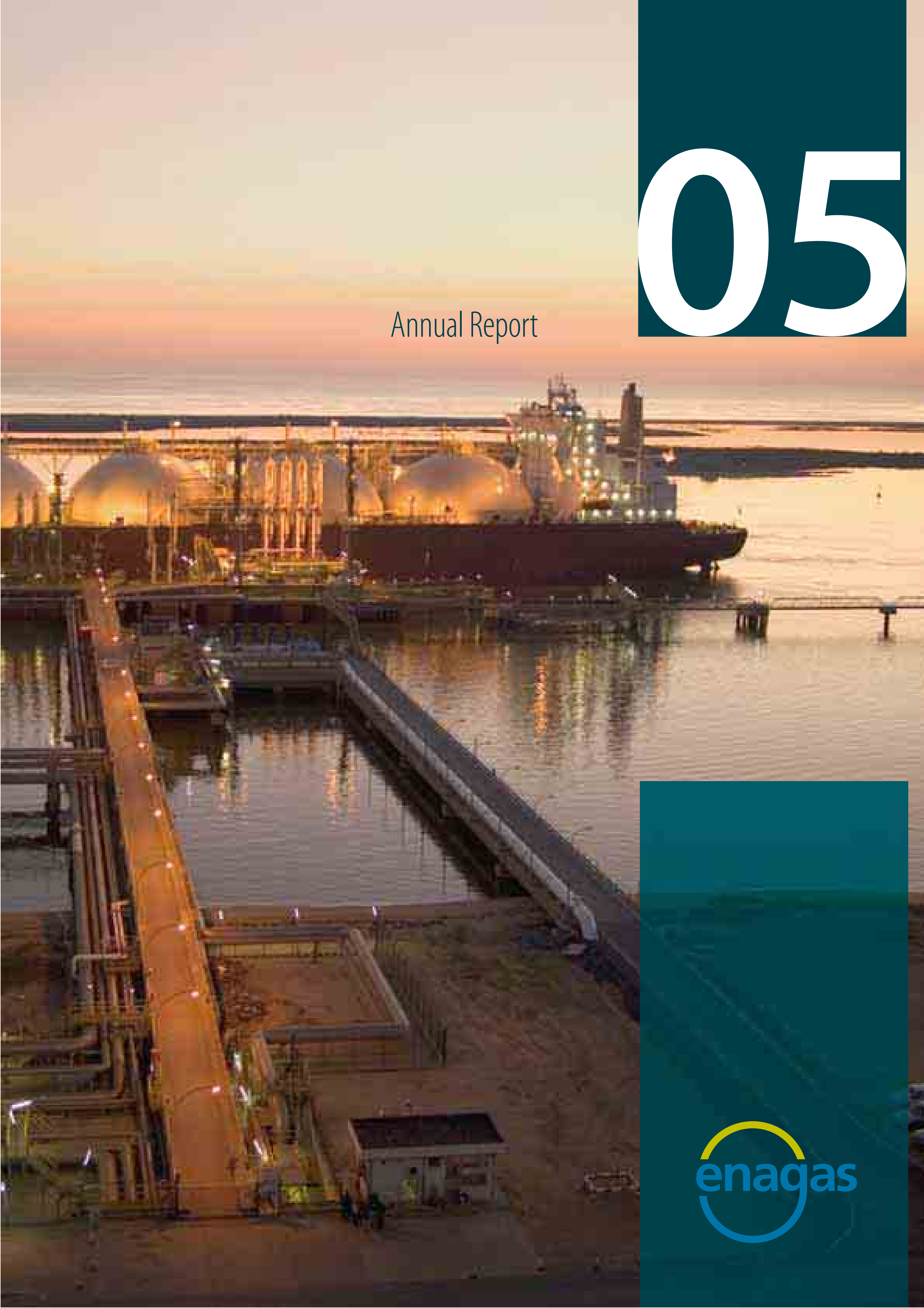
05

Annual Report



enagas

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Main Aggregates

Consolidated financial data (Millions euros)

	2001	2002	2003	2004	2005
Net Income	117.8	110.1	142.0	158.1	191.1
Operatin Profit	138.1	207.2	249.5	275.1	332.8
Operating Cash-Flow	249.4	333.7	383.0	399.1	478.4
Invesments	216.8	192.3	426.3	462.9	358.7
Net Debt	1,062.2	1,253.0	1,278.7	1,421.0	1,546.6
Shareholders' Equity	779.6	852.4	932.3	997.8	1,110.4
Assets	2,754.6	2,895.7	3,093.0	3,101.4	3,225.6

Financial data per share (euros)

	2001	2002	2003	2004	2005
Net Income	0.49	0.46	0.59	0.66	0.80
Dividend	0.49	0.23	0.30	0.33	0.40
Operating Cash-Flow	1.04	1.40	1.60	1.67	2.00
Nº Shares (millions)	11.95	238.7	238.7	238.7	238.7

- A dividend payment for 2005 of 0.4 euros per share will be paid once it is approved by the General Shareholders' Meeting.
- Financial data per share for 2001 was standardized, with the total number of shares as at 31/12/2002 being used for calculation purposes.
- Changes in the regulatory framework on 19/02/2002 mean that results cannot be compared with those from 2001 and 2002.
- A split of 20 new shares per old share was effected on 3/05/2002.
- IFRS criteria were used in calculating results for financial years 2004 and 2005.

Transported natural gas demand (GWh)

	2001	2002	2003	2004	2005
Tariff Market	130,838	109,846	80,703	61,095	58,893
Liberalised Market	80,969	133,192	194,535	258,533	317,148
Total demand	**211,807**	**243,038**	**275,238**	**319,628**	**376,041**

Transport assets

	2001		2002		2003		2004		2005	
	Unit	Km	Unit	Km	Unit	Km	Unit	Km	Unit	Km
Kms of Pipeline		6,123		6,383		6,522		7,158		7,538
Compression Stations	8		9		9		11		11	
RMS-MS*	215		248		280		291		325	

* Regulating and Measurin Stations (RMS) and Measuring Stations

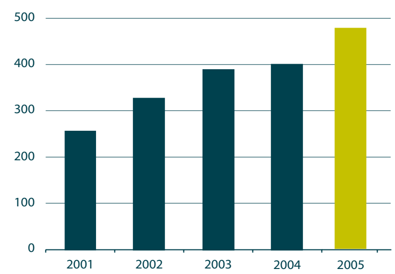
Storage Assets

	2001	2002	2003	2004	2005
	Capacity	Capacity	Capacity	Capacity	Capacity
Injection	7.3 Mn^3 (n)/day	8.4 Mn^3 (n)/day	8.4 Mn^3 (n)/day	8.4 Mn^3 (n)/day	8.5 Mn^3 (n)/day
Extraction	10.3 Mn^3 (n)/day	10.3 Mn^3 (n)/day	12.5 Mn^3 (n)/day	12.5 Mn^3 (n)/day	12.6 Mn^3 (n)/day

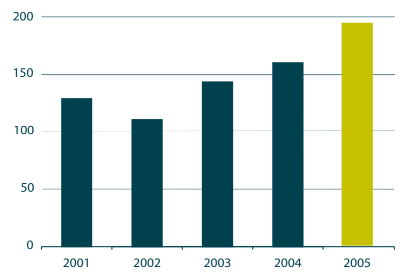
Regasification assets

	2001		2002		2003		2004		2005	
	Unit	Capacity	Unit	Capacity	Unit	Capacity	Unit	Capacity	Unit	Capacity
LNG Tanks	8	455,000 m^3 GNL	8	560,000 m^3 GNL	8	560,000 m^3 GNL	9	710,000 m^3 GNL	11	987,000 m^3 GNL
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		3,450,000 m^3(n)/h

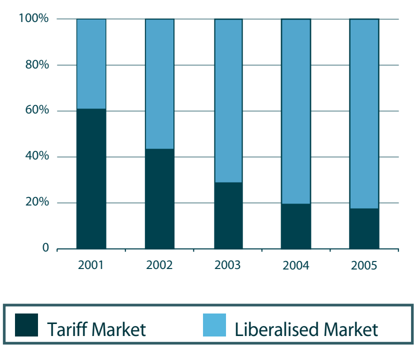
* Nominal Regasification Capacity

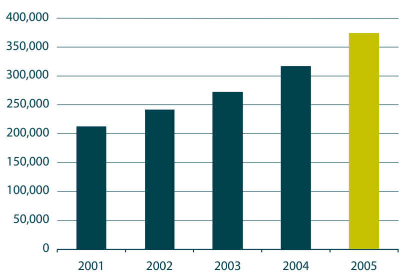


Operating Cash-Flow (Millions euros)

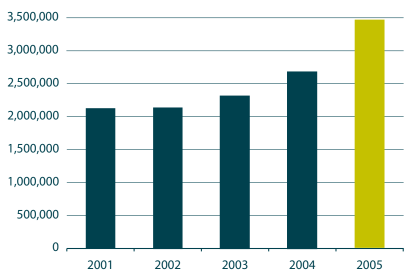


Net Income (Millions euros)

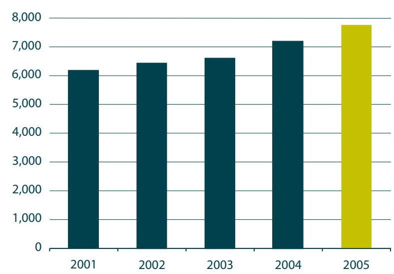




Transported Natural Gas Demand (GWh)



Nominal Regasification Capacity m^3(n)/h



Kms of pipeline in use

Letter from the Chairman

Dear Shareholder,

I am pleased to be able to address you this year once again, on publication of our Annual Report for 2005. I would like to share with you my satisfaction at such an excellent year, full of significant achievements, and set out the main strategy for Enagas over the next few years.

2005 brought magnificent economic results and was key in terms of the start-up of gas infrastructures, which will enable us to continue growing in the coming years, both in terms of results and yields. Positive company performance was reflected on the stock exchange, where our shares reached record highs, closing the year almost 30% up on last year.

I would also like to emphasise the commitment of the Enagas Board of Directors and of the whole organisation to the environment and to the principles of Good Governance throughout the year. Such commitment is vital for us to continue moving forward with our aim of sustainable value creation, generating greater trust on the part of our shareholders and investors.

Operating environment

In 2005, Enagas improved efficiency, transparency and neutrality in all its dealings as System Technical Manager, responding to the challenges and difficulties faced by a sector with high growth, increasingly open to competition, and affected by tensions caused by record natural gas prices.

Gas transported during 2005 exceeded initial forecasts, and was 18% higher than the previous year, which meant that the company successfully responded to a significant challenge, simultaneously guaranteeing continuity and quality of supply.

Investment carried out during the year, to a value of 473 million euros, was key to this process. In 2005, the company increased vaporisation capacity at regasification plants by 20%, inaugurated two new storage tanks for liquid natural gas and began using over 200 kilometres of new gas pipelines.

Furthermore, I would like to stress the 2005 governmental approval of System Technical Management Regulations, as proposed by Enagas, which are a key improvement to the gas system, defining rights and duties of all players, and helping to guarantee security of supply.

Growth of Results and Financial Robustness

The company's net profit for 2005 was 191 million euros, 20.8% up on the previous year. This result allows us to propose to the General Shareholder's Meeting a gross dividend of 0.40 euros per share, an increase of 20.8% on 2004, and a cumulative increase of 74% over the last four years.

In addition, Operating Results for 2005 stood at 332.8 million euros, an increase of 21% compared to 2004. This positive performance was mainly due to an increase in income and, particularly, a policy of operational efficiency and cost reduction which ensured that costs remained stable for the fifth year running.

2005 was also crucial with regard to our strategic objectives. Company investments totalled 358.7 million euros, and Board-approved investment stood at 354.1 million euros.

At year-end, net debt stood at 1.546 billion euros, 47.9% of total assets, a figure which certainly demonstrates the company's solid financial structure, and guarantees the solvency required to undertake our ambitious long-term investment plan.

Stock Exchange performance

As I have already mentioned, 2005's positive economic results, alongside our important strategic advances, were viewed favourably by the financial markets. In 2005, Enagas share prices rose by 29.51%, reaching record highs for a further year, as well as significant liquidity increases.

As far as future share performance goes, I am sure that the market will continue to appreciate the Enagas combination of security and profitability, which places the company in an exceptional position to use its clear and robust strategy to create value.

2006

Publication of Ministerial Order ITC/4099/2005 at the end of 2005, which establishes the payment system for 2006 for gas sector regulated activities, was noteworthy.

In keeping with the Order, total estimated remuneration for Enagas for regulated activities in 2006 would entail a maximum increase of 14% with respect to the previous year.

This increase in our income, alongside our commitment to operational efficiency and financial robustness, will again ensure value creation for our shareholders over the coming year.

It is important to highlight the fact that payment for our activities is equal to less than 9% of total cost of the Spanish natural gas system, and that we are carrying out network development efficiently, thereby allowing for rapid deregularisation and a corresponding increase in competition. Proof of this is a reduction in toll charges for access to the Spanish gas system for the fifth year running, representing a real terms decrease of 28% since 2001.

Another crucial factor in 2006 will be the forthcoming approval and application of the review of the Obligatory Planning of gas and electricity transportation networks, which will increase clarity and security in terms of Enagas's strategic project, given that it cites as urgent and mandatory an ample majority of the infrastructures which make up our investment programme to 2012.

In the next seven years, the company faces the great challenge of investing at least 3.5 billion euros, driving forward growth in equity and therefore in revenues far greater than that of comparable Spanish and international companies.

Corporate Responsibility

A crucial part of Enagas' daily work includes the need to carry out activities in such a way that economic results go hand-in-hand with social responsibility and respect for the environment.

The Kyoto Protocol, in force since 2005, demands a reduction in the emission of greenhouse gases. In its work to transport cleaner and more efficient fuel to the greatest number of users, Enagas contributes to reducing emissions in Spain. In addition, the company is committed to an ongoing effort to identify, characterise and improve the environmental impact resulting from its activities and facilities, as well as to ensuring efficient use of the same.

Furthermore, in labour and social terms, Enagas is continuing to advance in its policy of facilitating professional and personal development of our staff, always trying to introduce best practice, and respecting social concerns wherever we operate.

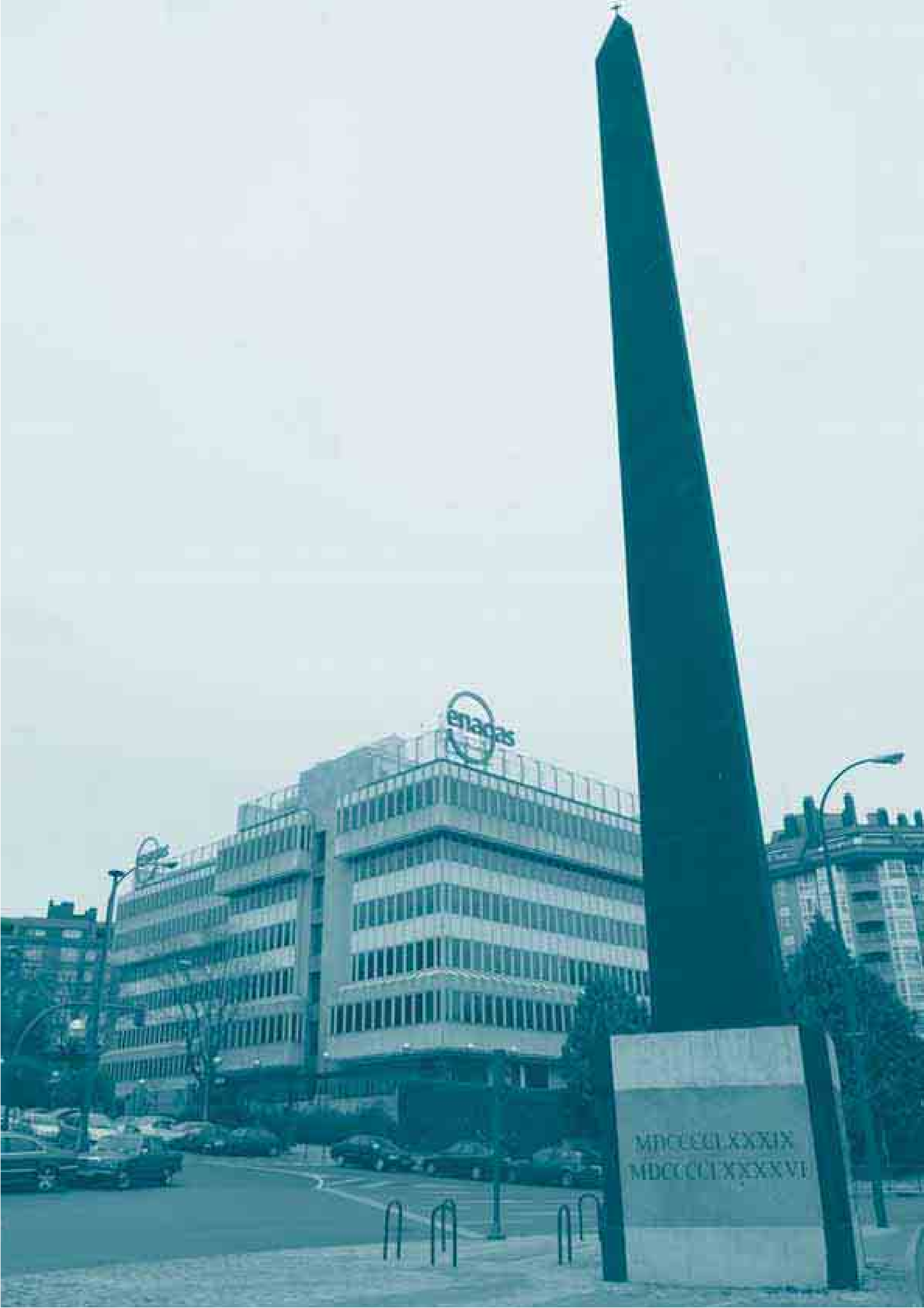
Not only that, but over the last year we have also continued to make progress with our commitment to transparency and Good Governance, exceeding legally established minimums and recommendations of different institutions.

Conclusion

Lastly, as Chairman of Enagas, I would like to take this opportunity to thank you, both personally and on behalf of the Board of Directors, for the continued trust you place in our company. I would like to extend this thanks to the excellent team at Enagas, which, through its dedication and professionalism, ensures that our company continues to be a clear point of reference for the Spanish and European energy sector.

