Committee's own Organisation and Operation Regulations were approved on February 19 2004, to make the committee's operation vis-à-vis the Board of Directors even more independent, in keeping with article 44 of the Company Bylaws and article 26 of the Board of Directors Regulations. The Regulations of the Audit and Compliance Committee establish that the committee's main objectives are: to evaluate the Company's audit system, guarantee the independence of the External Auditor, check the internal control system and ensure the transparency of information and the observance of internal standards of conduct, for which the committee is attributed its own authority and competencies in relation to financial statements, Internal Auditing, External Auditing, Corporate Governance, Shareholders and the Corporate risk map.

As a listed company, Enagas has taken the steps necessary to ensure that quarterly, half-yearly and annual financial information, as well as any and all other information that may be required in accordance with applicable regulations, is made available to the markets. To this effect, the Chairman, Investor Relations Director, Board Secretary, Financial Director or Director of Legal Affairs, reports on all relevant Company facts through communications to the National Securities Market Commission prior to their release to any other media and as soon as such facts are made known, decisions are taken or the agreements in question have been signed. Furthermore, they are reported in a clear, accurate and complete manner that does not to lead to errors or confusion.

In its commitment to transparency of information, Enagas goes beyond the information with involved parties required from companies issuing securities listed for trading on official secondary markets, and anticipating the application of Order EHA/3050/2004 of 15 September, has included exhaustive, comprehensive information in the present 2004 Corporate Governance Report on all the transactions described in the aforementioned Order. This has consistently been Company practice since 2002.

The 2004 Corporate Governance Annual Report was approved by the Board of Directors at its session on 17 March 2005. The present section offers a summary of the report; for further information on the company's corporate governance, the full report, one of the documents made available to shareholders in preparation for the General Shareholders' Meeting, is available for consultation and is posted on the Enagas website. The report highlights Enagas' compliance with the recommendations included in the Code of Corporate Governance drafted by the Special Commission for Encouraging Transparency and Security in Listed Companies concerning the publication and evaluation of Corporate Governance rules.

Consolidated Annual Accounts



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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. and Subsidiaries comprising the consolidated balance sheet as of December 31, 2004, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2004 figures for each item in the consolidated balance sheet and consolidated statements of income and of changes in financial position, the figures for 2003. Our opinion refers only to the 2004 consolidated financial statements. On February 20, 2004, other auditors issued their auditors' report on the consolidated financial statements for 2003, in which they expressed an unqualified opinion.

3. As indicated in Note 30, although they were not obliged to do so, the directors of Enagás, S.A. considered it appropriate to include in the notes to consolidated financial statements for 2004 of the Enagás Group a detailed estimate of the effect that the application of International Financial Reporting Standards would have on the consolidated balance sheets as of January 1 and December 31, 2004, and on the consolidated statement of income for the year ended December 31, 2004, as a result of the principal differences arising with respect to the accounting principles currently in force in Spain, together with an explanation thereof.

4. In our opinion, the consolidated financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Enagás, S.A. and Subsidiaries as of December 31, 2004, and of the results of their operations and of the funds obtained and applied by them in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

5. The accompanying consolidated management report for 2004 contains the explanations which the Parent Company's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2004. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Group companies' accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Javier Acevedo Jiménez de Castro

February 18, 2005

CONSOLIDATED BALANCE SHEETS FOR THE ENAGAS GROUP AT 31 DECEMBER 2OO4 AND 2003. (Thousand euros)

Caption n.°	Assets	31.12.04	31.12.03
	FIXED ASSETS	**2,967,918**	**2,649,442**
4	**Formation expenses**	**1**	**5**
5	**Intangible fixed assets**	**12,048**	**10,898**
	Research and development expenses	14,768	13,684
	Concessions, patents, licences, brands and similar items	8,040	7,892
	Software	13,171	9,439
	Amortisation	(23,931)	(20,117)
6	**Tangible fixed assets**	**2,921,889**	**2,603,170**
	Land and holdings	80,440	75,924
	Plant and machinery	3,664,806	3,181,862
	Other installations, tools and furnishings	12,158	11,375
	Prepayments and assets in course of construction	450,103	479,959
	Other fixed assets	21,806	21,893
	Privisions	(9,402)	(9,845)
	Depreciation	(1,298,022)	(1,157,998)
7	**Investments**	**33,980**	**35,369**
	Loans to group companies	23,515	26,477
	Long-term investment portfolio	1,675	1,338
	Other loans	497	604
	Long-term deposits and guarantees	697	587
	Public entities, long-term	7,596	6,363
8	**DEFERRED EXPENSES**	**20,333**	**20,181**
	CURRENT ASSETS	**483,543**	**423,423**
9	**Inventories**	**2,384**	**2,407**
	Raw materials and supplies	2,384	2,407
10	**Debtors**	**472,533**	**403,967**
	Trade debtors for sales and services rendered	125,753	98,571
	Group companies, debtors	1,686	1,575
	Associated companies, debtors	125,573	100,828
	Sundry debtors	185,950	159,822
	Staff costs	154	216
	Public entities	33,417	44,499
	Provisions	-	(1,544)
	Current asset investments	**5,646**	**6,776**
	Loans to group companies	3,919	3,782
	Other loans	1,727	2,994
	Cash in hand and at bank	**300**	**2,100**
	Prepayments and deferred income	**2,680**	**8,173**
	TOTAL GENERAL	**3,471,794**	**3,093,046**

Notes 1 to 30 of the Consolidated Financial Statements form an integral part of the Consolidated Balance Sheets at 31 December 2004.

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

Caption n.°	Liabilities	31.12.04	31.12.03
11	**CAPITAL AND RESERVES**	**1,017,295**	**932,359**
	Share capital	358,101	358,101
	Revaluation reserve	342,505	342,505
	Legal reserve	71,620	70,842
	Voluntary reserves	111,171	43,997
	Rsrvs at companies cons. using the proportional method	6,807	3,543
	Consolidated profit	158,126	142,019
	Interim dividend	(31,035)	(28,648)
12	**DEFERRED INCOME**	**425,448**	**451,227**
	Capital grants	379,715	399,003
	Other deferred income	45,733	52,224
13	**PROVISIONS FOR LIABILITIES DUE AFTER ONE YR**	**10,880**	**4,737**
	Other provisions	10,880	4,737
	CREDITORS: AMOUNTS FALLING DUE AFTER ONE YR	**1,363,715**	**1,255,467**
14	**Bank loans**	**1,331,137**	**1,215,311**
16	**Loans from group and associated companies**	**4,576**	**8,469**
	Loans from associated companies	4,576	8,469
	Other creditors	**28,002**	**31,687**
15	Other loans	25,588	29,589
	Public entities, long-term	2,414	2,098
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YR	**654,456**	**449,256**
14	**Bank loans**	**63,007**	**24,945**
	Loans from group and associated companies	**259,919**	**146,845**
	Loans from group companies	3,308	2,801
16	Loans from associated companies	256,611	144,044
	Trade creditors	**262,231**	**212,837**
	Amounts payable for purchases and services rendered	262,231	212,837
	Other non-trade debts	**69,299**	**64,629**
	Taxes and social secutiry payable	31,798	28,623
	Other debts	4,746	5,820
	Dividend payable	31,035	28,648
	Outstanding wages and salaries	1,624	1,442
	Short-term wages and salaries	96	96
	TOTAL	**3,471,794**	**3,093,046**

Notes 1 to 30 of the Consolidated Financial Statements form an integral part of the Consolidated Balance Sheets at 31 December 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF THE ENAGAS GROUP FOR THE YEARS ENDING 31 DECEMBER 2004 AND 2003. (Thousans euros)

Caption n.°	Expense	2004	2003
	EXPENSES		
19	**Raw materials and supplies**	**729,165**	**1,037,913**
	Consumption of raw materials and other consumables	720,551	1,030,569
	Other external expenses	8,614	7,344
20	**Staff costs**	**57,913**	**58,014**
	Wages, salaries and similar	42,984	42,681
	Social welfare expenses	14,929	15,333
	Fixed asset depreciation/amortisation	**144,795**	**133,612**
	Change in trade privisions	**(412)**	**(67)**
	Other operating expenses	**144,499**	**133,369**
21	External services	142,869	131,365
	Taxes	1,630	2,004
	OPERATING PROFIT	**274,250**	**249,562**
	Financial and similar expenses	35,228	34,060
	Losses on exchange	3	3
	FINANCIAL INCOME	**-**	**-**
	PROFIT FROM ORDINARY INCOME	**241,331**	**217,830**
	Changes in provisions for tangible and intangible assests and controlling portfolio	-	473
	Losses from tangible fixed and intangible assets and controlling portfolio	40	10
	Extraordinary expenses	9	1
	Extraordinary expenses and other years' losses	4,971	-
	EXTRAORDINARY PROFIT	**1,300**	**-**
	PROFIT BEFORE TAXES	**242,631**	**217,376**
17	Corporate Income Tax	84,505	75,357
	PROFIT FOR YEAR	**158,126**	**142,019**