Many thanks

Antonio González-Adalid
Chairman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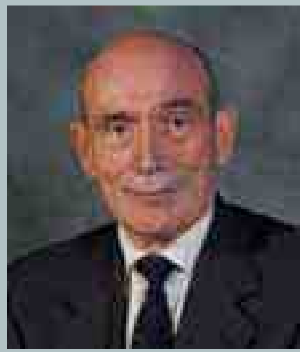
Governing Bodies

Antonio González-Adalid García-Zozaya

Jesús David Álvarez Mezquíriz

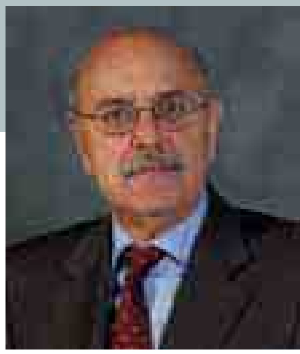
Carlos Egea Krauel



José Manuel Fernández Norniella

Salvador Gabarró Serra

Sir Robert Malpas



Dionisio Martínez Martínez

Manuel Menéndez Menéndez

Governing Bodies *Board of Directors*

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

Directors
Jesús David Álvarez Mezquíriz
(Independent)

- Director of Bodegas Vega Sicilia, S.A.
- Director of Eulen S.A.
- Director of El Enebro, S.A.

Carlos Egea Krauel
(Controlling Director nominated by Sagane Inversiones, S.L.)

- General Director of Caja de Ahorros de Murcia.
- Director of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros - CECA).
- Deputy-Chairman of Ahorro Corporación.
- Director of Caser, S.A.

José Manuel Fernández Norniella
(Independent)

- Honorary Chairman of Grupo Ebro Puleva.
- Director of Iberia, S.A.
- Director of Endesa, S.A.

Salvador Gabarró Serra
(Controlling Director nominated by Gas Natural SDG S.A.)

- Chairman of Gas Natural SDG S.A.
- First Deputy-Chairman of La Caixa.
- Director of Caixabanc Francia.

Sir Robert Malpas
(Independent)

- Chairman of "Evolution" (Dissolved in January 2006).
- Non-Executive Director of Agcert P.L.C. Dublin.

Dionisio Martínez Martínez
(Independent)

- Director of Invercaixa (Dissolved in 2005).
- Member of the General Codification Committee (Comisión General de Codificación).
- 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 the Applied Economics Foundation (Patronato de la Fundación de Estudios de Economía Aplicada - FEDEA).

Manuel Menéndez Menéndez
Controlling Director. Representative of CIC, S.L, Cajastur)

- Chairman of the Board of Directors of Caja de Ahorros de Asturias.
- Chairman of the Board of Directors of Hidrocantábrico.
- Member of the Board of Directors of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros).

Luis Javier Navarro Vigil
(Controlling Director nominated by BP Energía, S.A.)

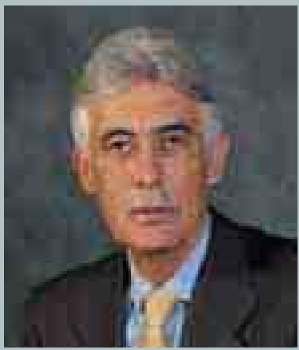
- Chairman and Director of España, S.A.U. and BP GAS ESPAÑA S.A.U.
- Director of CLH, S.A.

José Luis Olivas Martínez
Controlling Director. (Representative of Bancaja)

- Chairman of the Valencian Federation of Savings Banks (Federación Valenciana de Cajas de Ahorros).
- Chairman of Grupo Bancaja.
- Chairman of Banco de Valencia.
- Director of Abertis Infraestructuras, S.A.
- Director of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros (CECA)).

Martí Parellada Sabata
(Independent)

- Professor, University of Barcelona.
- Trustee of the ICO Foundation (La Fundación ICO).
- Director of the Barcelona Economics Institute (Instituto de Economía de Barcelona).
- Chairman of Comforsa,S.A.
- Chairman of Agrupación Mutua del Comercio y de la Industria.
- Director of Eplicsa, S.A.
- Director of Fibracolor, S.A.

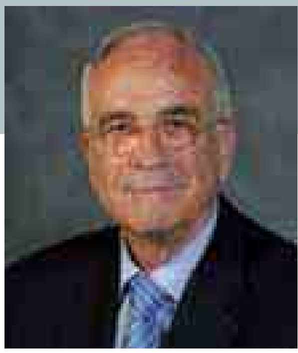

Luis Javier Navarro Vigil


José Luis Olivas Martínez


Martí Parellada Sabata


Ramón Pérez Simarro


José Riva Francos


Vicente Sala Belló


Antonio Téllez de Peralta


Rafael Villaseca Marco

Ramón Pérez Simarro
(Independent)

- Former General Director of Energy.
- Former General Secretary of Energy and Mineral Resources.
- Former General Technical Secretary of the Ministry of Industry.
- Former Lecturer, Universidad Autónoma de Madrid.

José Riva Francos
(Independent)

- Deputy-Chairman and Chief Executive of the Grupo Suardiaz companies.
- Director of Logista, S.A.
- Director of Red Eléctrica de España, S.A.

Vicente Sala Belló
(Controlling Director). Representative of Incomed, Caja de Ahorros del Mediterráneo).

- Chairman of the Board of Directors of Caja de Ahorros del Mediterráneo (CAM).

Antonio Téllez de Peralta
(Independent)

- General Director of Investee companies and Deputy-Chairman of Grupo Leche Pascual.

Rafael Villaseca Marco
(Controlling Director nominated by Gas Natural SDG S.A.)

- Chairman of Gas Natural SDG S.A.
- Chairman of Repsol-Gas Natural LNG, S.L.

Secretary to the Board
Luis Pérez de Ayala Becerril

Vice-Secretary to the Board
Beatriz Martínez-Falero García.

Audit and Compliance Committee:

Chairman: Luis Javier Navarro
Members: Sir Robert Malpas
José Luis Olivas Martínez
Martí Parellada Sabata

Appointments and Remunerations Committee

Chairman: Salvador Gabarró Serra
Members: Dionisio Martínez Martínez
Ramón Pérez Simarro

Management Comittee

Antonio González-Adalid García-Zozaya
(Chairman)

Antonio García Mateo
(General Management Technology, Engineering and Purchases)

Javier González Juliá
(General Management System Operations)

Juan Manuel Llabrés Estabén
(General Management of Strategy and Regulation)

Diego de Reina Lovera
(Financial Management)

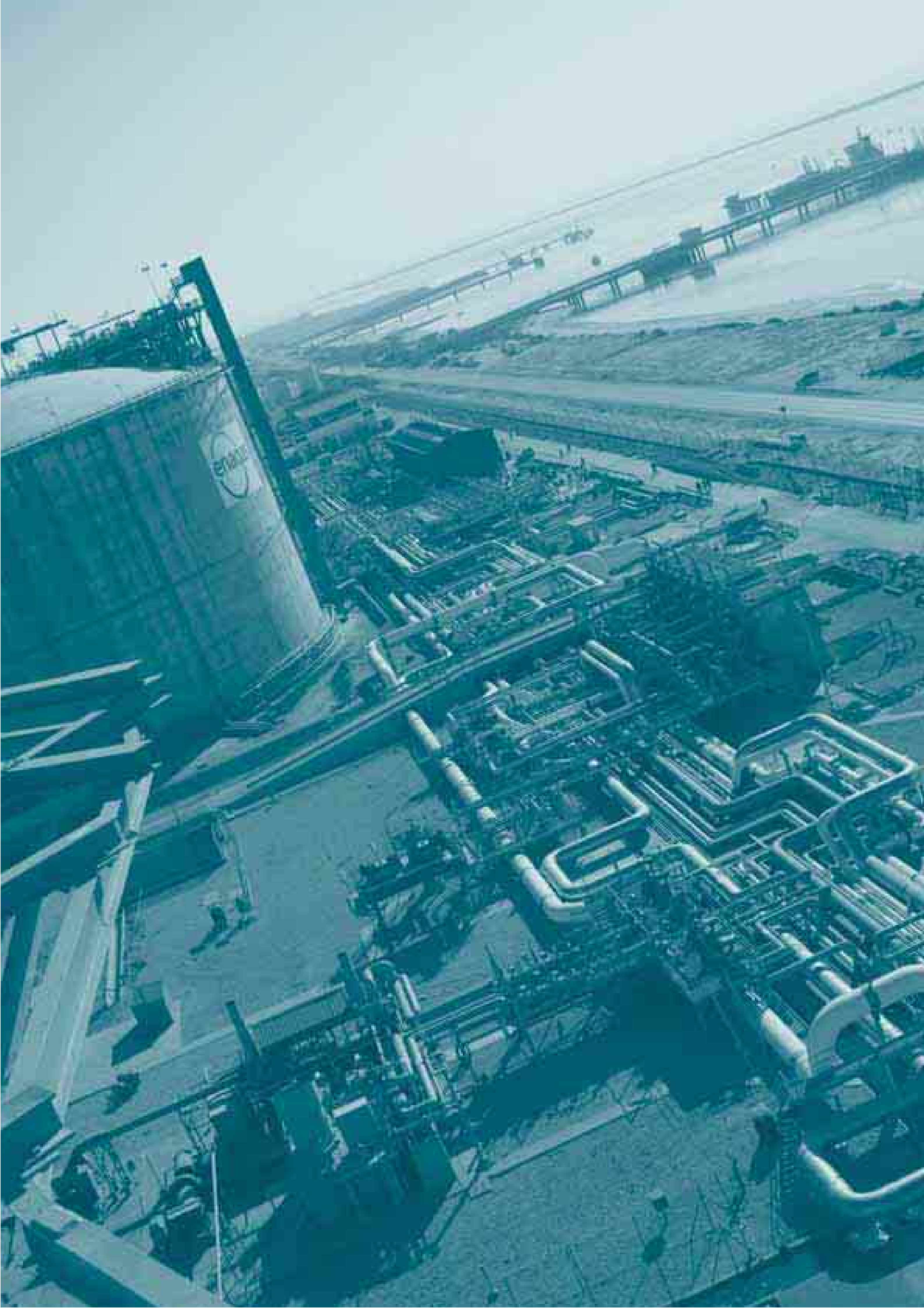
José Ferrándiz Alarcón de la Lastra
(Technical Secretariat)

Erundino Neira Quintas
(Human Resource Management)

Luis Pérez de Ayala Becerril
(Management of Legal Affairs)

Ramón Sánchez Valera
(Transport Management)

On February 17th, 2005, Enrique Locutura Rupérez ceased to be a Director, and was replaced by Rafael Villaseca Marco, previously an Independent Director, who was nominated by Gas Natural SDG to be a Controlling Director from said date.
On March 17th, Martí Parellada Sabata was appointed as an Independent Director.
On July 28th, Ramón Blanco Balín resigned as a member of the Enagas Board of Directors. Ramón Blanco was a Controlling Director, having been nominated by Gas Natural SDG, S.A.
On September 21st, Antonio Téllez de Peralta was appointed as an Independent Director.



Summary of 2005

Summary of 2005

January 12th: Enagas paid a gross interim dividend of 0.13 euros per share from profits in 2004.

January 20th: Inauguration of the 636 kilometre-long Huelva-Seville-Cordoba-Madrid gas pipeline and the Villafranca de Córdoba compression station. Their Royal Highnesses the Prince and Princess of Asturias attended the event.

January 27th: Due to low temperatures in Spain, demand for natural gas reached a record high of 1,503 GWh, up 20.5% up on 2004's peak.

February 18th: Enrique Locutura Rupérez resigned from his post on the Enagas Board of Directors.

Gas Natural SDG nominated Independent Director Rafael Villaseca Marco, who had recently been appointed Chief Executive of Gas Natural, to replace him as Controlling Director.

Following a report from the Nominations and Remunerations Committee, the Enagas Board agreed that Mr Villaseca Marco would henceforth occupy the post of Controlling Director, in accordance with the proposal of shareholder Gas Natural SDG.

Mr Villaseca Marco resigned as a member of the Enagas Nominations and Remunerations Committee. His post was occupied by Ramón Pérez Simarro, who, in turn, resigned from the Audit and Compliance Committee.

March 17th: The Enagas Board of Directors co-opted Martí Parellada Sabata as Independent Director. He was also appointed to the Audit and Compliance Committee.

March 21st: Enagas sent the Spanish National Securities and Exchange Commission (CNMV) its Annual Corporate Governance Report for 2004.

April 22nd: Enagas held its General Shareholders Meeting at the second call, and 7 resolutions were approved.

Approval of the fourth agenda item meant that Salvador Gabarró Serra, Martí Parellada Sabata and Ramón Pérez Simarro, who had previously been co-opted to the Board of Directors, were appointed as Enagas Directors.

A resolution to eliminate the single transitory disposition from Company Bylaws was approved as item five. The elimination of this regulation means that henceforth no shareholder will be able to exercise political rights of over 5% of total Enagas capital stock.

May 17th: Enagas began geological prospecting in Denia (Alicante) prior to construction of a 250-kilometre gas pipeline linking the mainland network with Ibiza and Mallorca. The company was awarded the tender in July 2004.

June 16: The international agency Fitch Ratings awarded Enagas credit ratings of A+ (long term) and F1 (short term), with a stable perspective in both cases.

July 4th: Enagas paid a gross year-end dividend of 0.20 euros per share from 2004 profits, as approved by the General Shareholders' Meeting.

July 18th: Enagas inaugurated the third LNG storage tank, with capacity of 127,000 m^3, at the Cartagena plant.

July 28th: Ramón Blanco Balín resigned from his post on the Enagas Board of Directors. Ramón Blanco was a Controlling Director, having been proposed by Gas Natural SDG, S.A.

September 21st: Following a proposal by the Nominations and Remunerations Committee, the Enagas Board of Directors nominated Antonio Téllez de Peralta as an Independent Director of the company.

November 29th: The demand for natural gas reached a record high of 1,529 GWh, equal to 223,000 m^3. Of this quantity, 485 GWh was supplied to the electricity market.

December 22nd: The Enagas Board of Directors decided to pay out an interim gross dividend of 0.16 per share from 2005 results, a 23% increase on last year's interim dividend. Said dividend was paid on January 12th, 2006.

December 30th: Publication of Ministerial Order ITC/4099/2005 establishing payment applicable to gas sector regulated activities in 2006. Publication of Order ITC/4100/2005 stipulating third party tolls and access charges to gas facilities. December 30th also saw the publication of Order ITC/4101/2005, relating to natural gas tariffs.

Development of the Regulatory Framework

January 31st: Publication of Ministerial Order ITC/102/2005 establishing payment applicable to gas sector regulated activities in 2005.

Also published on the same date were Orders ITC/103/2005, establishing the tolls and fees for third party access to gas facilities and ITC/104/2005, concerning tariffs to be applied for natural gas.

February 25th: The Spanish Government Cabinet subscribed to an agreement resolving to implement a series of measures to drive forward productivity (published in the Official State Bulletin on April 2nd). Amongst the most significant mandates were those relating to the establishment of a proposal to reinforce the independence of companies carrying out transportation and system operation activities in the liquid and hydrocarbon sector, and adapting Spanish legislation to European law.

March 14th: Publication of Royal Decree Act 5/2005, 11th March, on urgent reforms to drive forward productivity and to improve public contracts.

August 3rd: Publication of Royal Decree 942/2005, of July 29th, establishing that the Ministry of Industry, Tourism and Trade, based on a report from the National Energy Commission, will determine –before January 1st every year– payments applicable to users operating on the Spanish gas system, in order that collection periods for the new tariffs, tolls and charges coincide with the payment period.

November 3rd: Publication of Regulation (EC) No. 1775/2005, European Parliament, and Council meeting of 28th September, 2005, on the conditions of access to the natural gas transportation networks.

October 11th: Publication of Order ITC/3126/2005, of October 5th, which approved the technical standards for management of the gas system (Network Code). Said regulations govern the basic technical conditions for use of facilities, and procedures to be followed by those involved in the gas system in all phases of production, in such a way that quality, continuity and security of supply is guaranteed, and more efficient functioning of the gas system is achieved.

These regulations form the guidelines for management of facilities and basic procedures for system operation, both in normal conditions and in exceptional or emergency circumstances.

November 19th: Publication of Act 24/2005, of November 18th, on reforms to drive forward productivity. The Act modifies certain aspects of the Hydrocarbons Act 34/1998 including the elimination of a fixed minimum for facilities subject to obligatory planning (they will now be obligatory), and also empowers the National Energy Commission (CNE) to decide gas-related settlements.

November 25th: Publication of Order ITC 3655/2005, of November 23rd, modifying Ministerial Orders on payments, tolls and tariffs, as well as that which covers settlements, adap-

ting all of these to rules established by Royal Decree 942/2005.

November 30th: Publication of a Resolution of the General Directorate for Energy Policy and Mines, by which the 2005-2006 Winter Action Plan for operation of the gas system was approved.

Enagas, as Gas System Technical Manager, drew up and presented a proposal for winter operations, applicable to winter 2005-2006, and approved by the General Directorate for Energy Policy and Mines on November 28th.

The Winter Action Plan was applicable to all system users from December 1st, 2005, to March 31st, 2006. Its key dispositions are as follows:.

- Establishment of a sliding scale for maximum loads for transportation companies and power marketers supplying gas to the system during the winter months.
- On an exceptional basis and for the purposes of guaranteeing supply in view of local technical restrictions within the network, an entry capacity of 270,000 m^2(n)/h via the Larrau international connection point is reserved.
- Setting of minimum security loads relevant to liquid natural gas storage tanks at regasification plants during the winter months.
- Establishment of permissible reserve and extraction levels for the underground storage deposits of the different agents operating on the market.
- The System Technical Manager will be able to undertake contracting of methane tankers as an additional liquid natural gas storage service for the tariff market, up to a volume of 160,000 m^3.. Special areas will be designated for these purposes. Said storage facilities may be made available from December 1st, 2005, until March 15th, 2006, or up to an earlier date, as and when opening of new infrastructures permits.
- For periods declared to be cold spells or exceptional circumstances affecting the tariff market, 13 GWh/day extra will assigned to supply said market.

December 30th: Publication of Ministerial Order ITC/4099/2005, of December 27th, establishing payment applicable to gas sector regulated activities in 2006.

As in previous years, the purpose of this Ministerial Order is to establish and update the remuneration scheme applicable to regulated activities, defining the elements comprising such activities and setting out the necessary measures to ensure suitable service provision.

Payment for transportation infrastructures currently in service, and those which will be put into service during 2006, accounts for no more than 9% of total costs for the Spanish natural gas system, 1% less than the previous year.

In keeping with the Order, the total estimated payment to Enagas for regulated activities in 2005 would entail a maximum increase of 14% with respect to the previous year.