Notes 1 to 30 of the Consolidated Financial Statements attached form an integral part of the Consolidated Profit and Loss Account for the year ended 31 December 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF THE ENAGAS GROUP FOR THE YEARS ENDING31 DECEMBER 2004 AND 2003. (Thousans euros)

Caption n.º	Income	2004	2003
	INCOME		
18	**Net turnover**	**1,295,029**	**1,569,555**
	Sales	726,085	1,037,623
	Services rendered	568,944	531,932
	Own work capitalised	**7,082**	**170**
	Other operating income	**48,099**	**42,678**
	Auxiliary and ordinary trading income	27,698	22,184
12	Capital grants	20,401	20,494
	Income from shareholdings	**336**	**181**
	Income from other secutiries and long-term loans	**1,643**	**1,948**
	Other interest and similar income	**333**	**125**
	Gains on exchange	**-**	**77**
	FINANCIAL EXPENSE	**32,919**	**31,732**
	Gain on disposal of tangible fixed and intangible assets and controlling portfolio	**19**	**25**
	Extraordinary income	**797**	**5**
	Prior years' income	**5,504**	**-**
	EXTRAORDINARY LOSS	**-**	**454**

Notes 1 to 30 of the Consolidated Financial Statements attached from an integral part of the Consolidated Profit and Loss Account for the year ended 31 December 2004.

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

1. Basis of presentation and consolidation principles

a) Basis of presentation

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

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

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

b) Basis of comparison

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

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

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

c) Consolidation principles

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

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

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

The consolidation was carried out as follows:

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

– Transactions between consolidated companies.

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

– Consistency.

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

– Translation of financial statements denominated in foreign currencies.

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

– Elimination of dividends

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

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

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

2. Accounting policies

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

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

b) Intangible assets:

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

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

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

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

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive, as well as provisions for potential falls

in asset market value where their market value at the close of the fiscal period is below the net book value and so long as the latter cannot be recovered by generating sufficient sales to cover all costs and expenses, including depreciation. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life.
The depreciation rates applied are as follows:

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

d) Investments. Marketable security investments, irrespective of whether they are equity or debt, short-term or long-term, are stated in the balance sheet at their acquisition cost, restated, where appropriate, according to Law 9/1983 dated 13 July, or at market value, where lower. The acquisition cost does not include accrued dividends or explicit interest accrued and not due at the time of purchase.
In the case of valuation restatements for securities traded on an organised secondary market, with the exception of shareholdings in Group subsidiaries or associated companies, the lower of the market value on the balance sheet close date and the average trading value over the last quarter is taken. Shareholdings in Group subsidiaries or associated companies, regardless of whether or not they are traded on an organised secondary market, are stated at theoretic book value, adjusted for implied capital gains at the time of acquisition and through to the present, in relation to the performance of shareholders' equity. This last procedure is also used to value other shareholdings which are not traded on an organised secondary market.
Unlisted securities are stated at acquisition cost, less any provisions necessary to reflect a decline in their value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

m) Income and expenses

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

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

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

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 stipulated the total payment companies may receive for the rest of 2002 for purchase and sale activities in the regulated market, regasification, gas storage and transportation and technical management of the system and gas distribution. The publication also stated the criteria and formulae for restating and fixing payments for these services in the coming years.

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

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

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

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

n) Environment. Acquisition costs for systems, equipment and facilities whose purpose is to eliminate, limit or control the potential environmental impact of the Company's day-to-day gas-related activities are considered asset investments.
Environmental expenses other than those incurred in connection with asset acquisitions are expensed in the period in which they are incurred.
The parent company and its subsidiaries consider that existing civil responsibility insurance policies are sufficient to cover any environmental contingencies that could arise.

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

3. Regulation of compensation

a) Income from regasification, storage and transport activities

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

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

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

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

With respect to new infrastructure being brought into service, the standard value of each investment set by the regulator is used as a basis for calculating the related compensation for depreciation, while extension projects are depreciated at their real cost.

- Financial compensation for the investment. This figure is calculated by applying a financial compensation rate equal to the annual average for 10-year Government bonds or a replacement interest rate plus 1.5% to the value obtained in the previous paragraph. For fully-depreciated assets the financial compensation rate is applied to 50% of the value obtained in the previous paragraph. The resulting rate for 2004 was 5.64 %.

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

a.1.3. Given that the new system compensates 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 the consolidated profit and loss on a straight-line basis. In this way, a monthly balance is achieved between income (compensation) and expenses (depreciation).

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

b) Income from technical system management (GTS)

Income from this activity is calculated on a yearly basis in accordance with the authorised cost for each year and is used to compensate 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 infrastructure and controlling third-party access to the network.

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

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

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

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

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

d) Income from gas purchase and sales activity

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

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

– Gas purchase cost. This raw material cost is calculated based on the CIF prices of crude and oil products on international markets paid by the carrier, for sale on the regulated market, including the necessary costs for placing gas in the basic network. This cost is calculated on a quarterly basis in January, April, July and October of each year.
– Sales price. Known as the transfer price, this includes the cost of the raw material to be sold on the regulated market, natural gas purchase and sale management expenses and the average regasification cost. The transfer price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

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

e) Income from the Management of gas purchases and sales

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

- Specific total purchase and sales price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The rate set for 2004 is 0.005.
- A breakdown of gas shrinkage costs arising during regasification processes, storage and transport of gas to be sold on the regulated market is set out below:
  - Regasification: 0.5% of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.
  - Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground gas storage facilities to be sold on the regulated market.
  - Transport: 0.43% of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the regulated market.
- Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 0.218 to the volume of end customer demand (based on the average cost of the raw material to be sold on the regulated market). This coefficient is the result of the sum of the three month Euribor interest rate for the previous year and 0.5%. The rate for 2004 is 2.98%.

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

4. Set-up expenses

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

	Balance as of 01.01.04	Increase	Depreciat.	Balance as of 31.12.04
Star-up cost	4	-	(4)	-
Share capital increase expenses	1	-	-	1
Total	**5**	**-**	**(4)**	**1**

5. Intangible assets

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

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

The increase in R&D expenses is primarily due to:
– A general specification project for the LNG plants
– SIGMA maintenance

Regarding computer applications, we highlight:
– The development of a new function of the SAP support system
– System for the management and certification for obtaining gas measurements

6. Tangible fixed assets

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

	Balance as of 01.01.04	Increase	Decrease	Transfer	Balance as of 31.12.04
Land and buildings	75,924	4,516	-	-	80,440
Plant and machinery	3,181,862	204,228	(1)	278,717	3,664,806
Fixtures, fittings, tools and equipment	11,375	783	-	-	12,158
Payments on account and assets in course of construction	479,959	248,861	-	(278,717)	450,103
Other fixed assets	21,893	888	(975)	-	21,806
Total	**3,771,013**	**459,276**	**(976)**	**-**	**4,229,313**

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

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

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

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

The line item depicting decreases reflects a 975,000 euro vehicle reduction.
The Transfers line item includes the reclassification of projects underway which were completed during the fiscal year.
The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of 16.91 million euros in the fixed asset depreciation charge for 2004.
Movements in restated tangible fixed assets are set out below:

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

The plant and machinery balance includes non-extractable gas assets located in underground gas storage facilities totalling 118.72 million euros.
The impact of capitalised in-house Work carried out in connection with fixed assets accounted for an increase in investment of 7.08 million euros.
The financial costs applied during the year to infrastructure being constructed totalled 7.05 million euros and as of 31 December 2004, 155.12 million euros were recorded as an

increase in gross tangible fixed assets, without being previously accounted for first as in-house fixed asset related work.
Movements in accumulated depreciation during the year are as follows:

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

The total amount recorded under decreases (956,000 euros) basically relates to the disposal of vehicles totalling 955,000 euros.
The breakdown of provisions for fixed assets involved in discontinued projects and obsolete warehouse materials and movements during the year are set out below:

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

The line item reflecting asset decreases includes disposals of stored obsolete investment materials.
Tangible fixed assets are not mortgaged or subject to any other similar encumbrance.
The Company takes out all insurance policies it deems necessary to cover any possible risks that could affect tangible fixed asset items.

7. Investments

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

	Balance at 01.01.04	Increases	Decreases	Balance at 31.12.04
Loans to group companies	26,477	807	(3,769)	23,515
Long-term securities portfolio	1,338	340	(3)	1,675
Other loans	604	-	(107)	497
Long-erm deposits and guarantees	587	124	(14)	697
Government debentures long-term	6,363	3,130	(1,897)	7,596
Total	**35,369**	**4,401**	**(5,790)**	**33,980**

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

	Long-term	Short-term
Gasoducto Al-Andalus, S.A.	12,951	2,158
Gasoducto de Extremadura, S.A.	3,771	629
Gasoduto Campo Maior Leiria Braga, S.A.	5,019	837
Gasoduto Braga-Tuy, S.A.	1,774	295
Total	**23,515**	**3,919**

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

2006	3,306
2007	3,545
2008	3,797
2009	4,069
Over 5 years	8,797
	23,515

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

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

8. Deferred expenses

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

	Balance as at 01.01.04	Increases	Decreases	Balance as at 31.12.04
Enagas, S.A.	434	1,011	(67)	1,378
Gasoduto Campo Maior - Leiria - Braga, S.A.	10,976	-	(441)	10,535
Gasoduto Braga - Tuy, S.A.	8,771	-	(351)	8,420
Total	**20,181**	**1,011**	**(859)**	**20,333**

The decreases line for Enagas, S.A. records the royalty paid in advance to Gas de Euskadi, S.A. to use the latter's gas pipelines for a period of 13 years – of which 6 are left.
The increases line for Enagas, S.A. includes long term up-front fees. of 700,000 for the 15 year ICO loan and 311,000 for the 10 year ICO loan.
Gas transport rights and directly related financial costs relate to the Gasoduto Campo Maior - Leiria – Braga, S.A. y Gasoduto Braga – Tuy, S.A.

9. Inventories

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

10. Debtors

Amounts owed by the Group and associated companies relate largely to natural gas sales and gas transport services. The balances record amounts which fall within the stipulated maturity period and correspond to companies of recognised prestige and solvency.
The balance for associated company debtors stood at 125.57 million euros relating mainly to Gas Natural SDG, S.A. (92.28 million euros), Gas Natural Comercializadora, S.A. (12.98 million euros) and Gas Natural Castilla y León, S.A. (6.29 million euros).
At 31 December 2004 accounts pending payment relating to regulated activities in 2004 stood at 140.36 million euros. For 2005, at the date these annual accounts were prepared, payment number 10 for 2004 had been settled (12.73 million euros).
Also, at the date these annual accounts were prepared, the final settlements for 2002 and 2003 are still pending. The balance on the Sundry debtors caption of the attached consolidated Balance sheet includes 25.52 million euros corresponding to 2002 and a sum of 17.39 million euros corresponding to 2003, both of which are pending settlement at the year end.
In this sense, Article 13 of Ministerial Order which ECO/2692/2002 stipulating settlement procedures states that *"Any deviations (differences) between the net revenue payable and the accredited remuneration that arise when the settlement procedure is applied each year, shall be taken into account in the calculation of the tariffs, access charges and fees of the next two years".*
The Group therefore records these balances for the 2002 and 2003 given that while the calculation of tariffs, access charges and fees for 2004 and 2005 reflect potential deviations occurring in 2002 and 2003, the balances for these years may only be settled once the definitive payment has been made.

The balance of 1.69 million euros shown by Group company Debtors corresponds to Gasoducto Al-Andalus, S.A. (918,000 euros) and Gasoducto de Extremadura, S.A. (768,000 euros) and relates to gas transport services rendered to Transgás, S.A. which were pending settlement at that date and have been booked under the proportional consolidation method applying the percentage of the stake owned by Enagas, S.A. in the companies.
Several doubtful loans to former Customers have been eliminated for the two accounts. There were fully provisioned.
The account Accrued Taxes Payable account basically records VAT receivable by Enagas, S.A., the refund of which was requested in January 2004.

11. Capital and Reserves

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

	Balance at 01.01.04	Distribution of 2003 profit	Other	2004 profit	Balance at 31.12.04
Capital stock	358,101	-	-	-	358,101
Revaluation reserve	342,505	-	-	-	342,505
Legal reserve	70,842	778	-	-	71,620
Voluntary reserve	43,997	67,174	-	-	111,171
Reserves in consolidated companies	3,543	3,057	207	-	6,807
Consolidated profit and loss account	142,019	(142,019)	-	158,126	158,126
Interim dividend	(28,648)	28,648	-	(31,035)	(31,035)
Total	**932,359**	**(42,362)**	**207**	**127,091**	**1,017,295**

a) At 31 December 2004 Enagas, S.A's share capital was made up of 238,734,260 ordinary bearer shares, all of the same class and series, fully paid up and with a par value of €1.5.
b) All Enagas, S.A. shares are listed on the Spanish stock exchange and are traded on the continuous market.
At year-end 2004, the price of Enagas, S.A. shares stood at €12.20 (year high).
c) The most significant shareholdings in the share capital of Enagas, S.A. at 31 December 2004 are the following:

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

The company has no treasury stock.

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

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

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

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

Dividends	79,063
Voluntary reserve	78,638
	157,701

On 16 December 2004 the Board of Directors of Enagas, S.A. resolved to pay an interim dividend out of 2004 profits to the amount of 31.03 million euros. The Company has prepared the following liquidity statement, expressed in thousands of euros, in accor-

dance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

	Thousands of euros
Reported net profit at 31 October 2004	133,266
10% Legal reserve	-
Profit available for distribution	133,266
Forecast interim dividend	(31,035)
Forecast cash at bank and in hand between 31 October 2004 and 31 December 2004	
– Cash at bank and in hand at 31 October 2004	39,070
– Collections forecast for the period under consideration	160,000
– Credit facilities and loans granted by banks	825,000
– Payments firecast for the period under consideration (including the interim dividend)	(220,000)
Cash at bank and hand at 31 December 2004	804,070

In January 2005 the approved interim dividend was paid.

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

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

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

Gasoducto Al-Andalus, S.A.	3,457
Gasoducto de Extremadura, S.A.	662
Gasoduto Campo Maior-Leiria-Braga, S.A.	177
Gasoduto Braga-Tuy, S.A.	123
Adjustments on consolidation	2,388
Consolidation reserves	**6,807**

12. Deferred income

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

	Balance as at 01.01.04	Increases	Applications	Balance as at 31.12.04
Capital grants	399,003	1,076	(20,364)	379,715
Canon Gasod. de Extremadura, S.A.	15,449	–	(3,423)	12,026
Canon Gasod. Al-Andalus, S.A.	36,775	–	(3,068)	33,707
Total	**451,227**	**1,076**	**(26,855)**	**425,448**

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

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

	Grants received as at 31.12.04	Applications at 31.12.04	Balance as at 31.12.04
Regasification plants	68,466	(30,147)	38,319
Gas transport infrastructure	456,214	(129,969)	326,245
Subterranean fields	15,151	–	15,151
Total	**539,831**	**(160,116)**	**379,715**

The grants were awarded by:

	Grants received as at 31.12.04	Applications at 31.12.04	Balance as at 31.12.04
EU cohesion funds	378,147	(84,206)	293,941
Spanish regional authorities	47,836	(9,563)	38,273
The Spanish state	113,848	(66,347)	47,501
Total	**539,831**	**(160,116)**	**379,715**

13. Provisions for liabilities and charges

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

	Balance as at 01.01.04	Provisions	Applications	Balance as at 31.12.04
Other provisions	4,737	6,461	(318)	10,880
Total	**4,737**	**6,461**	**(318)**	**10,880**

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

14. Bank loans

These items break down as follows:

	Long term	Short term
Enagas, S.A. credit facilities and bank loans	1,326,776	55,463
Gasoducto Braga-Tuy, S.A. credit facilities and bank loans	4,361	–
Accrued interest	–	7,544
	1,331,137	**63,007**

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

2006	8,629
2007	12,990
2008	8,629
2009	56,486
Over 5 years	1,244,403
	1,331,137

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

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

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

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

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

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

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

15. Other creditors

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

	Long term
Loan from Transgás, S.A. a Gasoducto Al-Andalus, S.A.	12,879
Loan from Transgás, S.A. a Gasoducto de Extremadura, S.A.	7,665
Loan from Transgás, S.A. a Gasoduto Campo Maior -Leiria-Braga, S.A.	5,044
	25,588

Loans from Transgás, S.A. bear interest at variable market rates and fall due in 2011. These loans are amortised in accordance to the terms established in the contracts and the cash resources available to each company.