This total remuneration includes the fixed cost of assets put into operation before December 31st, 2004, plus payment for assets put into operation in 2005, as well as an allocation for estimated remuneration for facilities which it is planned to put into operation in 2006.

It also includes a forecast for payment relating to purchase-sale of gas for supplying the tariff market, payment for system technical manage-

ment activities and payment for investing in the purchase of natural gas destined to meet the minimum tank-filling requirements of regasification plants and gas pipelines.

The Ministerial Order determines the process for meeting costs of storing liquid natural gas in tankers, in accordance with provisions in the Winter Plan approved by the Resolution of the General Directorate for Energy Policy and Mines on November 28th, 2005.

The CPI and IPI forecasts for 2006 were adjusted when remuneration for 2004 was updated, given that definitive data for that year was available.

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

December 30th also saw the publication of Order ITC/4101/2005, relating to natural gas tariffs.

Average tariffs increased by around 4% for domestic customers and 11% for industrial clients, due to a significant increase in the cost of raw materials. Moreover, this Ministerial Order clarified Enagas's obligations for attending to tariff market necessities and guaranteeing supply to customers in this segment.

Order ITC/4101/2005 eliminated group 1 tariffs (consumers with pressure of over 60 bars), sub-groups 2.5 and 2.6 (consumption over 100,000,000 kWh/year and also group 4 tariffs (interruptible consumption). Consumers affected will now be supplied via the deregulated market, although new transitory tariffs now exist, with a fixed duration in each case.

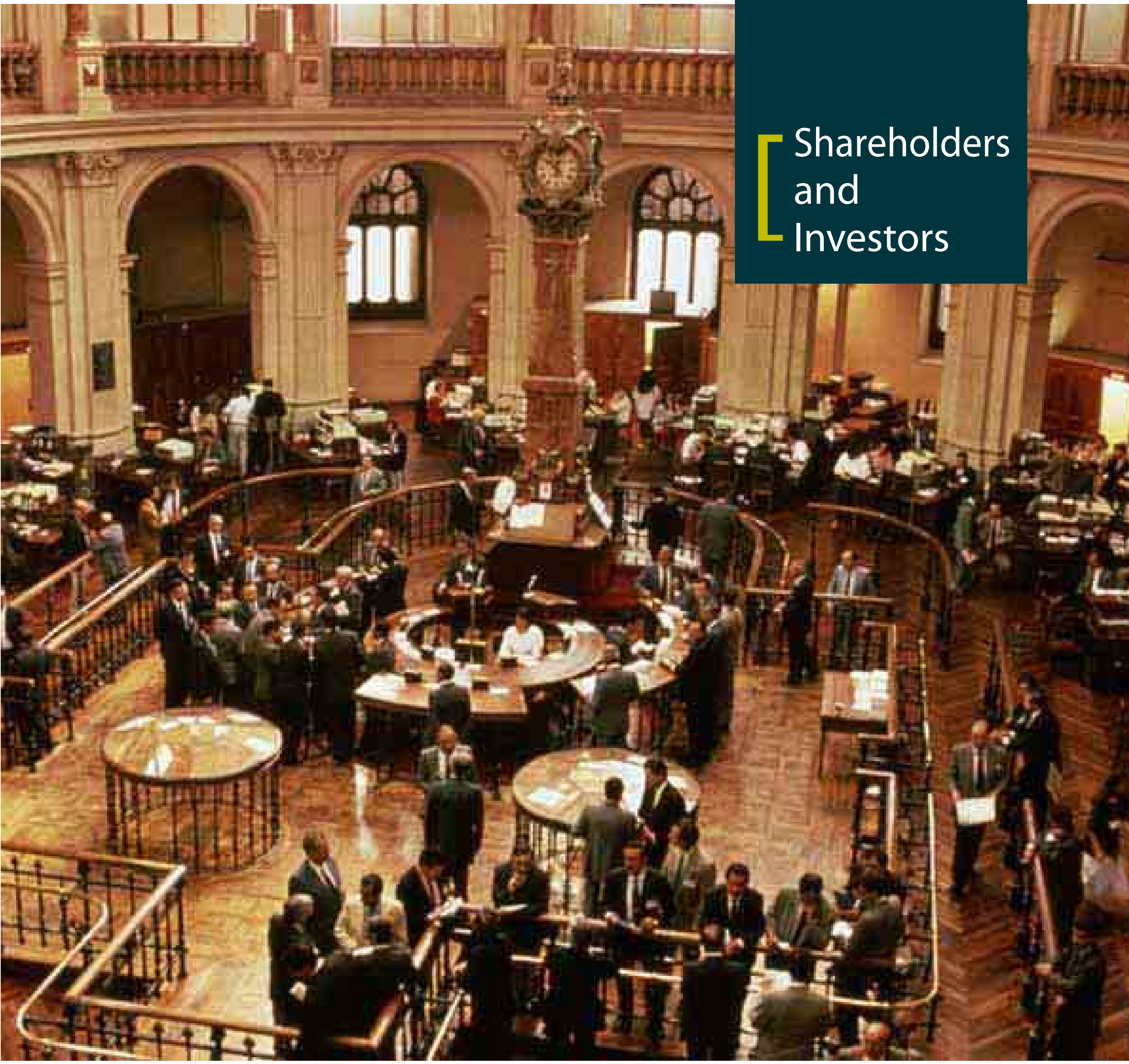
Lastly, Order ITC/4100/2005 set out the tolls and fees for third party access to gas facilities.

Tolls linked to third party access to system regasification services are the same as in 2005, while those for transportation and underground storage have been reduced by 1.3%.

Since 2001, system-access tolls have decreased by 11.5%, nominally, and 22%, in real terms, taking into account the Government inflation forecast for 2006.

New tolls constituted the main developments:

- Tolls applicable for durations of less than a year, which satisfy the requirements of power marketers carrying out temporary operations or operations of unknown duration.
- Interruptible tolls, on average 52% less than fixed transportation and distribution costs, the aim of which is payment for a service for third party network access, provided on a non-continuous basis, in cases where there is a lack of availability of facilities.
- International transit toll, subject to approval on the part of the System Technical Manager, in accordance with the distance between entry and exit points, and applicable to gas flows destined for an exit point within the Spanish gas system.



Shareholders and Investors

Shareholders and Investors

For the third year running, 2005 saw a a bull trend on the main stock markets, the year being marked by sharp increases in the price of raw materials, moderate increases in interest rates from a minimum base, and positive development in the results of listed companies.

The Spanish stock exchange closed the year with an annual increase of 20.6%, while its main reference index, the Ibex 35 registered an 18.31% rise, ending the 2005 financial year at 10,724 points.

Share evolution

In 2005, Enagas shares rose 29.51%, ending at 15.8 euros. This increase in share price was higher than that of all its reference indices: IGBM (+20.6%), Ibex 35 (+18.31%), and Dow Jones Stoxx 600 (+23.5%). The annual price, and the record price since the share was first listed in June 2002, was reached on December 22nd 2005, when it closed at 16 euros, while March 16th saw the year's lowest price, 11.46 euros. The average annual price was 13.66.

425.8 million Enagas shares were traded during the 256 stock market sessions in 2005, 66.5% up on figures for December 2004, and a reflection of the share's high liquidity. Effective volume contracted was 5.7 billion euros, meaning that the share was 25th

Stock market & financial y variables per share

	2002	2003	2004	2005
Nº of Shares (millions)	238.7	238.7	238.7	238.7
Capitalisation (millons euros)	1,384.5	2,053.1	2,912.6	3,771.5
Price at 31 December	5.80	8.60	12.20	15.80
High	6.49	8.68	12.20	16.00
Low	5.11	5.79	8.19	11.46
Average	5.73	7.13	9.44	13.66
Days Quoted	128	250	250	256
Share Volume (millions)	304.5	223.3	255.7	425.8
Turnover (million euros)	1,903.5	1,574.5	2,416.2	5,710.8
Net Earnings per share (EPS)*	0.46	0.59	0.66	0.80
Book value per share*	3.57	3.91	4.18	4.65
Dividend per share	0.23	0.30	0.33	0.40(**)
PER (Price/earning ratio)*	12.61	14.58	18.42	19.75
PBV (Price/Book value per share)	1.62	2.20	2.86	3.40

*Data at 31 December

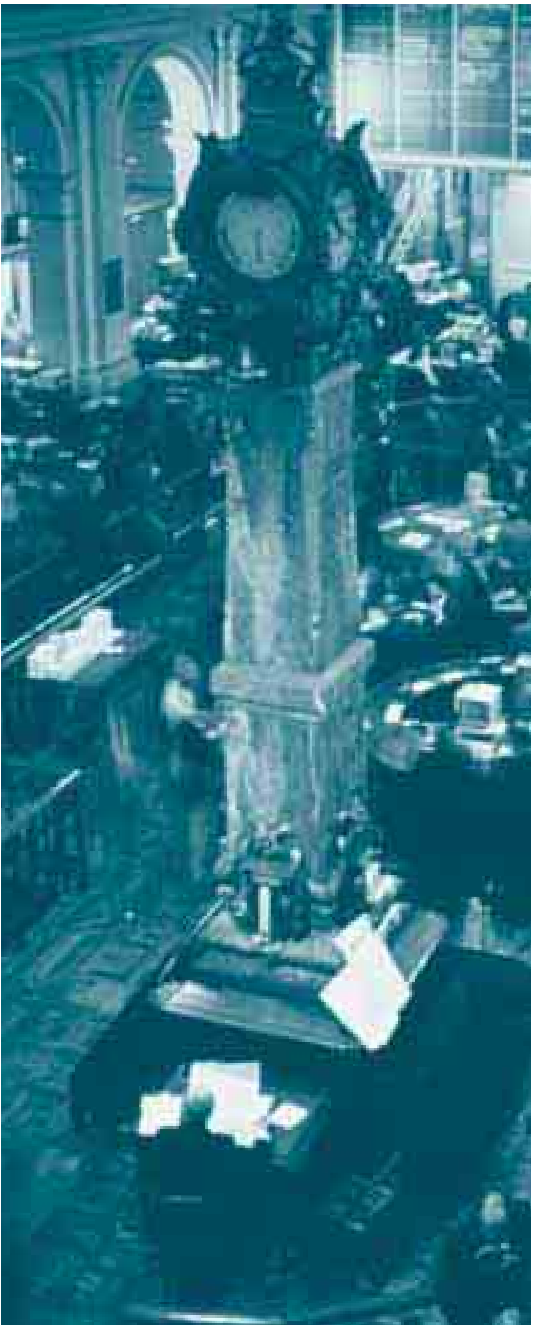
**Subject to appoval by the Shareholders' General Meeting of final dividend to be distributed

• The years 2004 and 2005 are formulated to IFRS in the table of shares most traded on the continuous market.

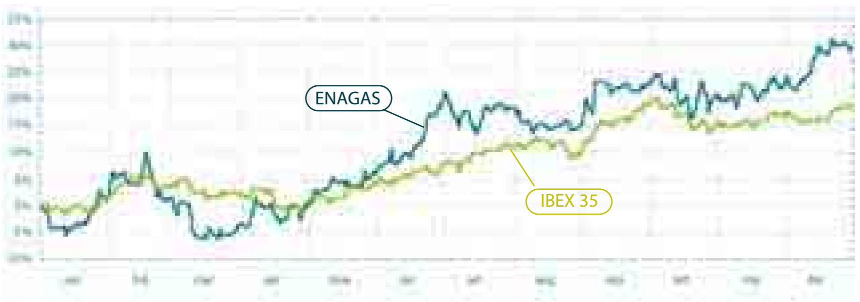
Enagas market capitalization as at December 31st, 2005, was 3.77 billion euros, 29.51% up on the closure figure for 2004.

Capital stock and shareholding structure

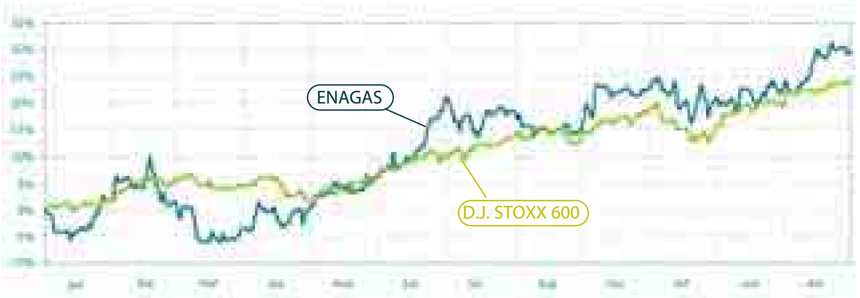
On December 31st, 2005, Enagas' fully subscribed, paid-in share capital was 358,101,390 million euros, representing 238,734,260 ordinary shares



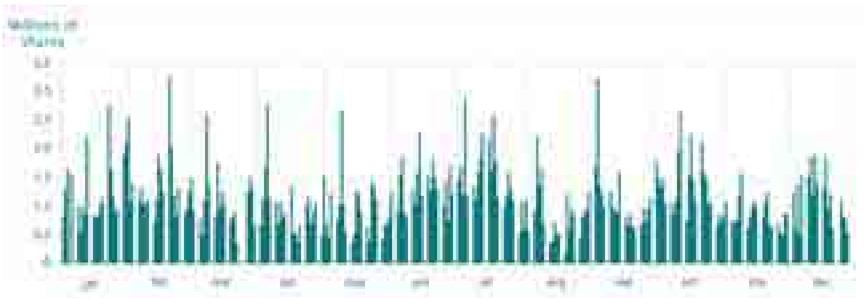
Enagas vs Ibex 35 in 2005



Enagas vs D.J. Stoxx 600 in 2005

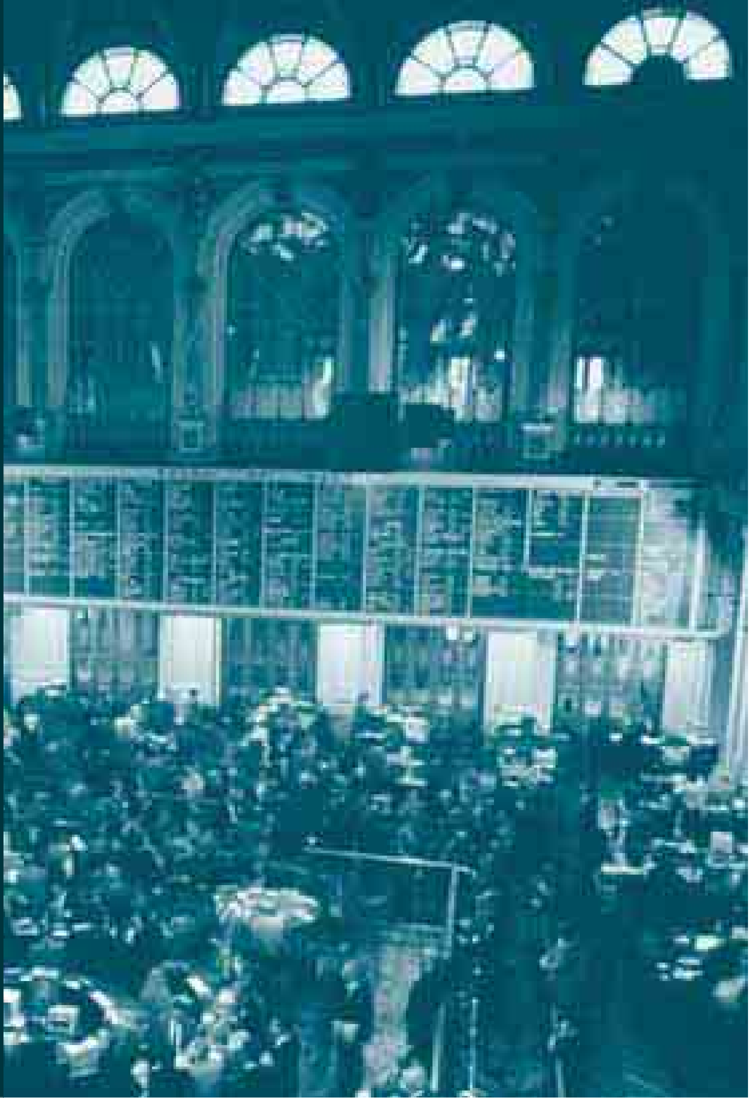


Enagas' traded volumes in 2005



with a nominal value of 1.5 euros, which were officially listed on the four Spanish stock markets and contracted on the continuous market. 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 2005, there was a variation in significant Enagas shareholdings due to the fact that Gas Natural SDG reduced its capital holdings by 13.3%, ending the financial year with 12.8% of Enagas shares. For the remaining significant shareholders there were no changes to the situation as of December 31st, 2004. Sagane Inversio-



Shareholder structure

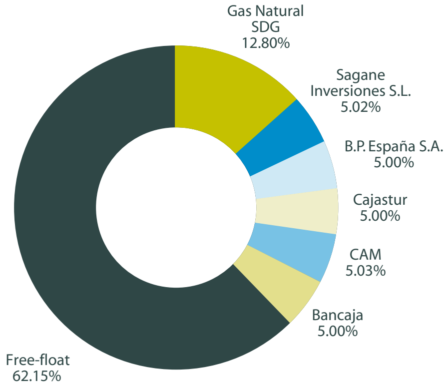
Nº of shares per shareholder	Shareholder	Total shares	Stake
Up to 500	79,909	14,808,146	6.20%
501 - 10,000	8,556	12,363,732	5.18%
10,001 - 50,000	383	8,309,530	3.48%
50,001 - 100,000	72	5,021,278	2.10%
100,001 - 500,000	113	25,094,811	10.51%
500,001 - 1,000,000	21	14,388,836	6.03%
More than 1,000,001	22	158,747,927	66.50%
Total	**89,076**	**238,734,260**	**100.00%**

*Source: Iberclear (General Shareholders Meeting 2005)

nes held 5.022% of total Enagas equity, B.P España S.A. 5.000%, Caja de Ahorros de Asturias (Cajastur) 5.000%, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) 5.000% and Caja de Ahorros del Mediterráneo (CAM) 5.027%.

The company's free float as at December 31st stood at 62.151% of total shares.

Shareholder structure at 12-31-2005



In accordance with stock market regulations, and as a consequence of the increase in the company's free float, the Spanish Stock Exchange Company's Technical Assessment Committee agreed to increase Enagas's participation on the Ibex 35 from 80% to 100% of market capitalization, with the effect that weighting of company shares on the Ibex 35 was 0.92% at year-end.

According to data provided by Iberclear for the General Shareholders' Meeting, Enagas has 89,076 shareholders. Approximately 45% of the company's free float is Spanish, while the remaining 55% is international, largely pertaining to investors from the United States, the United Kingdom and Germany.