16. Group and associated company debtors

The balance of long-term debt owed to associated companies (4.58 million euros) relates to the forecast adjustments envisaged by under Spanish Corporate Tax law for 1995 to 1998, updated on 31 December 2004 in favour of Gas Natural SDG, S.A., head of the 59/93 Tax Group.
The 3.31 million euro balance of the "ST Debt payable to Group companies" caption is as follows:

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

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

17. Tax situation

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

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

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

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

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

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

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

Company	
Enagas, S.A.	79,191
Gasoducto Al - Andalus, S.A.	3,282
Gasoducto de Extremadura, S.A.	1,379
Gasoduto Campo Maior - Leiria - Braga, S.A.	371
Gasoduto Braga - Tuy, S.A.	282
	84,505

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

Reported profit before taxes	**236,892**
Permanent differences:	
• Double taxation exemption	(1,227)
• Other	49
Timing differences	
• Free depreciation R.D.-L. 3/1993	572
• Other	3,523
INITIAL TAX BASE	**239,809**

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

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

	Gasoducto Al-Andalus, S.A.	Gasoducto de Extremadura, S.A.	Gasoduto Campo Maior-Leiria-Braga, S.A.	Gasoduto Braga-Tuy, S.A.
Reported profit	9,377	3,941	1,368	1,006
Permanent differences	–	–	–	–
Taxable income	**9,377**	**3,941**	**1,368**	**1,006**

d) At the year end a total of 57.02 million euros in corporate income tax was paid by 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 01.01.04	Variation	Balance at 31.12.04
Tax paid in advance			
• Capital grants	1,817	(130)	1,687
• Other	4,546	1,363	5,909
	6,363	**1,233**	**7,596**
Deferred tax			
• Accelerated depreciation	2,098	(200)	1,898
	2,098	**(200)**	**1,898**

18. Net turnover

The breakdown of net turnover is as follows:

	2004	2003
Gas sales	724,469	1,037,194
Other sales	1,616	429
Services rendered	568,944	531,932
– Reneuve from regulated activities	549,923	508,812
– Other	19,021	23,120
Net turnover	**1,295,029**	**1,569,555**

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

Company	2004	2003
Enagas, S.A.	554,647	517,580
Gasoducto Al - Andalus, S.A.	6,635	6,361
Gasoducto Extremadura, S.A.	5,155	5,504
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,176	2,331
Gasoduto Braga - Tuy, S.A.	331	156
	568,944	**531,932**

19. Raw materials and consumables

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

	2004
Sagane, S.A.	582,406
Gas Natural Aprovisionamientos, S.A.	138,145
	720,551

20. Average number of employees

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

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

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

21. Other operating charges

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

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

	2004	2003
Leases and royalties	66,565	56,938
Repairs and maintenance	20,767	20,818
Independent professional services	9,605	8,952
Transports	16,583	15,556
Insurance premiums	5,302	6,749
Banking and similar services	374	211
Advertising and public relations	1,275	1,251
Supplies	13,865	14,209
Other services	8,533	6,681
Total	**142,869**	**131,365**

Leases and royalties are mainly leases for the Gaviota underground storage facilities and the Desarrollo del Cable telecoms network which correspond to Enagas, S.A.
Pursuant to Law 48/2003 of 26 November on the economic and service regime of general interest ports, Enagas has been designated responsible for paying the taxes for all ships docking and all merchandise unloaded in the area of the port under concession to the group, with these amounts being passed on to the agents and seller respectively. This led to an increase of 9.97 million euros in the leases and royalties caption compared to the previous year.

22. Contribution of Group companies to consolidated results

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

	Contribution of Group companies to consolidated results
Enagas, S.A.	148,911
Gasoducto Al - Andalus, S.A.	5,981
Gasoducto de Extremadura, S.A.	1,512
Gasoduto Campo Maior - Leiria - Braga, S.A.	998
Gasoduto Braga - Tuy, S.A.	724
	158,126

23. Transactions with Group and associated companies

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

Income	Gasoducto Al-Andalus, S.A.	Gasoducto Extremadura, S.A.	Total
Network maintenance	798	1,558	2,356
Transport contracts	3,068	3,424	6,492
Technical assistance	617	477	1,094
			9,942

Expenses	Gasoducto Al-Andalus,S.A.	Gasoducto Extremadura,S.A.	Gasoduto Leiria-Braga, S.A.	Gasoduto Campo Maior-Braga-Tuy, S.A	Total
Gas transport	7,054	3,936	2,878	1,692	15,560
					15,560

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

Income Concept	Company	Total
Gas sales	Distribuidores Grupo Gas Natural	672,193
Maintenance of fibre optics for Desarrollo del Cable, S.A.	Desarrollo del Cable, S.A.	4,476
		676,669

Expenses Concept	Company	Total
Gas purchases	SAGANE, S.A. and Gas Natural Aprovisionamientos, S.A.	722,190
Rental of minium security stocks (35 days)	Gas Natural, SDG, S.A. and Gas Natural Aprovisionamientos, S.A.	3,562
Leases and maintenance	Gas Natural, SDG, S.A. and CEGAS	40,468
Electricity supplies	Gas Natural Comercializadora, S.A.	6,220
		772,440

24. Extraordinaries

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

– An expense of 4.97 million euros for an extraordinary provision for the security fund.

– Revenues of 4.04 million euros for the partial reversal of the Corporate Income Tax assessment prompted by the reversion fund. In 2004, Enagas, S.A. brought back debt incurred in previous years with Gas Natural SDG, S.A. in order to cover against the risk deriving from the 1998 Corporate Tax Law with regard to the fiscal treatment for the cancellation of the Reversion Fund booked in 1998 by Enagas, S.A. but carried out in previous years.

– Revenues of 611,000 euros from the regularisation of several balance sheet items.
– Revenues of 551,000 euros from the payment received from the sale of MUSINI shares in previous years.
– Revenues of 517,000 euros from a provisioned payment from Gas de Asturias.

25. Commitments and contingent liabilities

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

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

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

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

26. Other information

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

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

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

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

In order to comply with the provisions of article 127 of the Spanish Companies Act, these notes to the financial statements contain information relating to shareholdings and positions held by Enagas Board Members in other companies with a corporate purpose that is similar or complementary to that of Enagas S.A. In preparing this information, companies having a corporate purpose similar or complementary to that of Enagas have been considered to be those that are engaged in the transport, regasification, distribution or sale of natural gas, regulated by Law 34/1998 on the hydrocarbons industry.

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

DIRECTOR	**SHARES**	
Enrique Locutura Rupérez (*)	Gas Natural Sdg	3,860
Ramón Blanco Balín	Gas Natural, Sdg	9,166
Luis Javier Navarro Vigil	BP Plc	58,256
CAM	Gas Natural Sdg	64,092
	Poseidón Gas AIE (5,24%)	300,004,460
	Nautilus Gas II AIE (5,24%)	300,004,440
Rafael Villaseca Marco	Gas Natural, Sdg	1,000
BANCAJA	Iberdrola	1%
José Luis Olivas Martínez	Iberdrola	3,250

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

DIRECTOR	POSITIONS
Ramón Blanco Balín	Director of Gas Natural, Sdg
Salvador Gabarró Serra	Chairman of Gas Natural Sdg
Enrique Locutura Rupérez (*)	Chief Executive of Gas Natural Sdg
	Chairman of Gas Natural Distribución
Luis Javier Navarro Vigil	Chairman and Director of BP Gas España S.A.
Rafael Villaseca Marco	Chief Executive of Gas Natural Sdg (since 28/1/05)
Manuel Menéndez Menéndez	Representative of Peña Rueda on the Board of Naturcorp Redes S.A.U.

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

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

c) In 2004 PricewaterhouseCoopers Auditores, S.L. billed the Company 38.2 million euros for audit fees and 68.4 million euros for other non-audit related services rendered to Group companies.
   On this point, it should be noted that at the general meeting of shareholders held on 30.04.04, shareholders agreed to appoint Deloitte & Touche España, S.L (now Deloitte, S.L.) as auditors to Enagas, S.A. and its consolidated group for a period of three years. In 2004 fees billed by Deloitte, S.L. for audit fees and other non-audit related services totalled 11.5 million euros and 57.1 million euros respectively.
d) Improvements to Enagas' credit rating:
   Standard & Poor´s. In January 2004, the ratings agency Standard & Poor´s raised Enagas' long-term rating from "A+" to "AA-", and its short-term rating from "A-1" to "A-1+", citing the improved earnings outlook for the generation business and the Company's more robust financial position.
   Moody´s. On 5 July, the ratings agency Moody´s revised the outlook for Enagas long-term rating, currently A2, from stable to positive, besides assigning the Company a short-term credit rating of Prime-1.
e) On 23 February 2004, Enagas, S.A. took out a 200 million euro loan with Instituto de Crédito Oficial (ICO) to provide part funding for its 2004-2006 Investment Plan. This loan is scheduled to be repaid over a period of up to 15 years.
f) On 23 June 2004, Enagas, S.A. concluded a 450 million euro loan with the European Investment Bank (EIB) to cover its financing needs to 2006. This loan is structured into

two tranches and is scheduled to be repaid over a period of 10-15 years. The loan will be available for drawdown at intervals of between nine and 30 months. The first instalment, in the amount of 125 million euros, was drawn down on 5 July 2004.

g) In November and December the terms of the 1,000 million euro syndicated loan concluded in April 2003 were renegotiated, as were loans in the amount of 150 million euros and 200 million euros contracted with the ICO in December 2002 and February 2004 respectively.
   By refinancing these loans, the Company significantly reduced the associated financial charges. In the case of the syndicated loan, it was also able to extend the term from 2008 to 2010.

27. Environment

In 2004, in accordance with its environmental policy, the Company accorded particular attention to preservation of the environment in the execution of its business activities, specifically by adopting measures designed to minimise the environmental impact of its infrastructure programmes, such as landscaping, controlled drilling, archaeological conservation and other environmental improvement programmes. Also, the environmental management certificates issued by AENOR in respect of the management system in place at its operating installations, pursuant to ISO 14001, were renewed.
In 2004, these environmental activities involved investments totalling 13.43 million euros, recognised as assets on the balance sheet.
Environmental expenses totalled 874,000 in 2004 and were recorded under "other operating expenses".
Potential contingencies, indemnities and other environmental risks that the Company may incur are sufficiently covered by the third-party civil liability insurance policies it has taken out.
The Company has not received any capital grants or income relating to environmental activities.

28. Post-balance sheet events

a) On 12.01.05 an interim dividend was paid against 2004 profits. This dividend totalled €0.13 per share and was approved by the Board of Directors of Enagas, S.A. at a meeting held on 16.12.04.
b) On 28.01.05 the Ministry for Industry, Tourism and Trade approved three Ministerial Orders updating prices, tolls, royalties and remuneration for regulated gas industry activities in 2005, applicable to all companies carrying out regasification, storage, trans-

port or distribution activities. These new rates were published in the Official State Gazette on 31 January.

29. Statement of source and application of funds

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

APPLICATION OF FUNDS	Thousand of Euros 31.12.2004	Thousand of Euros 31.12.2003	SOURCE OF FUNDS	Thousand of Euros 31.12.2004	Thousand of Euros 31.12.2003
Formation expenses	(4)	2	Funds generated from operations	282,979	248,791
Purchaes of fixed assests	468,642	426,256	Capital grants	1,076	3,716
Deferred expenses	1,026		Other reserves	207	174
Prior-year dividends	42,362	33,549	Proceeds from disposal of fixed assests	5,789	7,770
Interim dividend	31,035	28,648			
Provision for liabilities and charges	318	91			
Debts falling due after one year	(108,248)	(1,019,546)			
Due from banks	(115,826)	(1,024,536)			
Due from associated companies	3,893	–			
Other amounts owed	3,685	4,990			
Total applications of funds	**435,131**	**(531,000)**	**Total sources of funds**	**290,051**	**260,451**
Surplus of sources over application of funds (increase in working capital)	**–**	**791,451**	**Surplus of applications over sources of funds (reduction in working capital)**	**145,080**	**–**

Change in working capital	Thousand of Euros 31.12.2004 Increase	Thousand of Euros 31.12.2004 Decrease	Thousand of Euros 31.12.2003 Increase	Thousand of Euros 31.12.2003 Decrease
Inventories	-	23	-	20
Debtors	68,566	-	-	97,122
Creditors	-	205,200	879,968	-
Short-term financial investments	-	1,130	3,151	-
Cash	-	1,800	1,225	-
Accruals, prepayments and deferred income	-	5,493	4,249	-
TOTAL	**68,566**	**213,646**	**888,593**	**97,142**
Change in working capital		**145,080**	**791,451**	

Consolidated funds generated from operations	Thousand of Euros 31.12.2004	Thousand of Euros 31.12.2003
Profit for the year	**158,126**	**142,019**
Increase:	**124,853**	**106,772**
• Depreciation and amortisation	144,795	133,612
• Deferred expenses	874	571
• Deferred income	(26,855)	(28,629)
• Net application of the provision for liabilities and charges	6,461	972
• Change in provision for tangible fixed assests	(443)	261
• Profit on disposal of fixed assets	(19)	(15)
• Loss on disposal of treasury stock	40	-
Funds generated from operations	**282,979**	**248,791**

30. Issues deriving from the transition to international financial reporting standards (IFRS)

Regulation no. 1606/2002 of the European Parliament and of the Council establishes that all companies listed to trade on regulated markets in the European Union must present their consolidated financial statements in accordance with International Financial Repor-

ting Standards (hereinafter IFRS) for all years beginning subsequent to 1 January 2005.
The Directors of the Parent Company have prepared the accompanying consolidated financial statements under Spanish generally accepted accounting principles (hereinafter GAAP), in order to provide a true and fair of the Group's assets, financial position and consolidated earnings at 31 December 2004 and 2003.
Although not legally required to do so, the Directors of Enagas, S.A. also deemed it appropriate to provide in these notes to the 2004 consolidated financial statements of the Enagas Group detailed estimates of the impact of adopting IFRS on the consolidated balance sheets as of 1 January and 31 December 2004 and the consolidated statements of income for the year ended 31 December 2004, highlighting the main differences between the accounts prepared under IFRS and those prepared applying the accounting principles currently in force in Spain, and explaining these differences.
Pursuant to Regulation no 1606/2002 of 19 July of the European Parliament and of the Council, the first annual financial statements of the Enagas Group to be formally prepared in full compliance with IFRS will be the 2005 financial statements. The information contained in these notes may therefore be modified to allow for application of any regulation issued in the course of this year and any change to any of the assumptions on which the calculations are based.
Because of the differences in the accounting principles used, as of 31 December 2004 the value of the Group's net assets under Spanish GAAP is 18.38 million euros higher than under IFRS, while profit for the year ended as of this date is 8,000 euros lower than in the accounts prepared under IFRS. For the year ended 31 December 2003, the difference in net assets is 2.32 million euros. The following section of these notes provides a reconciliation between the balances of the main captions of the Enagas Group's consolidated balance sheets as of 31 December 2003 and 2004 and its consolidated statement of income for the year ended 31 December 2004 prepared under Spanish GAAP and those resulting from the application of IFRS.

	31 December 2003 Thousand Euros Spanish Standards (*)	Effect from transition to IFRS	IFRS	Reference
ASSETS:				
FORMATION EXPENSES	**5**	**(5)**	**–**	(a)
NON-CURRENT ASSETS:	**2,649,437**	**(376,151)**	**2,273,286**	
Intangible fixed assets	10,898	19,237	30,135	(b)(e)
Property assets	–	743	743	(c.3)
Tangible fixed assets	2,603,170	(398,039)	2,205,131	(b.2) (c)
Long-term financial investments	28,419	449	28,868	(d)
Other non-current assets	587	–	587	
Deferred tax assets	6,363	1,459	7,822	(i)
Total non-current assets	**2,649,442**	**(376,156)**	**2,273,286**	
DEFERRED EXPENSES	**20,181**	**(20,181)**	**–**	(e)
OTHER CURRENT ASSETS:	**423,423**	**(4,301)**	**419,122**	
Inventories	2,407	–	2,407	
Trade debtors and other short-term debts	359,252	–	359,252	
Short-term financial investments	6,776	(2,477)	4,299	
Tax receivables	44,499	–	44,499	
Other current assets	8,389	(4,301)	4,088	(j)
Cash and other equivalent resources	2,100	2,477	4,577	
Total current assets	**443,604**	**(24,482)**	**419,122**	
TOTAL ASSETS	**3,093,046**	**(400,638)**	**2,692,408**	
LIABILITIES:				
Share capital	358,101	–	358,101	
Reserves	460,887	–	460,887	
Provision for first-time adoption	–	(2,320)	(2,320)	(a)(b)(d)(e)(f)
Net income for the year ended	142,019	–	142,019	
Interim dividend paid during the year ended	(28,648)	–	(28,648)	
Total equity	**932,359**	**(2,320)**	**930,039**	
NON-CURRENT LIABILITIES	**1,711,431**	**(397,394)**	**1,314,037**	
Banck loans	1,215,311	(3,356)	1,211,955	(j)(f)
Other long-term loans	29,589	2,486	32,075	(f)
Deferred tax liabilities	2,098	210	2,308	(i)
Provisions	4,737	2,269	7,006	(d)
Other non-current liabilities	459,696	(399,003)	60,693	(c.2)
CURRENT LIABILITIES	**449,256**	**(924)**	**448,332**	
Bank loans and overdrafts	24,945	(945)	24,000	(f)
Other short-term loans	5,309	21	5,330	
Trade creditors ans other short-term credits	359,682	–	359,682	
Tax Payable	28,623	–	28,623	(i)
Other current liabilities	30,697	–	30,697	
TOTAL LIABILITIES AND EQUITY	**3,093,046**	**(400,638)**	**2,692,408**	