Dividends

As part of its value creation policy for shareholders, and as a consequence of results achieved by Enagas during financial year 2005, the Board of Directors has proposed a dividend payment of 0.40 gross per share to the General Shareholders' Meeting, which, if approved, will mean an increase of 20.8% on last year. On January 12th, 2006, a gross dividend of 0.16 euros per share was paid from

Dividends

	2002	2003	2004	2005
Total amount (millions euros)	55.035	71.009	79.063	95.480
Interim dividend	21.486	28.648	31.035	38.197
Additional	33.549	42.361	48.028	57.283(**)
Gross dividend per share (euros)	0.23	0.30	0.33	0.40(**)
Interim dividend	0.09	0.12	0.13	0.16
Additional	0.14	0.18	0.20	0.24(**)
Dividend yield(*)	4.0%	3.5%	2.7%	2.5%
Pay-out (%)***	50%	50%	50%	50%

*Data at 31 December
**Subject to appoval by the Shareholders' General Meeting of final dividend to be distributed
***Percentaje of Net Profit to be distributed as dividend

2005 profits, which will mean that the complementary gross dividend for 2005 financial year, if approved, will be 0.24 euros per share.

This dividend means that, for the third year running, 50% of Net Consolidated Profits will have been paid to shareholders, demonstrating Enagas's commitment to maximizing value creation for shareholders.

Profitability per dividend rose to 2.53% on the listings at year closure for 2005.

Transparency and communication

In accordance with its communication plan for shareholders, institutional investors and financial analysts, Enagas continued to improve transparency and frequency of reporting in 2005. The *Thomson Extel Pan- European Survey 2005*, placed Enagas amongst the top five

Spanish companies in terms of investor relations.

The methods most frequently used are presentations at forums, meetings, conferences, roadshows in the main financial centres, and the company's corporate website.

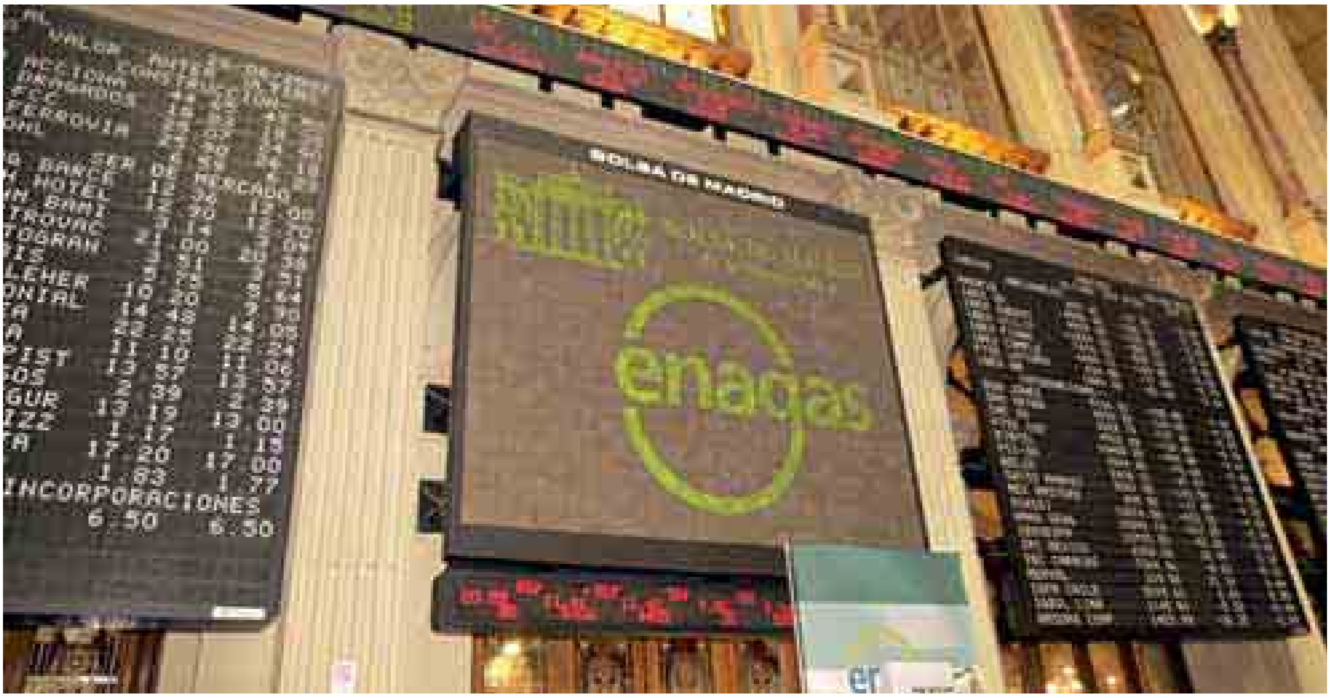
Four multi-presentations of quarterly results and a webcast for communicating 2005 results to the market took place. The average audience for these events is growing, having crossed the threshold of 60 people per presentation.

Enagas communicated specific information on all relevant events affecting the company to the market regulator (CNMV) and the Stock Exchange Company. A total of 32 communications were made throughout 2005, while meetings were held with over 500 institutional investors and analysts, both at Enagas headquarters and during trips to Europe and the United States.

Enquiries and requests from company shareholders and analysts were dealt with via the Enagas Shareholder's Office and the company website (www.enagas.es).

During the year, accionistas@enagas.es and investors@enagas.es answered over 1,000 emails, more than 1,500 freephone calls were taken by the Shareholder's Office (900 100 399), and around 800 queries were answered by post. A total of 33 opinions by financial institutions featured detailed information published by Enagas as part of its transparency policy and efforts to keep financial markets and investors fully updated on company operations and results.

The Shareholders and Investors section of the corporate website (www.enagas.es) includes ongoing updates of analysts' opinions on Enagas shares.



Consolidated Management Report

Consolidated Management Report

Main Figures

For the first time, Enagas's annual results were adapted to the new accounting standards, the Internacional Financial Reporting Standards (IFRS), without this causing any significant impact on the Group's balance and statement of results. During 2005, the Enagas group obtained Net Consolidated Profits of 191 million euros, a 20.8% increase on 2004. Significant growth in income and the company's strategy to reduce operating and financial costs were important in this respect.

Consolidated annual results (Millions euros)

	2001	2002 (*)	2003	2004	2005	Var.% 04/05
Operating Cash-Flow (EBITDA)	249.4	333.7	383.0	399.1	478.4	19.9%
Operating Profit (EBIT)	138.1	207.2	249.5	275.1	332.8	21.0%
Profit from Ordinary Activities	98.1	167.8	217.8	242.7	292.4	20.5%
Net Income after Taxes	117.8	110.1	142.0	158.1	191.0	20.8%

Financial figures (Millions euros)

	2001	2002 (*)	2003	2004	2005
Total Assets	2,754.6	2,895.7	3,093.0	3,101.4	3,225.6
Shareholder's Equity	779.6	852.4	932.3	997.8	1,110.4
Net Financial Debt	1,062.2	1,253.0	1,278.7	1,421.0	1,546.6
Investments	216.8	192.3	426.3	462.9	358.7
Net Debt / EBITDA	4.26 x	3.75 x	3.33 x	3.57 x	3.23 x
Interest cover over EBITDA	6.9 x	8.5 x	12.1 x	12.3 x	11.1 x
Net Debt / Total Assets	38.6%	43.3%	41.3%	45.8%	47.9%
ROE after tax	9.6%	13.4%	15.9%	16.4%	18.1%
ROCE after tax	5.0%	6.9%	7.5%	7.7%	8.5%

(*) The results are not comparables due to the change in the regulatory framework as of February 19th 2002
. The years 2004 and 2005 are formulated to IFRS

Results

Revenues

In 2005, the gross margin over revenues was 646.2 million euros, 16.7% up on 2004.

This increase was largely due to a rise in total payments for regulated activities, as specified by Order ITC/4099/2005, applicable to assets made operative in 2004 and 2005, and the high volume of liquid natural gas which was regasified throughout 2005.

The breakdown of gross margin over revenues was as follows:

- a negative differential of 6.4 million euros, as a result of gas purchase-sale operations for supplying the tariff market.
- Income obtained for the group's regulated activities, which reached 652.6 million euros, a 16% increase on the 562.5 million euros obtained at the end of 2004.

Income for non-regulated activities was 15.4 million euros, and other operating income as at December 31st was 19.3 million euros. A sum of 3.4 million euros, obtained from the sale of a stretch of fibre optic cable to Gas Natural SDG, figured as non-recurrent income in the accounts for 2005.

Operating Expenses

In accordance with the Enagas group's objective of consolidating operating efficiency, costs were maintained in line with those of the last four years. Said costs grew 1.4% compared to 2004, well below growth in activity for a year in which Enagas transported 13.7% more gas than the previous year.

- Staff costs were 58.2 million euros, 4.1% up on 2004. The workforce, as at December 31st, 2005, comprised 907 employees, as compared to 904 in 2004.

  In 2005, 5.3 million euros were included as non-recurrent staff costs, largely due to payments for early retirement.
- Other operating costs were 144.3 million euros, 0.3% higher than in 2004.

Operating Cash Flow (EBITDA)

The group's operating cash flow (EBITDA) grew 19.9% to 478.4 million euros, due to the positive performance of income and ongoing efficiency improvements in terms of operating costs.

Investments to the value of 473.2 million euros were put into production in 2005, meaning an increase in depreciation of fixed assets, for which a figure of 145.6 million euros is included, an increase of 17.3% on 2004.

Using IFRS criteria, subsidies are included in equity by deducting the value of fixed assets which they subsidise rather than as distributable income.

Likewise, depreciation diminished on a par with the application of subsidies, which, under the General Accounting Plan, had been included as other income, but which now figure as a reduction of the provision for depreciation.

In 2005, a subsidy operation agreed in 2002 and paid in 2005, was included. The effect in accounting terms of said application was to reduce depreciation by 3.6 million euros.

Operating Result (EBIT)

As a consequence of the above, the operating result (EBIT) was 332.8 million euros, 21% up on the result of 275.1 million euros in December 2004.

Financial Results

The financial result obtained in 2005, including capitalised financial expenses (9.1 million euros), was minus 40.4 million euros.

Coverage of financial costs by EBITDA, as of December 31st, 2005, was 11.1X, one of the sector's highest multipliers, demonstrating the current liquidity and solvency of Enagas.

Net Profits

In 2005, the Enagas group's net consolidated profit was 191.0 million euros, a 20.8% increase on 2004.

Investments

In 2005, investments with a cumulative value of 473.2 million euros were put into operation, increasing the group's solid income-generating infrastructure base, confirming the advance of Enagas's strategic objectives, and safeguarding growth.

Investments for the year totalled 358.7 million euros. 43% of total investments effected was for building or extending the transportation network, 56% was for regasification projects and the remaining 1% was spent on underground storage infrastructures ad other projects.

In 2005, the Enagas Board of Directors approved investment projects worth 354.1 million euros, a figure which is largely accounted for by the transversal connection gas pipeline project between the Cordoba-Madrid and Alicante-Valencia pipelines, and the compression stations linked to it.

Consolidated statements of Cash Flow (Thousand euros)

	2004	2005
PRE-TAX CONSOLIDATED INCOME	**242,654**	**292,426**
Adjustments to reconcile net income to net cash	**124,723**	**140,688**
Fixed assets depreciation	124,053	145,601
Changes in provisions	5,808	3,338
(Profit) / Loss on disposal of fixed assets	-19	-3,410
Variation in deferred income	-6,491	-6,186
Prepayments and other deferred	1,238	661
Other adjustments	134	684
Changes in working capital	**94,564**	**-58,267**
Inventories	22	39
Debtors	-68,566	68,318
Trade creditors and accounts payable	162,591	-126,624
Other creditors	517	0
Taxes paid	**-90,890**	**-81,232**
CASH FLOW FROM OPERATING ACTIVITIES	**371,051**	**293,615**
Investments	-462,934	-358,667
Capital grants	1,076	18,460
Cash flow from fixed assets disposals	0	4,943
Changes in financial fixed assets	11,043	-5,073
CASH FLOW FROM INVESTING ACTIVITIES	**-450,815**	**-340,337**
Net Changes in borrowings	157,133	128,777
Dividens paid	-71,010	-79,063
Changes in other debts	-8,909	-3,633
CASH FLOW FROM FINANCING ACTIVITIES	**77,214**	**46,081**
Cash and cash equivalents, begining of period	4,577	2,027
Cash and cash equivalents, end of period	2,027	1,386
NET CASH INFLOW / (OUTFLOW)	**-2,550**	**-641**

Financing

Net Cash Flow

Resources accruing from operations generated in 2005 reached 293.6 million euros.

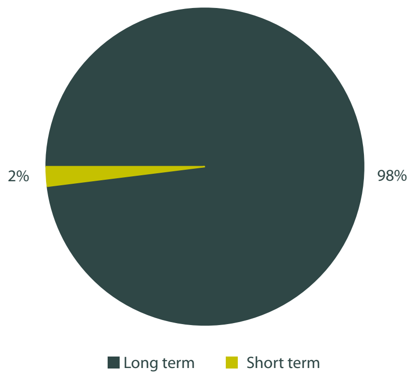
Evolution of the financial debt

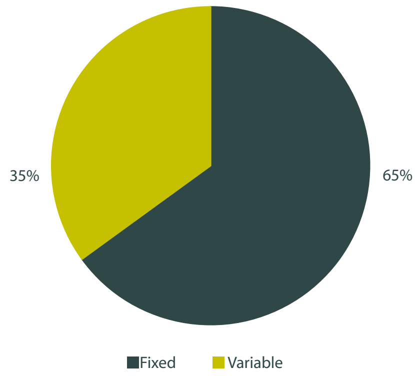
In the financial area, Enagas continued with its policy of risk reduction and balance structure optimization by largely financing activities via fixed-cost, long-term debt with the best possible conditions.

The company's net financial debt at December 31st, 2005 was 1,546.6 million euros as opposed to 1,421 million euros in December 2004. At the end of the financial year, 98% of this debt was long-term and 65% of it was covered by derivative instruments at a maximum fixed cost of 4.32%.

The debt ratio (net financial debt divided by total equity) was 47.9% at year-end, in accordance with Enagas's policy of slightly raising its debt in accordance with its investment plan, and as a result of the regulated, stable nature of the company's business.

Debt Structure at 31 December 2005





Cost of debt

Average cost of debt was 3.39%, meaning that, at year-end, Enagas had one of the sector's lowest debt financing rates.

For the period 2005-2008, Enagas has coverage instruments, applicable to a value of 1 billion euros of the syndicated loan signed in April 2003, which will allow for a reduction in interest rate-based risk, and finance investments on a long term basis, at a pre-established maximum cost, and, in short, under the best possible conditions. They became applicable in 2005, with a lifespan up to April 2008, and a maximum fixed cost of 4.32%.

Rating agencies

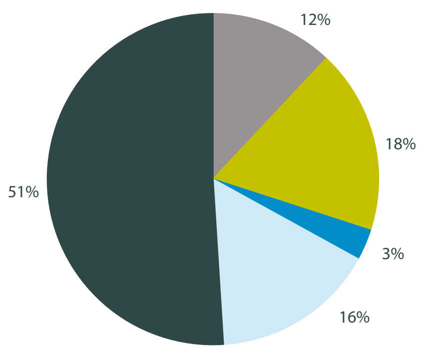
Standard & Poor's			Moody's			Fitch		
Date	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook
01/16/2004	AA-	Stable at the long-term	07/05/2004	A2	Positive at the long-term	06/16/2005	A+	Stable at the long-term
11/05/2002	A+	Stable at the long-term	11/12/2002	A2	Stable at the long-term			

Activities

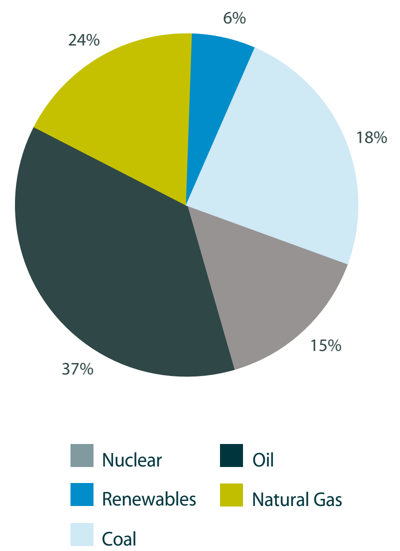
Gas System Operation

In 2005, the outstanding feature of the gas system in Spain was continuous growth of demand over and above initial forecasts, despite high natural gas prices, and, in particular, high prices for liquid natural gas (LNG), the source of most of the gas currently consumed in Spain.
According to data from 2004, natural gas was 17.8% of primary energy consumed in Spain, compared to 23.5% in the European Union as a whole.

Primary energy consuption in Spain in 2004



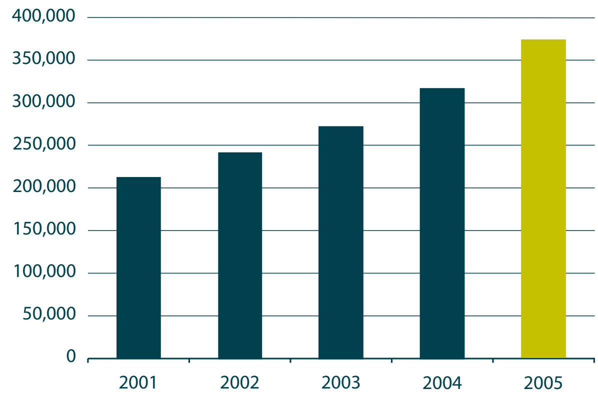
Primary energy consuption in the EU in 2004



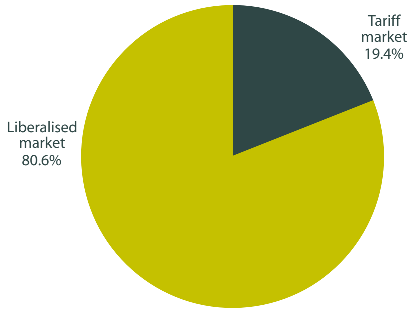
Physical aggregates Demand

In 2005, natural gas transported for the Spanish market reached 376,041 GWh, 17.6% up on 2004, with Enagas transporting 87.7% of this (337,327 GWh) and other companies operating within the system transporting the remainder.
In 2005, gas supplied to the deregulated market accounted for 83.5% of total gas transported, compared to 80.6% in the previous year.
The increase in demand was mainly due to start up of 10 new groups of 400 MW of combined cycle generation. At year-end, 25 groups were operating, with a further six being trialled, as opposed to the total of 21 at the end of 2004.
In 2005, approximately 19% of total electricity produced in Spain was generated using natural gas, for which it was necessary to transport 111,167 GWh, 66.7% more than in 2004. Natural gas consumption was 29.6% of total demand, which is an increase on 20.9% for 2004, consolidating the segment as something crucial to sector development.

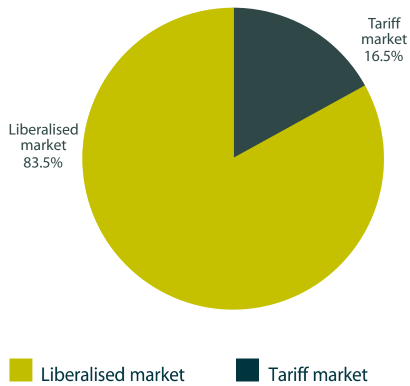
Transported natural gas demand (GWh)



Market share 2004



Market share 2005



Gas transported for the traditional sector, which includes domestic, commercial and industrial consumption, rose to 264.874 GWh, a 4.7% increase with respect to 2004.

In addition to growth achieved in all sectors, 2005 also witnessed important peaks in demand. In November, as a result of low temperatures, demand for natural gas reached a record high of 1,529 GWh, equivalent to 223,000 m of liquid natural gas (LNG). Of this quantity, 485 GWh were supplied to the electricity market.

This type of consumption grew by 1.7% in comparison with January 2005, an increase of 22.6% compared to March 2nd, 2004.

January 30th, 2006, saw a new peak, with consumption of 1,543 GWh.

Demand by sectors (GWh)

	2001	2002	2003	2004	2005
Liberalised Market					
Conventional market	80,969	122,000	165,664	199,528	215,145
Combined cycle gas turbines	-	11,192	28,871	58,206	98,705
Total	**80,969**	**133,192**	**194,535**	**257,734**	**313,850**
Tariff Market					
Conventional market	118,186	93,695	69,545	53,401	49,729
Electricity generation	12,652	16,151	11,158	8,465	12,462
Total	**130,838**	**109,846**	**80,703**	**61,866**	**62,191**
Total Demand	**211,807**	**243,038**	**275,238**	**319,600**	**376,041**

System intakes (GWh)

	2001	2002	2003	2004	2005
Natural Gas					
Tarifa	62,285	72,669	74,509	87,540	110,323
Larrau	26,840	26,433	26,640	26,356	24,434
National	5,868	5,830	2,529	3,664	562
Tuy	-	-	-	908	194
LNG					
Barcelona Plant	58,612	69,361	71,962	79,948	89,948
Cartagena Plant	19,156	43,903	57,792	61,998	70,307
Huelva Plant	36,673	30,564	36,730	34,015	55,993
Bilbao Plant	-	-	8,608	29,307	38,905
Total Supply	**209,434**	**248,760**	**278,770**	**323,736**	**390,666**

Supply

390,666 GWh of gas was supplied in 2005, an increase of 20.7% on the previous year.

65.3% of said supply was liquid natural gas (LNG), 34.5% was supplied via the Larrau and Tarifa international connections, and the rest was domestic natural gas production from the Marismas, Palancares and Poseidón fields.

In comparison with previous years, there was greater diversification of supply sources on the part of operators on the deregulated market, so that Algerian natural gas production accounted for 43.6%, as opposed to 50.7% in 2004. The natural gas consumed in Spain came from 13 different sources, one more than in the previous year.

The tariff market was largely covered by natural gas from Algeria, transported by the Maghreb-Europe gas pipeline, while the deregulated market was mainly supplied by liquid natural gas, and, to a lesser degree, by Norwegian gas via the Larrau international entry point.

System Technical Management

Throughout 2005, Enagas, as System Technical Manager, continued to develop the functions granted to it by Royal Decree Act 6/2000, thereby guaranteeing continuity and security of supply, as well as correct coordination between access points, storage, transportation companies and distribution.

In 2005, the deregulated market achieved a market share of 83.5%, and, as a result of this, Enagas, as System Technical Manager, focused a large part of its energies on tasks related to managing and administering the different agents necessary for the correct functioning of the system.

Enagas made its infrastructure network available to the 12 companies operating on the deregulated market for regasifying, storage, and transportation of gas to the distribution networks. 234 third party access contracts to the network were signed in 2005, as opposed to 184 in 2004, an increase of 27%.

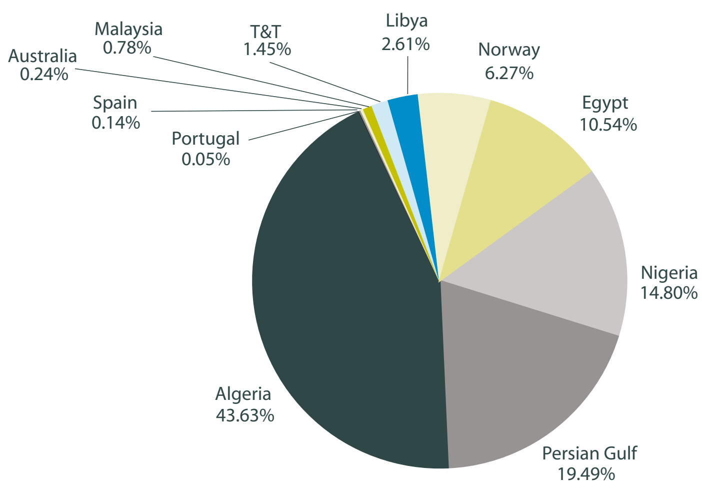
Of the aforementioned contracts, with a duration until December 31st, 2005, 222 were for short-term capacity reserves, while the rest were long-term.

In compliance with the Enagas transparency policy, and in accordance with capacity contracted by operators, the corporate website includes monthly updates on available capacity and contracted capacity at its facilities for the next ten years.

High growth operating conditions and opening up of the market were complemented by a harder winter 2004-2005 than forecast.

At the start of the year, successive cold spells in Spain, and throughout Europe, meant that demand was much higher than forecast. In Spain,

Source of supply 2005



conventional market consumption grew considerably, as did the need for gas for electricity generation, particularly to substitute other sources such as hydraulic energy, which fell notably in comparison with the previous year.

The level of supply growth which was forecast fell short of the real demand for gas. Moreover, closure of ports due to bad weather, and specific incidents in non-Enagas infrastructures, meant that the company, as System Technical Manager, applied a series of mechanisms in an efficient, neutral and transparent way in order to guarantee continuity and security of supply, as well as correct functioning of the network at all times. The situation was resolved via cuts in the supply to customers with interruptible contracts, who have alternative fuel sources. This was a measure included within European and Spanish legislation and used as the normal mechanism for increasing system flexibility.

The publication of Order ITC/3126/2005 in October, aimed at optimising development of technical management of the gas system, was key to avoiding circumstances like those mentioned in the previous paragraph. The Order approved System Technical Management Regulations (Network Code), which became law on November 1st, 2005.

The Regulations constitute one of the basic pillars of making the technical management of the gas system more responsive, establishing relations between the different players and applicable operating procedures with the aim of ensuring continuity and security of gas supply within the gas system.

These regulations act as guidelines for managing facilities and basic procedures of system operations, both in normal conditions and in exceptional circumstances.

By the same score, the regulations authorise the Technical Manager to establish a winter operations plan, within the framework of normal operations, with the aim of responding to increases, both forecast and unforeseen, in the demand for natural gas during the winter months.

The 2005-2006 winter plan, applicable from November 1st, 2005, to March 31st, 2006, allowed Enagas, as System Technical Manager, to limit exports to avoid supply problems during the winter months, tighten restrictions on minimum on-plant and methane tanker supplies of natural gas, and to fix limits for extracting gas from underground storage.

Spanish Gas System

Development of the transportation system

In order to guarantee overall functioning of the gas system in 2005, Enagas continued with its development and extension of gas transportation facilities in Spain.

All of these activities were carried out under strict controls, identifying and minimising negative effects on the environment.

At the end of 2005, the company's main gas infrastructure was as follows:

- A network of gas pipelines of 7,538 km, designed to be operated at maximum pressures of 72 and 80 bar.
- Eleven compression stations and 325 regulation and metering stations.
- 29 maintenance, operations and gas pipeline control centres.
- Three regasification plants, in Barcelona, Cartagena and Huelva, with a regasification capacity of 3,450,000 m^3(n)/h and liquid natural gas storage capacity of 987,000 m.
- Two underground storage facilities, Serrablo, which is company-owned, and Gaviota, an offshore storage facility in Biscay, under rental from Repsol YPF and Murphy Eastern Oil.
- The main control centre (CPC), in Madrid, which effects regular supervision and control of the gas pipeline network.

Regasification

During 2005, 65.3% of the natural gas consumed in Spain was liquid natural gas, demonstrating the importance of regasification operations, something for which Enagas is a global leader.

Ongoing opening up of the market in 2005 and the growing importance of LNG imports for commercialising companies meant that regasification plants produced more natural gas.

Throughout 2005, a total of 346 methane tankers docked at the Enagas plants in Barcelona, Huelva and Cartagena, unloading 32,6 million m^3 of liquid natural gas, 22.6% up on 2004. Total production at the three company plants was 210,155 GWh, 23.0% up on 2004. In 2005, LNG supply to

Regasification plant activity (GWh)

	2005			2004			Var.%	
	Ships	Mm³GNL	GWh Produced	Ships	Mm³ GNL	GWh Produced	Mm³ GNL	GWh Produced
Barcelona Plant	150	13.5	89,118	196	12.1	79,315	11.7%	12.1%
Cartagena Plant	105	10.6	69,227	92	9.4	61,649	12.8%	12.4%
Huelva Plant	91	8.5	51,810	57	5.1	29,833	66.7%	73.9%
Total	**346**	**32.6**	**210,155**	**345**	**26.6**	**170,797**	**22.6%**	**23.0%**

Main assets in regasification plants (GWh)

	BARCELONA	CARTAGENA	HUELVA
Tanks	5	3	3
Storage capacity (m^3 GNL)	390,000	287,000	310,000
Vaporisation capacity (m^3(n)/h)	1,500,000	900,000	1,050,000
Berth capacity (m^3 GNL)	80,000-140,000	40,000-140,000	140,000

satellite plants (supplied in gas tanker-trucks by the power marketers to areas which are far from gas pipelines) reached 10,973 GWh.

Investment

During 2005, investment in regasification assets totalled 195.1 million euros and important extensions were carried out at all plants.

In investment terms, one of the most important infrastructures to be started up was the third liquid natural gas storage tank at the Cartagena plant, with capacity for 127,000 m^3 of LNG, outer diameter of 70.4 metres and height of 50.6 metres. In addition, the plant's emission capacity was increased to 900,000 m^3(n)/h.

Construction of the third tank increased total LNG storage capacity at the plant to 287.000 m^3 by the end of 2005, a 79.4% increase on the previous year.

Inauguration of the tank on January 18th, 2006, was attended by the Mayoress of Cartagena, Pilar Barreiro, the President of the Spanish National Energy Commission (CNE), María Teresa Costa, the Region of Murcia Head of Industry and Environment, Francisco Marqués, the General Director of Energy Policy and Mines, Jorge Sanz and the Region of Murcia General Director of Industry, Energy and Mines, Horacio Sánchez, amongst others. In 2005, important extensions were also carried out at the Barcelona regasification plant.

November saw the start-up of the fifth LNG storage tank, with a capacity of 150,000 m^3, and the plant's vaporization capacity was also increased to 1,500,000 m^3(n)/h, 20% up on capacity at the start of 2005.

Lastly, at the Huelva regasification plant, emission capacity was increased from 900,000 m^3(n)/h to 1,050,000 m^3(n)/h.

Transportation by gas pipeline

As of December 31st, 2005, Enagas' gas pipeline network was 7,538 km long, with maximum operating pressures of 72 and 80 bar.

In 2005, Enagas continued to coordinate the four international gas pipeline connections in Spain: the Larrau international connection with France, Zahara de los Atunes (Cadiz), home to the receiving terminal for gas transported by the Maghreb-Europe gas pipeline, and Badajoz and Tuy, which connect the Spanish and Portuguese natural gas transportation networks.

At the end of 2005, natural gas transported by the company's gas pipeline network, and imported largely via these international connections, totalled 134,951 GWh, a 14.4% increase compared to 2004. 562 GWh of piped gas was Spanish-produced, enormously useful for covering peak demand, although much les than the 3,664 GWh transported in 2004.

At year-end, the company's gas pipeline transportation network included 11 compression stations, with installed power of 313,159 HP and 325 regulation and metering stations.

Investment

Of total investment in 2005, 43% was for new transportation projects.

The main transport assets put into production in 2005 were:

- Villafranca de Cordoba Compression Station (Phase II).
- Expansion of the Almendralejo Compression Station.
- The Cartagena-Lorca gas pipeline (Phase II).
- Expansion of the Dos Hermanas Compression Station.
- Castelnou-Fraga-Tamarite de Litera gas pieline.
- Cartagena-Lorca gas pipeline (Alhama-Murcia section)
- Expansion of the Tivisa Compression Station.
- Expansion of the Bañeras Compression Station.
- Widening of the Arbós-Tivisa gas pipeline.

In 2005, the Enagas Board of Directors approved investment projects worth 354.1 million euros, a figure which is largely accounted for by the transversal connection gas pipeline project between the Cordoba-Madrid and Alicante-Valencia pipelines, and the compression stations linked to it.

Underground Storage

Enagas has two underground storage deposits, Serrablo, located between Jaca and Sabiñánigo (Huesca), which is owned by the company itself, and the Gaviota maritime platform, located near Bermeo (Biscay), an offshore storage deposit which is jointly owned by Repsol YPF and Murphy Eastern Oil.

In 2005, 1,339 Mm^3 (n) of natural gas was injected into the two deposits, while 874 Mm^3(n) was extracted, with the aim of adjusting supply of natural gas to demand, providing coverage at peak times caused by seasonal variations.

Underground storage operating highlights

Underground storage	Maximum injection Mm³ (n)/day	Maximun production Mm³ (n)/day	Injection 2004 Mm³ (n)	Extraction 2004 Mm³ (n)	Final stocks 2004 Mm³ (n)
Serrablo	3.9	6.8	498	374	951
Gaviota	4.5	5.7	841	500	2,440
Total	**8.4**	**12.5**	**1,339**	**874**	**3,391**

Purchase and sale of gas for the tariff market

During the last financial year, Enagas continued attending to the needs of the tariff market and guaranteeing supply to tariff-based customers.

At year-end natural gas transported for the tariff market totalled 62,191 GWh. Enagas bought natural gas from suppliers, selling it on to the distribution companies attending to the needs of end customers, which did not opt to choose a power marketer in 2005.

79.1% of the gas supplied to this market was natural gas piped via the Zahara de los Atunes (Cadiz) international connection, home to the receiving terminal for gas transported by the Maghreb-Europe gas pipeline. 19.6% of the gas was LNG and the difference was made up by domestically produced natural gas.

The official sale price, or ex-plant price, reflected the cost of raw materials, average regasification costs, and purchase and sale administrative costs for gas supplied to the tariff market.

In winter 2005-2006, Enagas will be able to use two methane tankers with a capacity of 160,000 m^3 as extra storage facilities for the tariff market. In addition, for periods defined as cold spells or exceptional circumstances affecting the tariff market, 13 GWh/day extra will be assigned to supply said market.

Corporate Responsibility

Corporate Responsibility

Human Resources

2005 was a very positive year for Enagas in all aspects of Human Resource Management. The sustained growth of the various productivity indicators and continuous improvements to technological aspects of our team demonstrated once again how the Company has sought to implement organisational improvements and ensured the commitment of all staff in attaining the aims of the Company. Throughout 2005 great effort that has been made to evaluate the organisational implications inherent in adapting to the new regulatory framework, which has arisen as a consequence of the new Technical Management Norms for the Gas System.

Human Resources Strategy

Our improvement continues, with personal objectives being brought into line with those of the Company

Enagas' Human resources policy throughout 2005 can be summed up in the continuity of the strategy that was implemented in previous years.

This strategy has sought to achieve two fundamental objectives:

- Focusing the Human Resources department on the achievement of Enagas' objectives.
- The continued improvement of organisational structure and processes in a number of different areas within the Company.

In order to achieve these objectives, the following lines of action have been identified:

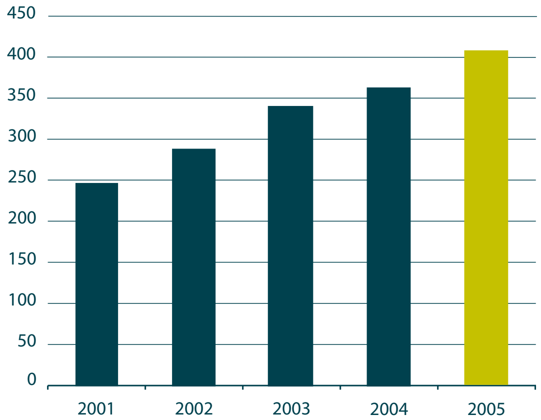
1. The implementation of a Human resources management model which ensures that employees are brought into line with the existing strategy.

   During 2005 the progressive extension of Objectives management models and evaluation of the performance of the technical side of the Company was outstanding, with the number of employees joining the new model virtually doubling.
2. The development of projects aimed at improving the design and implementation of efficient organisational models.

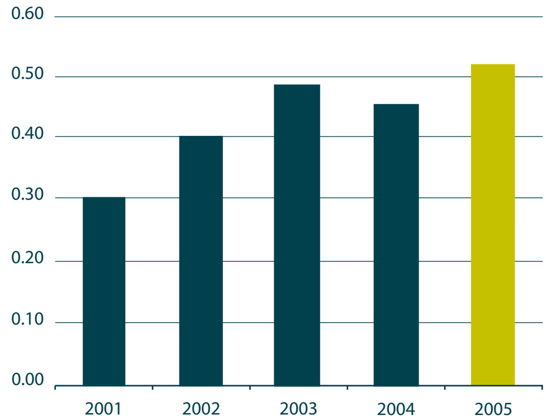
   In 2005, a total of 12 such improvement projects were undertaken, among which it is worth highlighting the new organisational models in the areas of Measurement and Systems.

In both cases, the new model includes a series of improvement outli-

GWh transported per employee



Operating Cash-Flow per employee **(Millions of euros)**



* IFRS criteria were used in calculating results fot financial years 2004 and 2005

nes and specific steps to be taken which started to be put into practice during 2005, and whose development will continue throughout 2006. With the setting up of these action plans we can expect to see an increase in the operative efficiency of the Company, in aspects such as safety, security, reliability and quality control.