	31 December 2004 Thousand Euros Spanish Standards (*)	Effects from transition to IFRS	IFRS	Reference
ASSETS:				
FORMATION EXPENSES	**1**	**(1)**	**–**	(a)
NON-CURRENT ASSETS:	**2,967,917**	**(348,934)**	**2,618,983**	
Intangible assets	12,047	18,460	30,507	(b)(e)
Property assets	–	711	711	(c.3)
Tangible fixed assets	2,921,889	(378,795)	2,543,094	(b.2)(c)
Long-term financial investments	25,688	534	26,222	(d)
Other non-current assets	697	–	697	
Deferred tax assets	7,596	10,156	17,752	(i)
Total non-current assets	**2,967,918**	**(348,935)**	**2,618,983**	
DEFERRED EXPENSES	**20,333**	**(20,333)**	**–**	
OTHER CURRENT ASSETS:	**483,543**	**(45)**	**483,498**	(e)
Inventories	2,384	–	2,384	
Trade debtors and other short-term debts	438,962	–	438,962	
Short-term financial investments	5,646	(1,727)	3,919	
Tax receivables	33,417	–	33,417	
Other current assets	2,834	(45)	2,789	
Cash and other equivalents resources	300	1,727	2,027	(j)
Total current assets	**503,876**	**(20,378)**	**483,498**	
TOTAL ASSETS	**3,471,794**	**(369,313)**	**3,102,481**	
LIABILITIES:				
Share capital	358,101	–	358,101	
Reserves	532,103	–	532,103	
Provision for first-time adoption	–	(18,373)	(18,373)	(a)(b)(d)(e)(f)
Net income for the year ended	158,126	(8)	158,118	
Interim dividend paid during the year ended	(31,035)	–	(31,035)	
Total equity	**1,017,295**	**(18,381)**	**998,914**	
NON-CURRENT LIABILITIES	**1,800,043**	**(364,234)**	**1,435,809**	
Bank loans	1,331,137	(1,011)	1,330,126	(j)(f)
Other long-term loans	25,588	13,856	39,444	(f)
Deferred tax liabilities	2,414	259	2,673	(i)
Provisions	10,880	2,377	13,257	(d)
Other non-current liabilities	430,024	(379,715)	50,309	(c.2)
CURRENT LIABILITIES	**654,456**	**13,302**	**667,758**	
Bank loans and overdrafts	63,007	(1,040)	61,967	(f)
Other short-term loans	4,294	14,342	18,636	
Trade creditors and other short-term credits	522,150	–	522,150	
Tax Payable	31,798	–	31,798	(i)
Other current liabilities	33,207	–	33,207	
TOTAL LIABILITIES AND EQUITY	**3,471,794**	**(360,313)**	**3,102,481**	

Reconciliation of the profit and losses accounts	31 December 2004 Thousand Euros Spanish Standards (*)	Effect of transition to IFRS	IFRS	Reference
Sales	724,469	(724,469)	–	(k)
Sale costs	(720,551)	711,898	(8,653)	(k)
Gross earnings	**3,918**	**(12,571)**	**(8,653)**	
Income from regulated activities	549,925	–	562,496	(k)
Income from non-regulated activities	14,318	–	14,318	
Own work capitalised	7,082	–	7,082	
Other operating income	45,665	(14,896)	30,769	(c.2)
Staff costs	(57,913)	(5,056)	(62,969)	(d)
Amortization and depreciation	(144,795)	20,742	(124,053)	(a)(b)(c.2)(c.3)
Other operating expenses	(143,951)	34	(143,917)	(b)(e)
OPERATING PROFIT/(LOSS)	**274,429**	**824**	**275,073**	
Financial income	2,312	636	2,948	
Financial expenses	(35,228)	(136)	(35,364)	(f)
Income/(Gains) on exchange	(3)	–	(3)	
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXES	**241,330**	**1,324**	**242,654**	
Income tax	(84,505)	4	(84,501)	(i)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES	**156,825**	**1,328**	**158,153**	
Extraordinary income (net from taxes)	1,300	(1,300)	–	(h)
Profit/(Loss) after tax from discontinued activities	–	(36)	(36)	
PROFIT/(LOSS) FOR YEAR	**158,125**	**(8)**	**158,117**	

First-time adoption of IFRS

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

The main provisions of this regulation are described below.

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

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

Fair value or revaluation as deemed cost

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

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

a) fair value, or

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

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

Hedge accounting

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

1. Measure all derivatives at fair value; and
2. Eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.

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

Estimates

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

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

a) Formation expenses and capital increase expenses

– Accounting standards in force in Spain allow for formation, start-up and capital increase expenses to be capitalised. These expenses shall be valued at the acquisition or production cost of the goods and services giving rise to the expense and shall be depreciated on a straight-line basis over a period of not more than five years.
– Under IFRS-1, expenses arising as a result of the acquisition or internal generation of an intangible asset shall be charged against income for the year in which the expense was incurred As an exception to the above, capital increase expenses normally included under formation expenses under Spanish GAAP shall be recognised under IFRS net of any tax credits, thereby reducing the amount raised in the capital increase (issue premium or share capital). If the capital increase is not concluded, the expense relating to the said capital increase shall be charged against income for the period in which the expense was incurred.
– Formation and capital increase expenses not amortised at 31 December 2004 (5,000 euros) have been redistributed, with 4,000 euros being allocated to "Provisions for first-time adoption" and 1,000 euros being allocated to "Deferred tax assets".

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

b) Intangible assets

b.1) Research and development costs

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

  The Enagas Group books research and development costs at acquisition or production cost. Expenses in respect of which there is justified reason to assume technical success and financial-commercial viability are capitalised, with 95% of the expense being amortised in the first year and the remainder in the following year.
- Under IFRS, in contrast, all research and development costs must be expensed when incurred, and may only be capitalised once the technical and commercial feasibility of the asset for sale or use has been established. The capitalised costs are then amortised over the useful life of the asset. If it is not possible to distinguish between the cost of the research phase and the cost of the development phase of an internal project, all expenditure for that project shall be treated as if incurred in the research phase and shall be recognised as such in the statement of income.
- The policy adopted by the Enagas Group is to eliminate from its consolidated balance sheet any amounts in the intangible assets caption pending amortisation, since such expenses do not fulfil the criteria established under IAS 38.

  The balance of research and development costs pending amortisation at 31 December 2003 was 198,000 and was redistributed between "Provisions for first-time adoption" (129,000 euros) and "Deferred tax assets" (69,000 euros).

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

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

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

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

Also, under IFRS, a 97,000 euros adjustment was made to the "R&D costs" caption and booked against income to eliminate the balance pending amortisation recorded in the R&D costs account under intangible fixed assets.

b.2) Other intangible assets

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

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

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

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

i. Adjustment of 179,000 euros to the opening balance, redistributed between "Provisions for first-time adoption" (116,000 euros) and "Deferred tax assets" (63,000 euros) corresponding to the amount pending amortisation as of 31.12.03.

ii. Reclassification of the 72,000 euros amortisation charge as "Other operating expenses".

iii. Adjustment of 196,000 euros corresponding to the value of investments in the year pending amortisation, booked against income.

iv. The offsetting entry for these adjustments was the retirement of the corresponding intangible fixed asset booked under Spanish GAAP. The impact of the adjustment is reflected in the balances of the "Provisions for first-time adoption" and "Deferred tax assets" captions of the statement of income prepared under IFRS, as described above.

The Enagas Group has also recognised as an intangible asset a regasification study for the Autonomous Community of Extremadura. After analysis and verification, it was decided that, given its direct link to the cost of property, plant and equipment for the La Plata gas pipeline, this asset should be transferred to the tangible fixed assets caption. This transfer, effective as of 31.12.03, entailed several adjustments:

v. Reclassification of the 334,000 euros balance recognised under intangible assets as tangible assets.

vi. Restatement of accumulated amortisation as of this date, to reflect the change in amortisation/depreciation period from five to 30 years. This adjustment totalled 152,000 euros and was redistributed between "Provisions for first-time adoption" (99,000 euros) and "Deferred tax assets" (53,000 euros).

vii. Reclassification, effective as of 31.12.03, of the 48,000 euros accumulated intangible asset amortisation charge, restated to reflect the useful life of the asset, as accumulated tangible fixed asset depreciation.