Operative efficiency seen as result

The various initiatives aimed at ensuring continued improvement and increased efficiency could be seen over the past few years with a continuous increase

in associated productivity. During 2005 the demand for transported natural gas grew by 14.3% with respect to the previous year. Furthermore, the operative cash-flow generated per employee stood at 0.53 million euros, an increase of 15.5% on 2004 figures.

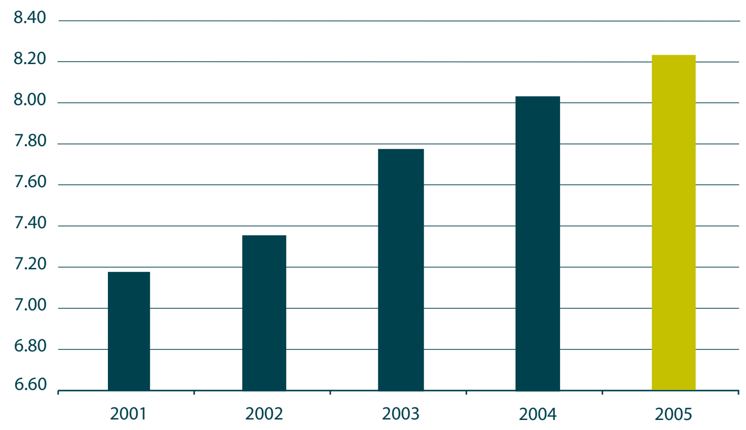
The ratio of the number of kilometres of gas pipeline per employee also rose significantly, reaching a total of 8.22 km per worker.

Workforce

In 2005 a total of 47 people joined Enagas, meaning that by the end of the year, the Enagas workforce had a total of 907 employees, of which 19% were women. Each worker stayed with the Company for an average of 15.9 years, with a mean age per worker of 43.8 years.

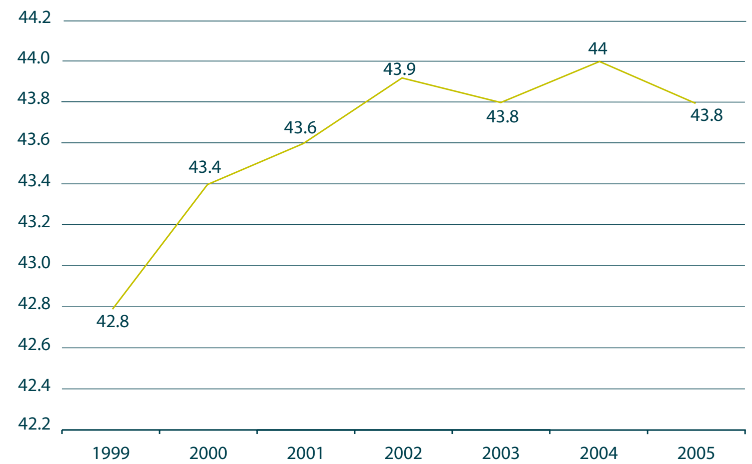
Furthermore the policy of technical training of Company employees saw a progressive increase in both the number of staff and turnover, with a

Km of pipeline per employee



Evolution of the staff

Evolution of the average age



subsequent stabilising of the average employee age. In 2005 21 new technicians joined Enagas, meaning an increase in this sector of 18% over the past five years, with 43% of posts within the Company held by technicians by the end of 2005.

Enagas Capacities

There is a continuous effort made on the part of Enagas to adapt the capacities of our workforce to the various professional career paths open to them, both on the technical and management sides of the business.

57.5% of Enagas' new appointments in 2005 were university graduates, whilst 70.5% of those leaving the company did not hold university or mid-level degrees.

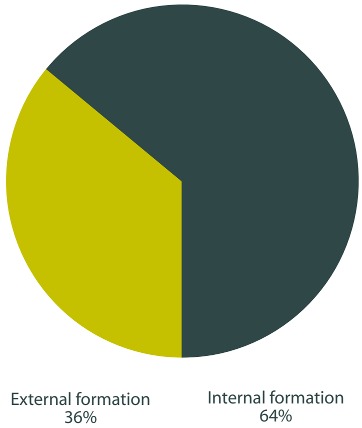
The development of new capacities. Training and development

The trend towards strengthening and enriching Enagas' technical knowledge as a company through new appointments has been accompanied by a parallel management policy which ensures that knowledge which is considered essential to the company is available "in-house", with a balance between both lines of action strived for at all times.

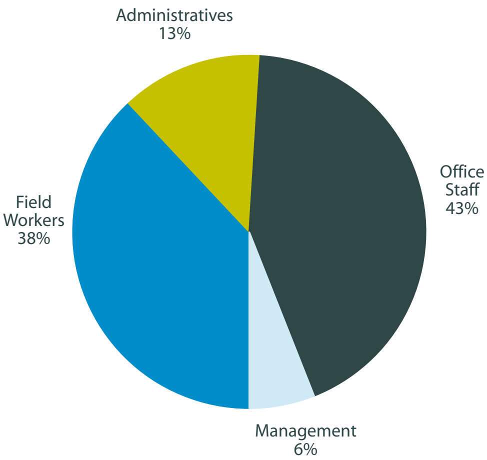
With this aim in mind, in 2005 in-house training and knowledge transfer accounted for 64% of total training costs.

Through the Enagas Training Plan, in 2005 a total of 40 courses related to technical areas were held; this translates to a total of 6,593 training hours, representing 32% of the total training time provided by the Company.

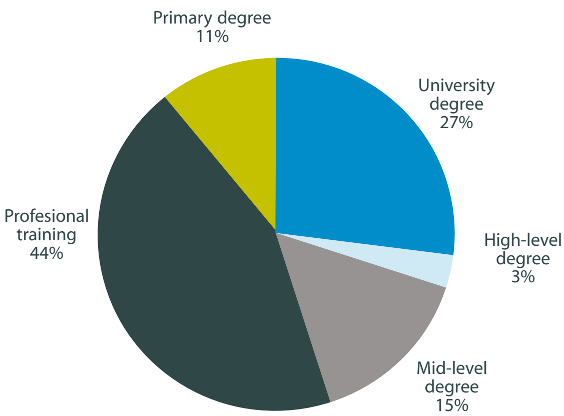
In 2005 special emphasis was placed on safety and security training, considered to be a key area for the Company. In this area alone, there were a total of 41 courses, representing 5,273 hours of training.



Workforce's compositiom by levels



Workforce's compositiom by levels



Internship Programme

Enagas continued to out into practice its internship programme, allowing young graduates the chance to gain valuable work experience within the company, thus improving their chances of finding subsequent employment in the labour market.

In 2005, 61 new interns joined the company as a result of the implementation of agreements with a number of Universities and Foundations.

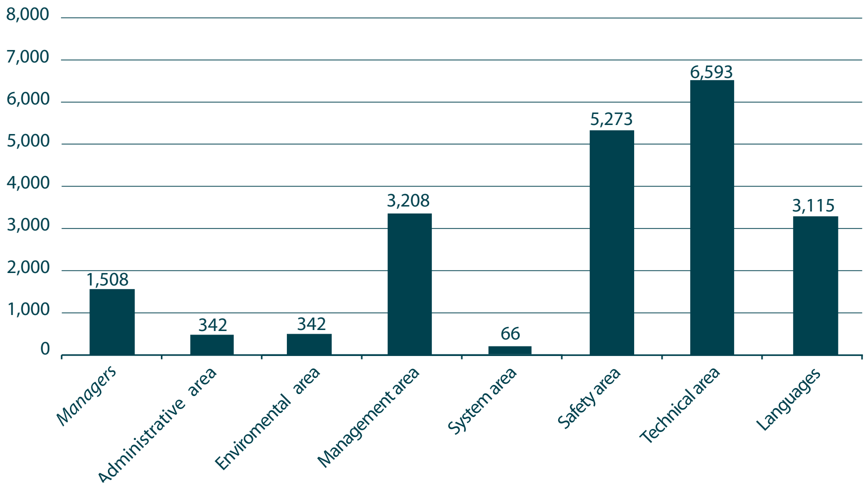
Labour Relations. Agreements

The 15th Enagas Collective Agreement

As an indication of the Company's commitment and importance it places on social responsibility, expressed through collective negotiation, on the 30th of June 2005 the 15th Enagas Collective Agreement was signed. The most relevant aspects of this were:

- The three trade unions with most representation within the Company, UGT, CCOO, and CC-ATEPE, agreed the following:
- To remain in force for a four year period: 2005- 2008.
- Strengthen the role of training as a means of personal and professional development for employees, extending said training to cover the area of health and safety at work and risk prevention.

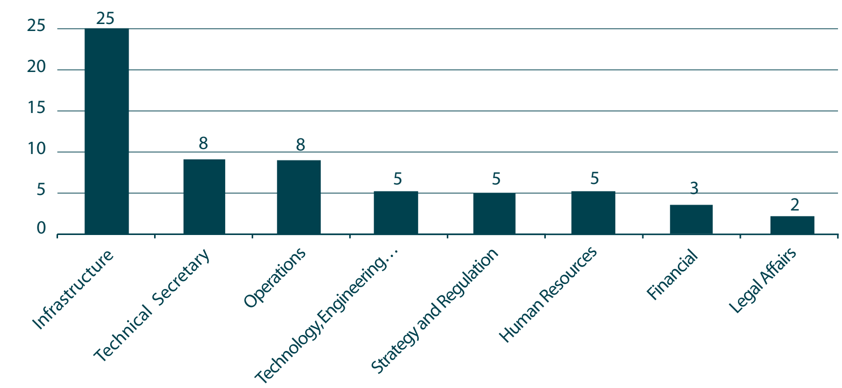
Hours of training sessions



Training

Hours of trainig per employee	22.21
Investment per employee (euros)	400
Number of training sessions	162
Number of participants	496
Number asistentes	1,030
Total investment (euros)	411,561
Total hours of training sessions	20,363

Internships plan. Distribution for areas



- Ratification of alterations introduced to Enagas Pension Plan Regulations, bringing them into line with new changes to Pension Plan Law.

The signing of the Collective Agreement means that a framework is in place until 2009 in which labour relations between the Company and its workers are regulated. The Collective Agreement also sees the introduction of a change to the distribution of the working year in order to adapt this to the current need to seek a balance between working and family life.

Health, Safety and Risk Prevention

Preventative measures adopted by Enagas in 2005 covered both adaptation to forthcoming legislation and the maintenance of previously implemented standards, whether legally required or covered by Enagas' own Risk Prevention Management System (Sistema de Gestión de la Prevención de Riesgos - SIGPRI).

Therefore, although the deadline for the adaptation of installations as set out under the Health and Safety Protection Act for workers exposed to risks arising from explosions is the 1 of July 2006, in 2005 Enagas drew up is own Protection against Explosions Document (Documento de Protección Contra Explosiones - DPCE). This is applicable in its three Regasification Plants, the Serrablo Underground storage facility and, in the near future, at 40% of the Basic Network of Gas Pipelines, including a number of Compression Stations. In order for it to be put into practice, the necessary modifications have been undertaken, although it should be said that for many years now, Enagas has, with its own internal regulations, complied with almost all the requirements as stipulated in the new Act. Among these are the supply of new clothing and footwear for Company employees, with the requirement that sub-contracted companies supply similar items, thus preventing the build-up of electrostatic charges.

In 2005, the facilities which fell under the legislation as stipulated in the Prevention of Serious Accidents Act (the Seveso Directives /CORAG), namely the Regasification Plants, once again surpassed the levels as required by the Compulsory Annual Inspection, as stipulated by the various Safety Control Organisations set up by local governments in the Regional Authorities of Catalonia, Andalusia and Murcia.

In 2005, professional fire teams have joined the Huelva and Cartagena installations, providing significant support to the existing Primary and Secondary Intervention Teams. These are made up of professional staff with specific skills and training who are, nonetheless, not exclusively dedicated to the Prevention and Protection against fires.

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 practice and are subject to annual revision as a result of the simulations regularly carried out. A fundamental part of those steps to be put into practice in the event of emergency or other critical situations is having the necessary information on hand for internal use, as well as for the relevant Authorities and the media. To this end, in 2005 Enagas approved a new Communications Manual for Crisis Situations. Similarly, HAZOP analysis (a technique which assesses operational phase risk) was carried out at three plants, as part of the monitoring of and improvements to ship unloading and LNG transfer and diversion operations.

As Enagas will have to submit its preventative measures for Compulsory Audit in 2007, an internal diagnostic audit was undertaken in 2005 with respect to Preventative Systems in compliance with the OHSAS 18001 international standard, with results proving to be satisfactory. In 2006 the necessary adaptations to existing preventative measures will be implemented, with the corresponding alterations also being made to the internal Procedures and Regulations that govern them.

The Systems Management and Prevention Services teams have jointly developed management software, which will be an important support and is set to be introduced in an experimental manner in 2006.

With respect to personnel training in matters of health, safety and prevention, the most important innovation in 2005 was the course on hazards arising from the potential presence of Explosive Environments in the workplace. Standard training programmes dealing with health and safety at work, risk prevention and protection against fire, emergency situations, first aid, safe working at height etc. continued to be given. Similarly, training was also given on THT handling, office based hazards, and the OSAS 18001 safety standard.

During 2005, expenses relative to risk prevention and safety reached 2.2 million euros, a 27% increase with respect to the previous year. This increase was mainly due to expenses arising from monitoring the implementation of new legislation on explosive environments, the fireproofing of installations, the purchase of new fire-protection equipment, safety and individual protection teams, etc. Furthermore, all new facilities, as well as improvements to those already in existence, must now feature passive and/or active safety elements which are included in the corresponding investment total and which are difficult to isolate. Lastly, the accident rate for 2005 reflected the increased measures undertaken by the company, with the frequency rate (number of accidents compared to the number of hours worked) staying at a similar level to previous years. In addition, the seriousness of those accidents, as expressed in the time off work for each accident, fell with respect to other years.

The environment

At Enagas we firmly believe that it is both necessary and possible to com-

bine to economic growth with the conservation of natural resources, guaranteeing their enjoyment by future generations. To this end, our Environmental Policy includes a public commitment to respect and protect the environment as one of its fundamental decision making and action criteria.

The putting into practice of the principals as outlined in this policy is a responsibility that is shared by the whole Enagas organisation. With this in mind, an organisational structure has been set up that plans, coordinates and integrates all work within the Company of an environmental nature with the aim of preventing damage to the environment as a result of our activities, ensuring compliance with legislation and encouraging continued improvement in this field.

This organisation is made up of the Environmental Committee, which in turn is comprised of Company executives who lay out the key working directives, and environmental groups who are responsible for putting said decisions into practice. The Quality and Environment Unit is responsible for putting the Committee's decisions into practice, and for coordinating the activities of the various Environmental Groups.

2005 landmarks

In 2005 the third Environmental Strategic Plan was approved, which covers the period from 2005 to 2010 and brings together all the work being done by the organisation in pursuit of its environmental objectives.

The focus of this plan is Enagas' contribution to a reduction in the greenhouse effect. In order to achieve this goal, programmes have been se up to install new technologies and other equipment which recuperate or prevent CH_4 emissions, as well as instigating projects which take advantage of residual sources of energy in order to generate electricity and thus improve process efficiency.

As a consequence of changes to the legislation regulating the trading of emission rights, Enagas was granted permission to emit greenhouse gases with provisional parallel concessions for similar rights in 2006 and 2007, at the following installations:

- Compression Stations at Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Dos Hermanas, Haro, Paterna, Tivissa, Zamora and Zaragoza.
- Storage and LNG Regasification Plants at Barcelona, Cartagena and Huelva.
- Underground natural gas storage facilities at Serrablo.

The environmental management system

All activities effect the environment in which they are carried out, particularly the physical environment and its natural resources. The aim of an Environmental Management System is to identify such effects and provide the sufficient mechanisms with which to reduce them.

In order to achieve greater control over the environmental side of the organisation, Enagas has progressively introduced an environmental management system recognised by AENOR (the Spanish body dedicated to the development of standardisation and certification) in accordance with the UNE-EN-ISO 14001 standard in the following units:

- Storage and LNG Regasification Plants at Barcelona, Cartagena and Huelva.
- Underground storage facilities at Serrablo.
- Maintenance areas at the Transport Management department.
- The Technology Unit.

The environmental management system is organised around a series of regulations and procedures which set out responsibilities and the manner in which those operations and activities which might cause significant environmental impact are carried out. In this was, the system ensures that all relevant legislation is complied with and that regulation requirements are met. In this area it is worth highlighting the control processes in place for all waste materials, which are handed to authorised third parties for treatment, in accordance with the regulations stipulated in current legislation. Throughout 2005, this control saw 1,966 tonnes of hazardous waste processed, with 248 tonnes of recyclable residues recuperated.

2005 also saw important steps taken to consolidate control over natural gas emissions into the atmosphere. A clear example of this was the introduction of installations that seek to recuperate the boil-off generated in the Barcelona plant's LNG storage tanks, allowing greater process efficiency and a reduction in pollution resulting from greenhouse gas emission.

Environmental management of projects

Enagas pays special attention to the planning and design of all its projects, ensuring that their development and execution take environmental protection aspects into full consideration. The fundamental aim is to fully integrate construction activities into the environment.

As projects are put into practice, all environmental conditioning factors are therefore borne in mind in order to select the ideal location for installations, and to identify the potential impact of each stage of the process, from building through to operation, and even in final dismantling.

Identifying this potential impact makes it mush easier to subsequently define the measures aimed at preventing, minimising, correcting or compensating the environmental impact which might arise from such projects.

As work is carried out on the site, the environmental aspect is also continually assessed, ensuring that all the measures that were approved in the design phase are complied with, through monitoring and control procedures aimed at examining all envi-

ronmental variables, restoring the landscape, revegetation and improving those habitats which have been adversely affected.
The final result of this process is the minimising of adverse environmental impact throughout all the phases of the project, guaranteeing greater environmental integration and ensuring future use of the affected area.
Throughout 2005, environmental monitoring was carried out on some 1,000 km of gas pipelines, whilst 4,091,370 m2 of land affected by installation work was restored and a total 763,720 m2 benefited from revegetation projects.

Environmental expenditure and investment

Enagas identifies and evaluates its environmental expenditure with a view to controlling the financial resources provided by the Company which ensure its commitment to respect and protect the environment.
The expenditure and investment budget for the environmental activities realised through the implementation of the various projects set up in 2005 stood at 25.1 million euros.
Of this sum, the most noteworthy amount corresponded to a project aimed at eliminating methane emissions to the atmosphere, introduced at our Barcelona plant, which cost 13.5 million euros.

Technological Innovation

In 2005, Enagas' commitment to Technology and Innovation formed an essential part of the drive to improve service quality and, at the same time, reduce the Company's building and maintenance costs. R+D activities undertaken throughout 2005 were a clear indication of our response to the technical challenges faced by Enagas, especially with regarding efficiency and respect of the environment.

R&D&I projects

The "Demand Map" Application was implemented in the Operations Area, allowing predictions to be made over a three year period as to conventional natural gas demand in a number of areas (by location province, region etc.) and with respect to a number of timeframes (daily, monthly, annually etc). It also considers the possibility of creating scenarios for hot or cold spells, bank holidays, etc. in order to draw up possible consumption patterns.
Work also began in this area to develop software to predict natural gas consumption used in the generating of electricity, whilst a start was also made in the development of a software application designed to assess long term (over 10 years) gas prospects.
In the **area of transport**, work is underway on odorisation, in conjunction with GERG (Groupe Européen des Recherches Gazières), with a view to establishing the implications represented by the various odorisation practices employed in the international transportation of natural gas.
In the **area of construction**, work concluded on a project researching new digital radiographic welding systems.
Within the **area of safety,** in collaboration with other gas companies, various projects and studies were carried out concerning the analysis of pipeline risks, mainly through the development of the PIPESAFE calculating tool. A proposal has also been put forward to improve the collection of gas pipeline data, including information regarding incidents in order to be able to draw up failure frequency charts based on solid historical data. Two other projects are also underway, one designed to elaborate a working method for the analysis of Enagas' own risks, based on PIPESAFE software, and the other aimed at estimating the reliability of LNG plant equipment with a view to improving maintenance policies there. In the **area of volume flow metering**, the "Ultrasound Volume Flow Metering" project was concluded, with the advances made in this technology and excellent metering performance both warranting special mention, assuming that installation requirement conditions are met.
The first phase of the Volume Flow Metering with the "Coriolis Effect" project also reached its conclusion, with a final report produced which evaluated the current state of this technology, highlighting the high expectations the industry has for it. The results gleaned from this phase will pave the way for a new demonstration test phase within the GERG

Group, to be held at state-run metering stations. Enagas also took part in an E-01 Position test in Calahorra. Another project which came to an end in 2005 was the "High Pressure Turbine Calibration - Phase 1" project. This sought to show the technical and economic viability of building a new gas metering calibration installation in real operating conditions, complying with the new requirements as set out in the Measuring Instrumentation Directive as well as existing regulations and standards.
Work on the following Company laboratories continued in 2005: the gas metering laboratory, the instrumentation laboratory and the analysis laboratory.

Social Action

Enagas has assumed as a key criteria in its approach to business management the importance of carrying out its activities in an atmosphere where corporate profits are compatible with social responsibility and respect for the environment, ensuring that the Company's economic results are in keeping with a high level of social responsibility and respect for nature.
During the 2004 fiscal year, Enagas participated in a series of activities related to social assistance, sponsorship of cultural events and the conservation of the environment.

Sponsorship and cooperation

In 2005, Enagas continued to assist a number of groups who are especially disadvantaged.
The Company placed special importance on showing its solidarity with communities in need through financial support to the "Cusubamba" educational project, supported by the "Ayuda en Acción" charity. The aim of this programme is the obtainment of sufficient resources to make possible the building, equipping and pedagogical support necessary for seven classrooms in seven communities in Ecuador.

Enagas also donated writing material to the "La Esperanza del Valle Miñor" association in Nigrán, in Pontevedra, Galicia, whose mission is to attend to almost one hundred people with varying disabilities through its Education and Leisure Centres, as well as the organisation d support groups fro affected families.
Enagas has continued to support initiatives aimed at ensuring efficient governance of Spanish Companies. A practical demonstration of these principles is our collaboration with Acción Social Empresarial (ASE) – "Social Action in Business", in the organisation of their Development and Natural Resources Session, designed to encourage business and executive thinking on the importance of social responsibility in the environment they work in.
As one of its fundamental principles, Enagas adopts measures addressed at environmental conservation, paying special attention to the environment in which the Company carries out its industrial operations.
With this in view, the Company continued its involvement 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. This Association contributes to the protection of these reserves, dedicating special attention to the promotion of educational camps focussing on the importance of protecting the environment and the role played by the individual in this field.
The commitment and practical work undertaken by the Company in mat-

ters concerning the environment are covered in more detail in Enagas' Environmental Report.

In the cultural sphere, the Company once again provided sponsorship to the Royal Theatre of Madrid's Lyric Theatre Foundation, and particularly the ninth season of theatre put on by this well respected centre. Enagas also collaborated with the local governments of Alumbres, Cartagena, Brihuega and Yela (Guadalajara) providing economic support for cultural activities in these towns. Social welfare and health in local communities continues to be a priority for Enagas.

It is worth drawing attention to the financial donation made to the Almendralejo Town Council in Badajoz, in support of the Asociación Extremeña de Jugadores de Azar (AEXJER – the Extremadura Gaming Association), whose activities are mainly aimed at helping and providing rehabilitation to those with gambling problems in the region.

Enagas also collaborated financially with the Círculo de Economía de Cataluña (the Catalonia Economic Circle) in 2005, an organisation which was set up with the aim of contributing to the modernisation of Spanish economic and social life, with a special emphasis on the internationalisation of business, as well as a commitment to the process of construction and consolidation of the European Union.

In the area of scientific research, the Company worked last year with the Centro Español de Metrología – the Spanish Measurement Centre – via the Third National Measurement Congress, jointly organised by the Department of Industry, Commerce and Tourism and the Regional Government of Aragón. Petrology as science involving measurement, applied to Enagas' day to day activities, has an enormous bearing on such important sectors as industry, health, safety, commerce and communications, to name but five.

With a view to promoting technology within Spain, in 2005, Enagas took part in the 40th anniversary of Tecniberia, this time as sponsor, in collaboration with The Spanish Association of Engineering, Consulting and Technological Service Companies (Tecniberia/Asince).

In the field of technological and IT development, and its relationship to social action, to mark Internet Day, the Company organised free Basic Internet workshops for the residents of elderly people's homes and day centres run by the Madrid City and regional Authorities. Enagas made computer equipment with Internet connection available to students, as well as donating IT material to the Peñuelas Elderly people's Centre, run by the Madrid Regional Government, as well as to the UPDEA Foundation.

In 2005, the Company also donated IT material to missionaries working for the Congregación de la Sagrada Familia in Spain; the Seminario Redemptoris Mater and to FITEQA, the Spanish Federation of Industry, Textile, Furs, Chemicals and Related Fields, a part of the Comisiones Obreras Trades Union.

Enagas also took part last year in key energy forums, both in Spain and in Europe, with exhibitions, presentations and appearances at Sedigas and the Club Español de la Energía, among other organisations.

The Company also collaborated with other bodies whose activities were of interest to Enagas, such as the Cartagena Port Authority, who in 2005 organised the 11th Congress on Maritime Traffic and Port Management.

The company also worked with business schools, such as the IESE, or Spanish Business Institute, and universities and public administrations etc.

Corporate Governance

Corporate Governance

Good Corporate Governance currently constitutes a key element in the search to improve economic efficiency, strengthen growth and foment investor and shareholder confidence by providing a clear structure in which to establish the objectives a company wishes to achieve. This basic idea stems from the key regulations which have been approved in recent years, such as 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 (the CNMV).

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 sought to apply all the necessary measures in order to reinforce its transparency and financial reliability which is open to the market, this offering its shareholders better monitoring of it good governance recommendations.

The following are some of the most important milestones for 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.
- Anticipating the Transparency Act, during the 2003 fiscal year Enagas approved the Regulations of the General Shareholders' Meeting at the GSM held on 25 April 2003. In this way it enabled 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.
- During the 2004 fiscal year, Enagas created an institutional website (www.enagas.com /www.enagas.es) in order to comply with that stipulated in the Spanish National Securities Market Commission's 1/2004 Circular, of March 17th, aimed at ensuring that information concerning the company be freely available to shareholders and investors.
- This same year, on the 19th of February 2004, the Board of Directors not only approved the new regulations, bringing them into line with legal dictates and to existing recommendations on Corporate Governance, but also passed the Audit and Compliance Committee Regulations, thus giving this body greater operational independence.

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 eight fundamental measures are of significant importance:

- At the General Shareholders Meeting held on the 22nd of April 2005, the necessary modification to the Enagas statute was approved in order to adapt the Corporate Statutes to the latest developments as established in Act 34/1998, of the 7th of October, with respect to the Hydrocarbons Sector (as set out in the written legislation in Act 62/2003 from the 30th of December). This states that no person or company may hold shares to the value of more than 5% of the Company's social capital. The voting rights which correspond to the shares owned by those holding a greater percentage are to be suspended until such time as their participation is reduced to the stipulated amount.

- Enagas continues to update the content of its corporate website (www.enagas.com /www.enagas.es), both with respect to economic and corporate developments as well as well as other significant Company information such as 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 and relevant facts reported to the markets. 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.
- Enagas, as a publicly quoted company, continues to further its commitment to adopt all necessary measures in order to ensure that the financial information required to comply with the relevant legislation is available to the markets, thus guaranteeing that this corresponds exactly with CNMV guidelines. Transparency of information with respect to financial markets has been a priority for Enagas since the Company went public in 2002. To this end, Enagas has always sought to open up all available channels of communication through which Company – Shareholder relations are maintained, be these private or institutional investors, by informing the CNMV as soon as possible of any relevant information, also making such information freely available on its website, in accordance with that set out in the 1333/2005 Act from the 11th of November, based on the 24/1988 Equity Market Act concerning market abuses.

- Enagas, in keeping with its commitment to the free availability of information, has always sought to uphold a scrupulous policy with respect to binding information which has to be provided by share issuing companies publicly quoted on secondary official markets, in compliance with the EHA/3050/2004 directive from the 15th of September. To this end, a Corporate Governance Report corresponding to the 2005 fiscal year is included, with exhaustive information covering all operations as described in the aforementioned Directive, as has been standard practice since 2002.
- The Company has committed itself with ever greater resolve to complying with stipulations outlined in the 162/2005/CE recommendation regarding the role that should be played by non-executive administrators or supervisors and that of Administrative or Supervisory Committees. In accordance with the aforementioned Recommendation, the Enagas management team is pleased to submit itself to efficient and independent scrutiny, a posi-

tion which has been strengthened with respect to the previous year, with an alteration to the structure and composition of external board members, and also including an increase in the number of independent representatives to the detriment of major shareholders.

- The Enagas Board of Directors has decided not to implement the use of electronic voting in the 2006 Annual General Meeting, in view of the current situation and the development and usage of such systems. Nevertheless, as a publicly quoted company, and as a result of its interest in strengthening and reinforcing the role played by Annual General Meetings and the participation of all the company's shareholders, Enagas will continue to analyse the situation with sufficient regularity in order to ensure that it is implemented as soon as the system *and* the identity of the person exercising his or her right to vote can be duly guaranteed, and thus be said to be of sufficient interest to shareholders.
- In order for Board members to have a more complete overall picture of the Company's activities, throughout 2005 a number of training sessions were organised, looking at gas systems' organisation and the regulatory environment, thus ensuring that our Board of Directors' knowledge of the current situation is constantly refreshed.

The 2005 Annual Report on Corporate Governance was approved by the Board of Directors at their meeting on the 22nd of February 2006, with this account standing as a summary of the full report. For a more extensive account of any of the aspects of the Company's Corporate Governance, the full report should be consulted, which constitutes a part of the documentation which is available to all shareholders before the Annual General Meeting, as well as being accessible via the Enagas website. In this Report, Enagas' compliance with the recommendations as set out in the Good Governance Code is evident. This code was drawn up by the Special Committee for the Promotion of Market and Quoted Company Transparency and Security, which sought to publicise and evaluate the various rules concerning Corporate Governance.

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 and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

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 at 31 December 2005, and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent'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 in Spain, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. The consolidated financial statements for 2005 referred to above are the first that the Group has prepared in accordance with International Accounting Standards, as adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by corporate legislation, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2005 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2004, which were obtained by applying the EU-IFRSs in force at 31 December 2005. Accordingly, the figures for 2004 differ from those contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles and standards in force in that year. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 January and 31 December 2004, and to the Group's consolidated profit for 2004 are detailed in Note 32 to the consolidated financial statements referred to above. Our opinion refers only to the consolidated financial statements for 2005. Our auditors' report dated 18 February 2005, on the consolidated financial statements for 2004, prepared in accordance with the accounting principles and standards in force in that year, contained an unqualified opinion.

3. The heading "Trade debtors and other accounts receivable" in the consolidated financial statements referred to above includes EUR 25,522 thousand relating to the amount estimated by Enagás, S.A. as being subject to settlement by the competent Regulator in relation to revenue from regulated activities for 2002, and EUR 17,394 thousand and EUR 10,114 thousand relating to 2003 and 2004, respectively.

   In accordance with current legislation, the variances arising as a result of the application of settlement procedures will be taken into account in the calculation of the tariffs, fees and charges for the two following years. To date, the aforementioned variances have arisen in the first half of the following year and, therefore, they are taken into account with a difference of one year. In this regard, the

Regulatory Body, in order to calculate the tariffs, fees and charges for 2004, 2005 and 2006, took into account, among other things, certain amounts relating to the shortfalls in 2002 and 2003. No amount has as yet been taken into account in relation to a possible shortfall in 2004.

However, even though, at least, the related period for 2002 ended in 2005, the Regulator has not yet announced the definitive amount that will be paid to Enagás, S.A. or to any other industry player in relation to the amounts taken into account in the calculation of the tariffs, fees and charges as a result of the related shortfalls.

Therefore, although the Regulator has acknowledged the existence of certain amounts payable in relation to 2002 and 2003, at the date of this report we did not know the percentage of the amounts considered that would correspond to Enagás, S.A. and, accordingly, we cannot express a definitive conclusion on the full or partial recoverability of the aforementioned amounts recognised in the consolidated financial statements referred to above in relation to the amounts not yet settled by the competent Regulator for 2002, 2003 and 2004.

4. In our opinion, except for the effects of any adjustment that might have been required had the final outcome of the uncertainty described in paragraph 3 above been known, the consolidated financial statements for 2005 referred to above present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2005, and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards, as adopted by the European Union, which were applied on a basis consistent with that used in the preparation of the financial statements for 2004 which were included in the consolidated financial statements for 2005 for comparison purposes.

5. The accompanying directors' report for 2005 contains the explanations which the Parent'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 directors' report is consistent with that contained in the consolidated financial statements for 2005. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Enagás, S.A. and Subsidiaries.

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

Jesús María Navarro

23 February 2006

ENAGAS, S.A. AND SUBSIDIARIES
Consolidated balance sheets as of 31 december 2005 and 2004

(Figures in thousand of euros)

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

Liabilities	Notes	31.12.05	31.12.04
SHAREHOLDERS' EQUITY	11	**1,110,429**	**997,840**
Share capital		358,101	358,101
Reserves		599,565	512,656
Profit (loss)for the year		190,960	158,118
Interim dividend		(38,197)	(31,035)
NON-CURRENT LIABILITIES		**1,588,051**	**1,435,809**
Payable to credit institutions	15	1,495,874	1,330,125
Other financial liabilities	16 and 18	28,917	39,444
Deferred tax lialbilities	20	2,374	2,673
Provisions	14	16,607	13,257
Other non-current liabilities	13	44,279	50,310
CURRENT LIABILITIES		**527,139**	**667,758**
Payable to credit institutions	15	22,563	61,967
Other financial liabilities	16 and 18	16,808	18,636
Trade creditors and other accounts payable		394,994	522,151
Current tax liabilities	20	51,873	31,798
Other current liabilities		40,901	33,206
TOTAL GENERAL		**3,225,619**	**3,101,407**

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

ENAGAS, S.A. AND SUBSIDIARIES Consolidated Profit and Loss Accounts for the Year Ended 31 December 2005 and 2004 **(Figures in thousand of euros)**

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

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

CONSOLIDATED CASH FLOW
Statement for the Years Ended 31 December 2005 and 2004 (Figures in thousands of euros)

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

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

ENAGAS, S.A. AND SUBSIDIARIES

Statement of changes in consolidated net equity as of 31 December 2005 and 2004 (Figures in thousands of euros)

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

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

ENAGAS, S.A. AND SUBSIDIARIES

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

1. Group Activity

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

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

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

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

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

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

2.1. Accounting principles

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

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

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

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

The Group companies end their financial year on 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior – Leiria - Braga, S.A. which, because of the date on which these Annual Accounts are approved and the immaterial effect of this, are consolidated on the basis of accounts as at 30 November 2005.

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

2.2. Responsibility for the information and estimates made

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

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

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

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

2.3 Consolidation principles

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

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

The consolidation was carried out as follows:

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

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

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

d. Translation of financial statements denominated in foreign currencies. All the companies included in the scope of consolidation prepare their accounts in euros and therefore no foreign currency translation process has been necessary.

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

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

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

3. Valuation standards

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

a) Intangible assets

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

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

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

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

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

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

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

b) Tangible assets

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

Capitalised costs include:

1. Financial expenses associated with the financing of infrastructure projects accrued during the period of construction if this is over a year, with the average rate of capitalisation used to calculate the amount of the interest expenses to be capitalised being 3.39% in fiscal year 2005 (2.72% in 2004).
2. Personnel costs directly associated with work in progress. The amounts capitalised for these items are recorded in the accompanying Consolidated Profit and Loss Accounts for fiscal year 2005 net of personnel costs for a total of 8,181 thousand euros (7,082 thousand euros in 2004).
3. Future payments which the Group will have to make in relation with the requirement to disassemble certain tangible fixed assets pertaining to the Serrablo storage facility at the end of its useful life. The amount recorded in books for these assets includes an estimate of the present value at the date of acquisition of the costs to the Group of disassembly work, this being credited to the "Long term provisions" caption (Note 15) of the Consolidated Balance Sheet. This provision has been restated in the periods following its constitution.

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

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

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

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

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

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

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

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

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

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

c) Loss of value of tangible and intangible assets

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

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

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

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

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

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

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

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

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d) Leasing

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

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

e) Financial assets

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

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

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

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

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

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

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

Cash and other equivalent liquid assets

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

Trade debtors and other accounts receivable

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

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

f) Inventories

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

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

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

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

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

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

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

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

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

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

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

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

g) Equity and financial liabilities

Capital and equity instruments issued by the Company are carried at the amount received in equity, net of direct issuing costs.
Financial liabilities are classified according to the substance of the contract and taking into account the financial background.