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

c) Tangible fixed assets

c.1) Impairment test

- Under Spanish GAAP, the relevant valuation adjustments must be effected in order to attribute each tangible fixed asset its lowest market value at the close of each year, provided that the book value of the asset is not recoverable via the generation of sufficient revenues to cover all costs and expenses, including amortisation and depreciation.
- When the depreciation of assets is irreversible and distinct from systematic amortisation, the loss and corresponding decline in value of the asset in question are booked directly. In other words, Spanish legislation distinguishes between temporary loss of value, which is provisioned but may be reversed, and permanent loss, which is irreversible.
- Under IAS 36, Impairment of asset value, if the recoverable part of an asset is lower than its recorded book value, the value of the asset is deemed to have deteriorated and this must be recorded immediately in the accounts as loss of value through deterioration. In this way, loss through deterioration is the difference between the book value of an asset and its recoverable value.

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

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

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

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

- Enagas has chosen to record its tangible fixed assets under the Historic Cost caption and to date no "impairment" assessment has been made for its assets. Virtually all of the group's tangible fixed assets are gas transport, regasification and storage assets, as well as assets required for its gas purchasing and sales activities to regulated customers and technical system management. The group does not deem it necessary to carry out an impairment test as both the latter activities and its core business of operating and managing gas transport, regasification and storage infrastructure is remunerated through the regulation currently in force and therefore there is no doubt that the figure entered for this concept under tangible fixed assets is recoverable.
- This decision is based on the characteristics of the Group's businesses and activities mentioned above and on information used by the Board of Directors in its management of the company, i.e. that the cash generating assets used in the valuation and classification of tangible fixed assets are the following: transport activities (including the transport, storage and regasification of gas), technical system management and gas purchases and sales activities with regulated customers.

c. 2) Capital grants

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

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

c. 3) Property assets

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

c. 4) Provision for the dismantling of Serrablo

- In accordance with IAS, the Company has increased the value of its tangible fixed asset which is the Serrablo storage facility for the amount of the cost of dismantling the facility at the end of the concession period.
- At 31 December 2003 the impact of this concept on the tangible fixed asset line was an increase of 1.93 million euros in the value of the underground storage facility. This adjustment was made by redistributing 1.82 million euros and 517,000 euros to the dismantling provision and accumulated depreciation of underground storage captions respectively and a charge of 259,000 euros and 140,000 euros made against "Provisions for first-time adoption" and "Deferred tax assets" respectively.
- According to IAS, the Company has recorded the financial expense corresponding to the financial adjustment of the provision and depreciation for the higher value of tangible fixed assets to the sum of 136,000 euros and 64,000 euros respectively, and 69,000 euros for the corresponding "Deferred tax assets".

d) Financial investments - Provisions for liabilities and charges

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

- At 31 December 2004, the valuation of this fund led to an increase of 534,000 euros on the figure recorded under Spanish GAAP. In the same way as at 31 December 2003 this increase means an increase in the valuation of the financial asset and in the associated provision and has no impact on equity. The 2004 Profit and Loss accounts shows the change in this fund vs. 31 December 2003 (85,000 euros), higher financial revenues and higher personnel expenses (to the same amount) and credited to the provision.

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

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

  Expenses relating to the formalisation of debt are recorded according to the acquisition price or production cost while expenses relating to deferred interest are recorded at the difference between their repayment and issue value. These expenses should affect the year in which they are incurred and exceptionally may be distributed over several years, in which case they should be accredited to results during the maturity period of the debt and according to a financial plan; in all cases they should be fully paid up when the corresponding debt is amortised.
- Under IFRS, when recording a financial asset or liability the company should measure them at cost, which will be the fair value of the consideration paid (in the case of an asset) or received (in the case of a liability). Transaction costs should be included in the initial measurement of all financial assets and liabilities. Consequently, costs directly related to the issue of debt are deducted from the amount initially recognised and then amortised on the profit and loss account throughout the life of the debt, based on the effective interest rate method. They are not recognised as separate assets. Interest is taken to the profit and loss account as incurred based on the effective interest rate method.
- Therefore, expenses deriving from the accrual of up-front-fees for loans taken out with Credit Entities have been restated, lowering 2004 debt by 1.01 million euros.

  At 31 December 2003 under Spanish GAAP Enagas had recorded 19.75 million euros under the "Deferred expenses" heading corresponding to transport rights its Portuguese gas pipelines (Gasoducto Campo-Maior-Lleiria-Braga, S.A. y Gasoducto Braga-Tuy, S.A.) hold with Transgas, S.A. These have been restated as tangible fixed assets in line with IAS 38 and will be amortised on a straight line basis during the life of the contract. At 31 December 2003, the group transferred the balance of this heading to a total amount of 19.75 million euros to "Other intangible fixed assets" (25.32 million euros) and "Accumulated amortisation of other intangible fixed assets" (5.57 million euros).
- Additionally, Enagas has recorded under "Deferred expenses" a sum corresponding to the fee paid in advance for the transport rights obtained from Gas de Euskadi, S.A. These transport rights do not comply with the definition of fixed intangible assets establis-

hed by IAS 38. Enagas has therefore restated this balance by 434,000 euros, adjusting the captions "Provisions for first-time adoption" and "Deferred tax assets" by 282,000 euros and 152,000 respectively.

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

f) Derivative financial instruments

– The Group uses specific financial derivatives to manage its exposure to fluctuations in cash flow prompted by interest rate risk. Under Spanish GAAP, derivatives are recorded at cost or market value, whichever is lower.
– Under IAS 32, the Company must state its targets and policies for financial risk management, including its hedging policies for all of its main projected transactions where hedges are used and furnish a description of the scope of these financial instruments, their associated risk and business use.
– Under IFRS, all derivatives, those used for hedging and those not, must be carried at their fair value, i.e. the market value for non trading instruments.
– If hedging operations relating to cash flow meet the conditions established by IAS 39, they will be carried in the following way:
  • The portion of the profit or loss on the hedging instrument which has been qualified as an effective hedge will be recognised directly in equity; and
  • The ineffective part of the profit or loss will be recognised on the income statement for the year.
– At 31 December 2003 Enagas made a best estimate analysis and assessment of its existing hedging instruments in accordance with its financial risk management policy and IFRS criteria. This valuation, which corroborates the existence of an interest-rate cash flow hedge, evidences a financial liability of 2.51 million euros, adjusted in the "Hedging reserve" and "Deferred tax assets" headings to the amount of 1.63 million euros and 877,000 euros respectively.
– Additionally, the derivative valuation made at 31 December 2004 evidences the existence of a financial liability of 27.20 million euros which is not recorded under Spanish GAAP and whose offsetting entry can be found under the "Hedging reserve" and "Deferred tax assets" headings to the amount of 17.68 million euros and 9.52 million euros respectively.

g) Capital grants

– Under Spanish accounting legislation, non reintegrated capital grants are recognised on the liabilities side of the balance sheet as deferred income and are credited to results, in the case of depreciable assets, in the proportion to the depreciation of the assets financed with these grants over the period, while non depreciable assets will be taken to results in the year in which they are disposed or delisted from inventories.

- Under IFRS, grants related to assets – capital grants – may be recorded in the consolidated balance sheet as deferred income or deducted from the value of the corresponding asset. Enagas has opted to deduct these grants from the value of the corresponding assets, as stated in section c.2. above. Section c.2 also discusses the impact on financial statements at 31 December 2003 and 31 December 2004, and the impact seen throughout 2004.

h) Extraordinary items

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

  i. Items restated under the "Accessory and other current management income" heading: income of 19,000 euros from fixed assets, 720,000 in surplus provisions for liabilities and charges, 4.65 million euros in deferred revenues and income and 77,000 euros in extraordinary revenues.

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

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

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

i) Corporate income tax.

- Under Spanish GAAP, corporate income tax for the year is calculated on the base of book income before tax, increased or decreased as appropriate by the permanent differences. Therefore, the time differences reflect the different time schedule as refers to the taxation and accounting of income and expenses.
- Under IFRS, the corporate income tax expense is booked according to the balance sheet liability method. In this sense, prepaid and deferred income tax is booked according

to the difference between the book value of the assets and liabilities and their taxable base.

- Enagas has factored this in in all accounting items. Details of these items appear in the notes to the points described in this report.

j) Presentation of financial statements

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

k) Operating income, supplies

- Under Spanish GAAP, income from sales was measured according to the offsetting entry received from customers or consumers for the goods supplied, excluding amounts charged by third parties. Income from the sale of goods must be recognised when are series of conditions or requisites occur which demonstrate that the earning process is complete – such as when the seller has transferred significant risks and rewards of ownership to the buyer, all significant actions have been completed and the seller has no effective control over the transferred goods, which would normally be construed as ownership, there is no significant uncertainty surrounding the consideration to be received from the sale of the goods, the associated cost incurred or to be incurred in the purchase or sale of the goods or the extent to which goods may be returned.
- Under IFRS, ordinary revenues from the sale of goods should be recognised and recorded in a company's financial accounts when each and every one of the following conditions are met:
  - a) the entity (seller) has transferred significant risks and rewards of ownership to the buyer,
  - b) the entity has relinquished managerial involvement and effective control over the goods,
  - c) the costs incurred or to be incurred can be measured reliably,
  - d) it is probable that any future economic benefit associated with the revenue will flow to the entity, and
  - e) the revenue has a cost or value that can be measured reliably.
- Ordinary revenues must be recognised using the fair value of the consideration received or receivable.
- Ordinary revenues correspond only to the gross book entries received and receivable by the company itself. Amounts receivable by third parties, such as taxes on sales, taxes on products or services or VAT are not book entries for the company and therefore do

not increase its net worth. Therefore, such entries are not included under ordinary revenues. In the same way, in a principal/agent relationship, the latter's gross book entries also include amounts received by the principal but which do not increase the net worth of the company. Amounts received by the principal do not constitute ordinary revenues although fees do.

– Under Spanish GAAP, at 31 December 2004 Enagas' consolidated profit and loss account showed revenues from sales and expenses for supplies amounting to 724.47 million euros and 720.55 million euros respectively, relating to the supply of gas to regulated customers.
– Under IFRS, as described in the previous section, Enagas acts as manager in the purchase/sale of gas to regulated customers and receives remuneration from this activity in theory sufficient to cover the cost incurred. Therefore, revenues and expenses from the purchase/sale of gas to regulated customers are eliminated from the consolidated profit and loss account and only the amount of 8.65 million euros is booked corresponding to the cost of sales associated with gas shrinkage. Furthermore, regulated remuneration from the management of purchasing/sales activities has been restated under the heading "Revenues from regulated activities" to the amount of 12.57 million euros.

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

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

Name	Country	Consolidations method	%	Book value	Capital	Reserves	Result for 2004 (*)	Dividend received 2004
Gasoducto Al-Andalus, S.A.	Spain	Prop.	66.96	23,744	35,459	5,164	9,103	5,134
Gasoducto de Extremadura, S.A.	Spain	Prop.	51	9,732	19,082	1,298	5,022	2,299
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Prop.	12	3,195	26,946	1,156	7,840	859
Gasoduto Braga-Tuy, S.A.	Portugal	Prop.	49	2,546	5,254	193	1,612	498
Net balance				**39,217**				**8,790**

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

ENAGÁS GROUP

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

Chairman
Mr. Antonio González-Adalid García-Zozaya

Board members
Mr. Jesús David Álvarez Mezquíriz
Mr. Luis Javier Navarro Vigil
Mr. Ramón Blanco Balín
Mr. Ramón Blanco Balín
Mr. Carlos Egea Krauel
Mr. José Riva Francos
Mr. José Manuel Fernández Norniella
Peña Rueda, S.L. Unipersonal
(Represented by Mr. Manuel Menéndez Menéndez)
D. Salvador Gabarró Serra
Caja de Ahorros de Valencia, Castellón y Alicante - BANCAJA
Mr. Rafael Villaseca Marco
(Represented by Mr. José Luis Olivas Martínez)
Mr. Robert Malpas
Caja de Ahorros del Mediterráneo - CAM
Mr. Dionisio Martínez Martínez
(Represented by Mr. Vicente Salá Belló)

Secretary to the Board
Mr. Luis Pérez de Ayala Becerril

31. Explanation added for translation to English

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

ENAGAS GROUP MANAGEMENT REPORT

Evolution of the Group in 2004

Net profits amounted to 158,126,000 euros, up 11.34% from the previous year.

The net turnover was 1,295,029,000 euros. 56.07% of the turnover refers to gas sales and the remaining 43.93% to the provision of services.

The resources originating from operations amounted to 282,979,000 euros. These resources have partly financed the material investments plan by 459,276,000 euros, basically allotted to expanding and improving the transport network, which reached 7,158.1 kilometres on 31 December 2004.

The shareholders equity of the Group amounted to 1,017,295,000 euros.

On 15 January 2004, the Ministry of Economy approved three Ministerial Orders updating the tariffs, tolls, fees and remuneration for the regulated gas sector activities for 2004. They were published on 19 January in the Official State Gazette and established the remuneration to be received throughout 2004 by all companies carrying out regasification, storage, transport or distribution activities.

During 2004 the regasification, transport and storage facilities have continued to be expanded and improved so that they meet the needs considered in the forecasts for future demand. To this end, the following significant activities have been undertaken:

- Within this chapter, the most relevant infrastructure put into operation was the construction of the split section of the Huelva-Sevilla-Cordoba-Madrid pipeline (584.728 kms in 30 and 32 inches), as well as stage 1 of the Cordoba compression station.
- Increase of the total nominal regasification capacity in the three Plants by 325,000 m3(n)/h.
- At the end of 2004, Enagas used 7,158.1 kms of pipes designed to operate at maximum bar pressures of 72 and 80 compared to the 6,522.4 kms it had available in December 2003; thus increasing the security of its supply and the development of areas that had not previously had natural gas available and, in particular, the central area.
- The most important transport assets put into operation during 2004 were: the aforementioned Huelva-Sevilla-Cordoba-Madrid pipeline and stage 1 of the Cordoba compression station with three 11,200 kW/unit powered turbocompressors, the Cartagena-Lorca pipeline (24,042 kms in 20 inches), the Malaga-Estepona branch pipe (17,846 kms in 10 inches), the split section of the Gibraltar field (19,074 kms in 18 inches) and the expansion of the Paterna compression station with a new 5,190 kW powered turbocompressor.
- During 2004, 20 new regulating and measuring stations were put into operation; at the end of the year, a total of 291 were in operation.

At year-end the Enagas gas infrastructure, comprised of the Basic natural gas network, was the following:

The regasification Plants in Barcelona, Huelva and Cartagena have a total storage capacity of 710,000 m3 of LNG compared to 560,000 m3 in 2003, an increase of 150,000 m3, and an emission capacity of 2,700,000 m3(n)/h, as compared to 2,375,000 m3(n)/h in 2003, an increase of 325,000 m3(n)/h.

Underground storage in Serrablo (Huesca) and Gaviota (Vizcaya).

A pipeline network with a total length of 7,158.1 kms with the following main lines:

- Central line: Huelva-Cordoba-Madrid-Burgos-Cantabria-Basque Country. (with Huelva-Sevilla-Cordoba-Madrid duplicated)
- 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 line: Tivisa-Zaragoza-Logroño-Calahorra-Haro.

Gas pumped into the system through pipelines:

North: Spanish-French pipeline Calahorra-Lac, which connects Spain and Portugal to the European pipeline network.

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

Post-balance sheet events

On 28 January 2005, the Ministry of Industry, Tourism and Commerce approved three Ministerial Orders updating the tariffs, tolls, fees and remuneration for the regulated gas sector activities for 2005. They were published on 31 January in the Official State Gazette and establish the remuneration to be received throughout 2005 by all companies carrying out regasification, storage, transport or distribution activities.

Research and development activities

Technological innovation activities carried out by the company during 2004 were directed at the assessment, development and demonstration of new gas technologies, with the aim of increasing and improving the competitiveness of natural gas in different applications, focussing technological efforts on projects with strategic value for the Company.

Work has been carried out in the gas transport area to ensure the continuity of the supply and the technical and economic efficiency, guaranteeing the highest levels of security and respect for the environment.

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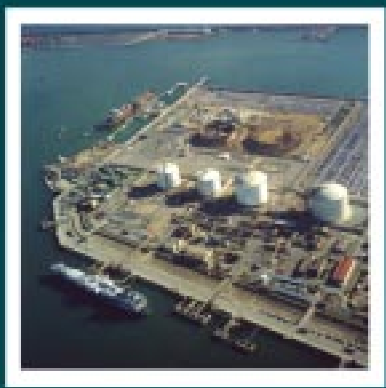

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