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

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

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

The liability instruments held by group companies are:

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

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

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

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

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

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

h) Trade creditors and other accounts payable

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

i) Classification of debts as current and non-current

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

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

j) Pension commitments

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

k) Severance costs

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

l) Provisions

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

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

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

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

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

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

m) Deferred revenue

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

n) Classification of balances as current and non-current

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

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

o) Recognition of revenue

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

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

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

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

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

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

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

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

- Regasification and loading of LNG tanks
- Transfer of LNG to tankers
- Storage
- Transport
- Management of gas purchases and sales on the regulated market
- Technical system management

The most relevant aspects of the regulations covering the activity carried out by Enagas, S.A. from a revenue point of view are examined in Note 4 below.

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

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

p) Recognition of expenses

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

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

q) Corporate income tax

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

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

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

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

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

r) Earnings per share

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

s) Consolidated cash flow statements

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

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

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

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

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

4. Regulation of compensation

Revenue from regasification, storage and transport activities

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

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

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

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

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

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

  The resulting rate in 2004 was 5.64%, while for 2005 it was 5.79%.

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

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

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

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

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

b) Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the authorised cost for each year and is used to compensate Enagas, S.A.'s obligations as Technical Manager of the System, which include coordinating development, operating and maintaining the transport network, supervising the safety of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2005, the quota allocated to compensate GTS to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for access charges and royalties relating to third-party network access rights, was 0.53% for access charges and royalties and 0.25% for prices, while in 2004 these figures were 0.62% and 0.30% respectively. This quota will be recorded by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission has open for these purposes.

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

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

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

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

d) Revenue from gas purchases and sales

In accordance with the Law on hydrocarbons, as a transport company Enagas, S.A. purchases and sells gas to distribution companies and other transporters that in turn sell the gas on the regulated market in accordance with Royal Decree 949/2001 (3 August). With this sole end in mind, Enagas, S.A. buys gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A.

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

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

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

e) Revenue from Management of gas purchases and sales

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

– Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The coefficient fixed for both 2005 and 2004 was 0.005.

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

  • Regasification: 0.5% of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.

  • Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground gas storage facilities to be sold on the regulated market.

  • Transport: 0.43% of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the regulated market.

– Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the regulated market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. The rate for 2005 was 2.60% and in 2004 it was 2.98%.

f) Payment systems

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

g) Development of the Regulatory Framework

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

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

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

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

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

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

- To establish maximum inventory fluctuation allowed for transporters and distributors supplying gas to the system during the winter.
- To establish minimum security requirements for all regasification plants' LNG storage tanks during the winter.
- To establish the extraction reserves allowed in underground storage facilities of the various agents that operate in the market.

To allow the Technical Manager of the System to undertake, as a supplementary LNG storage service for the regulated market, the charter of methane tankers up to a maximum capacity of 160,000 m^3. This storage capacity could be available from 1 December 2005 until 15 March 2006.

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

5. Intangible assets

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

	Thousands of euros		
	01-01-05	**Increase**	**31-12-05**
Development costs	46	–	46
Concessions, patents, licences, brands and similar	33,025	68	33,093
Computer software programmes	12,685	3,080	15,765
Total	**45,756**	**3,148**	**48,904**

	Thousands of euros		
	01-01-04	Increase	31-12-04
Development costs	–	46	46
Concessions, patents, licences, brands and similar	32,878	147	33,025
Computer software programmes	9,222	3,463	12,685
Total	**42,100**	**3,656**	**45,756**

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

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

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

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

	Accumulated amortisation		
Thousands of euros	01-01-05	Increase	31-12-05
Development costs	44	(18)	26
Concessions, patents, licences, brands and similar	9,124	1,320	10,444
Computer software progremmes	6,080	2,754	8,834
Total	**15,248**	**4,056**	**19,304**

	Accumulated amortisation		
Thousands of euros	01-01-04	Increase	31-12-04
Development costs	–	44	44
Concessions, patents, licences, brands and similar	7,815	1,309	9,124
Computer software programmes	4,149	1,931	6,080
Total	**11,964**	**3,284**	**15,248**

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

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

6. Tangible assets

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

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

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

Thousands of euros	Tangible fixed assets				
	Balance at 01-01-05	Increase	Decrease	Transfers and others	Balance at 31-12-05
Land and buildings	79,311	1,508	–	76	80,895
Plant and machinery	3,667,078	216,200	(1,674)	248,966	4,130,570
Fixture, fittings, tools and equipment	12,158	752	–	–	12,910
Payments on account and assets in course of construction	450,103	136,481	–	(249,042)	337,542
Other fixed assets	21,806	578	(327)	–	22,057
Capital grants	(539,831)	(18,460)	–	–	(558,291)
Total	**3,690,625**	**337,059**	**(2,001)**	**–**	**4,025,683**

Thousands of euros	Tangible fixed assets				
	Balance at 01-01-04	Increase	Decrease	Transfers and others	Balance at 31-12-04
Land and buildings	74,797	4,514	–	–	79,311
Plant and machinery	3,184,135	204,227	(1)	278,717	3,667,078
Fixture, fittings, tools and equipment	11,375	783	–	–	12,158
Payments on account and assets in course of construction	479,959	248,861	–	(278,717)	450,103
Other fixed assets	21,893	889	(976)	_	21,806
Capital grants	(538,755)	(1,076)	–	–	(539,831)
Total	**3,233,404**	**458,198**	**(977)**	**–**	**3,690,625**

Thousands of euros	Accumulated depreciation			
	Balance at 01-01-05	Increase	Decrease	Balance at 31-12-05
Land and buildings	31,474	2,421	–	33,895
Plant and machinery	1,237,930	158,183	(125)	1,395,988
Fixture, fittings, tools and equipment	10,255	706	–	10,961
Other fixed assets	18,586	1,574	(324)	19,836
Capital grants	(160,116)	(24,529)	–	(184,645)
Total	**1,138,129**	**162,884**	**(449)**	**1,276,035**

	Accumulated derpreciation			
Thousands of euros	**Balance at 31-01-04**	**Increase**	**Decrease**	**Balance at 31-12-04**
Land and buildings	28,978	2,496	–	31,474
Plant and machinery	1,101,745	136,186	(1)	1,237,930
Fixtures, fittings, tools and equipment	9,521	734	–	10,225
Other fixed assets	17,935	1,606	(955)	18,586
Capital grants	(139,752)	(20,364)	–	(160,116)
Total	**1,018,427**	**120,658**	**(956)**	**1,138,129**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These grants were received from the following Bodies:

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

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

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

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

7. Holdings in business combinations

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

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

8. Financial assets

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

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

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

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

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

a) Loans and accounts receivable generated by the company:

Current and non-current loans

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

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

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

Details are as follows:

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

b) Financial assets available-for-sale:

Long-term investment securities

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

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

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

9. Trade debtors and other accounts receivable

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

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

10. Inventories

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

11. Net equity

11.1 Share capital

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

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

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

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

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

The Group has no treasury shares.

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

As a result, the company Gas Natural Sdg, S.A. must reduce its shareholding by 9.96% before 31 December 2006.

11.2 Reserves

Revaluation reserve

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

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

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

Legal reserve

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

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Except as mentioned above, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.
The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included in the "non-distributable reserves" caption of the accompanying Consolidated Balance Sheet.

Reserve for the revaluation of unrealised assets and liabilities

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

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

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

11.3 Interim dividend

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

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

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

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

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

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

12. Earnings per share

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

The result is shown below:

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

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

13 Deferred revenue

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

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

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

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

14. Provisions

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

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

The most significant items in this caption are:

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

Long term incentive plan. The pluri-annual remuneration plan proposed by the Appointments and Remuneration committee and approved by the Board of Directors in 2003 remained in force in 2005. This consists of a long term incentive plan linked to the achievement of certain objectives over a three-year period. Top management of the company, including executive directors, are possible beneficiaries of this remuneration system which concludes in June 2006.

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

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

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

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

15. Bank loans

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

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

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

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

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

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

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

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

- On 24 November 2004 a new Club Deal Syndicated Loan was signed, also for 1,000 thousand euros, which was paid on 10 January 2005, date on which the Syndicated Loan for 2003 was cancelled. This new loan falls due in April 2010.
- On 10 January 2005 the collar hedges taken out in August 2003 and expiring in 2008 came into force.
- On 21 February 2005 another 125 million euros of the 450 million euros granted by the EIB to Enagas, S.A. was drawn down.
- In March 2005 the Board of Directors of Enagas, S.A. approved the renewal of the credit policies. This renewal came into effect between May and July. Also, new credit policies were signed with Cajastur and Banca-ja for 6 million euros each.
- In August 2005 the cost of the guarantees for the financing of the EIB contracts of 1995 was renegotiated, with the average cost of these declining from 43 basis points to 25 basis points and with a term to 2011. Between the second and third quarters all the guarantee contracts expiring in this period were renewed.
- On 21 October the first 50 million euro drawdown of the 200 million euro 15-year loan was made and the drawdown period for the rest of the loan was extended.

16. Other financial liabilities

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

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

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

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

17. Risk management policy

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

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

- To comply with rules of good corporate governance.
- To strictly comply with all the regulatory system of Enagas.
- Each business and corporate area defines:
  a) The markets and products where it has sufficient knowledge and capacity to ensure effective risk management.
  b) Counterparty criteria.
  c) Authorised operators.
- For each market where they operate the various businesses and corporate areas establish the extent of the risk exposure they are prepared to accept in line with their strategy for that market.
- These limits are approved by the respective Risk Committees and when these are non-existent by the Enagas Risk Committee.
- All the operations of the various businesses and corporate areas are carried out within the approved limits for each case.
- The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with Enagas' policies, rules and procedures.

Interest rate risk

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

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

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

Liquidity risk

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

Credit risk

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

18. Derivatives

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

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

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

Cash flow hedges

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

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

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

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

19. Defined contribution plans

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

20. Tax situation

20.1 Tax return

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

20.2 Years open for tax inspection

The tax returns filed by Enagas, S.A. for the main taxes to which it is liable are open to inspection for all years that have not become statute-barred, with the exception of income tax for which the years 1999 to 2005 are open to inspection and the revision of VAT on imports for which the years 2003, 2004 and 2005 are pending inspection.

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

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

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

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

20.3 Taxes payable and receivable

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

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

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

20.4 Reconciliation of accounting and tax results

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

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

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

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

20.5 Taxes recognised in net equity

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

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

20.6 Deferred tax

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

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

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

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

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

Thousands of euros	Balance at 01.01.2005	Charge/credit in the income statement	Charge/credit in the asset and liablility valuation reserve	Balance at 31.12.2005
Deferred tax assets:				
- Adoption of IFRS	10,735	(5,040)	1,425	7,120
- Capital grants	1,687	(130)	-	1,557
- Loyalty fund provision	2,291	31	-	2,322
- LTI provision	767	573	-	1,340
- Fixed asset provisions	1,527	1,059	-	2,586
-Others	1,324	1,624	-	2.948
Total deferred tax assets	**18,331**	**(1,883)**	**1,425**	**17,873**
Deferred tax liabilities:				
- Adoption of IFRS	259	253	-	512
- Accelerated depreciation	1,898	(36)	-	1,862
-Others	516	(516)	-	0
Total deferred tax liabilities	**2,673**	**(299)**	**-**	**2,374**

Thousands of euros	Balance at 01.01.2004	Charge/credit in the income statement	Charge/credit in th asset and liability valuation reserve	Balance at 31.12.2004
Deferred tax assets:				
- Adoption of IFRS	1,965	(588)	9,358	10,735
- Capital grants	1,817	(130)	-	1,687
- Loyalty fund provision	435	1,856	-	2,291
- LTI provision	248	519	-	767
- Fixed asset provisions	1,682	(155)	-	1,527
-Others	2,179	(855)	-	1,324
Total deferred tax assets	**8,326**	**647**	**9,358**	**18,331**
Deferred tax liabilities:				
- Adoption of IFRS	210	49	-	259
- Accelerated depreciation	2,098	(200)	-	1,898
-Others	-	516	-	516
Total deferred tax liabilities	**2,308**	**365**	**-**	**2,673**

21. Revenue

Group revenue breaks down as follows:

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

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

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

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

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

22. Expenses

Group expenses break down as follows:

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

22.1 Personnel costs

Personnel costs are as follows:

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

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

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

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

At 31 December 2005, the Company had 907 employees.

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

22.2 Other operating costs

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

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

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

Other information

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

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

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

23. Net financial profit

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

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

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

24. Business and geographical segments

24.1 Segmentation criteria

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

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

24.2 Main business segments

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

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

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

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

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

b) Technical system management

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

c) Purchase-sale of gas on the regulated market

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

d) Non-regulated activities

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

24.3 Basis and methodology of business segment information

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

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

Information by segments of these activities is presented below.

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

25. Subsequent Events

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

26. Related party transactions

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

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

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

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

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

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

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

26.1.1 Subsidiaries of Enagas, S.A.

- Transactions with Gasoducto Al-Andalus

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

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

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

- Transactions with Gasoducto de Extremadura

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

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

- Transactions with Gasoducto Campo Maior–Leiria–Braga

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

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

- Transactions with Gasoducto Braga–Tuy

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

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

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

• Transactions with Gas Natural SDG and group companies

1. Enagas S.A. paid Gas Natural SDG, S.A. 16.7 million euros in dividends.
2. Enagas S.A. has entered into 11 contracts with Gas Natural Comercializadora S.A. 11 for third party network access (TPNA), of which two are short term and nine long term. Also in 2005, 26 TPNA contracts were signed of which only two remained in force at 31 December 2005. TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagas, S.A.
3. Between 1 January and 31 December 2005 the following services were provided: Regasification of 67,620 GWh, 34% of total TPNA, billing 47.55 million euros for these services; 136,764 GWh were transported, which represents 51% of total TPNA, billing 60.94 million euros for these services; and finally an average of 7,556 GWh were stored which represents 58.29% of total TPNA, billing 20.67 million euros for these services.
4. Enagas S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to satisfy regulated market demand. In 2005 Enagas S.A. acquired 59,341 GWh of natural gas, for 853,071 thousand euros. The acquisition price corresponds to the cost of the raw material which serves to fix the sale price to distributors. In this same period, Enagas S.A. transported 49,588 GWh of natural gas to Gas Natural Group distributors for 703,232 thousand euros. The terms and conditions and price of these operations are regulated by the authorities.
5. In June 2005, Enagas S.A. and Desarrollo del Cable S.A., a Gas Natural Group company, signed a fibre optic purchase-sale agreement by virtue of which Enagas S.A. recovers 215kms of fibre optic transferred to Desarrollo del Cable S.A. in October 2002, and at the same time, Enagas, S.A. transfers 635 kms of surplus fibre optic to Desarrollo del Cable S.A. under market terms and conditions. The transaction totalled 4,943 thousand euros and generated 3,393 thousand euros in capital gains.
6. Desarrollo del Cable S.A. leases Enagas part of the fibre optic cable necessary for its telecoms services, by virtue of a long term contract signed in 1999. The annual cost to Enagas of this service is 15,587 thousand euros.
7. In turn, Enagas provides maintenance services for Desarrollo del Cable S.A. under market terms and conditions and prices, by virtue of a contract signed in 2005. The amount involved for these services is 823 thousand euros.
8. Gas Natural Comercializadora supplied electricity to Enagas' installations for 7,807 thousand euros.
9. Enagas, S.A. paid Grupo Natural Group companies 3,664 thousand euros for inventory rental and the storage of LNG in tankers.

• Transactions with BP España, S.A.

1. Enagas S.A. paid BP España S.A. 3.9 million euros in dividends.
2. Enagas S.A. has entered into nine short term contracts with BP Gas España S.A. for third party network access (TPNA) all of which are currently in force. Also in 2005, 44 TPNA contracts were signed of which only six remained in force at 31 December 2005. TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagas, S.A.
3. Between 1 January and 31 December 2005 the following services were provided: Regasification of 19,795 GWh, 10% of total TPNA, billing 12.17 million euros for these services; 18,817 GWh were transported, which represents 7% of total TPNA, billing 5.20 million euros for these services; and finally 1,087 GWh were stored which represents 8.39% of total TPNA, billing 3,012 thousand euros for these services.

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

1. Enagas S.A. paid INCOMED 3.9 million euros in dividends.
2. Enagas S.A. renewed a credit line with la CAM for 6 million euros, and has signed a guarantee line for 12 million euros.
3. Enagas S.A. has an interest rate hedge (COLLAR) with la CAM for 15 million euros for the period from January 2005 to April 2008.

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

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

1. Enagas S.A. paid Bancaja 3.9 million euros in dividends.
2. In 2005 Enagas S.A. opened a credit line with Bancaja for 6 million euros, and signed a guarantee line for 6 million euros which expires annually.
3. Enagas S.A. has an interest rate hedge (COLLAR) with Bancaja for 15 million euros for the period from January 2005 to April 2008.

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

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

1. Enagas S.A. paid Cantábrica de Inversiones de Cartera S.L., 3.9 million euros in dividends.
2. Enagas S.A. signed a credit policy for 6 million euros with Cajastur in 2005.

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

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

- Transactions with Sagane Inversiones, S.L.

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

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

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

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

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

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

1. La Caixa has a 109 million euro stake in the Club Deal Syndicated Loan signed on 24 November 2004 and paid on 10 January 2005, and renewed a 100 million euro credit line with Enagas in 2005.
2. At 31 December 2005 La Caixa had given Enagas guarantees amounting to 31 million euros. In addition, Enagas has renting agreements with La Caixa group companies for 5 million euros of principal.
3. In January 2005 four FRA contracts for a total amount of 300,000 thousandeuros for the period from 7 January 2004 to 10 January 2005 concluded.

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

- Transactions with Repsol YPF and group companies

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

27. Directors' compensation

27.1 Salaries

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

27.2 Other compensation

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

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

28. Other information regarding the Board of Directors

In order to comply with the provisions of Article 127 of the Spanish Companies Act, these Notes to the accounts contain information relating to the shareholdings and positions held by Enagas Board Members with respect to other companies with a corporate purpose that is similar or supplementary to that of Enagas S.A. When preparing this information, companies having a corporate purpose that is similar or supplementary 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 Hydrocarbon Industry.

Shareholdings in companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGAS, S.A. by Directors at 31 December 2005 are as follows:

Director	Company	Shareholding
Sir. Robert Malpas	BP Plc	65,284 shares
Luis Javier Navarro Vigil	BP Plc	62,320 shares
CAM	Unión Fenosa	4.04%
	Poseidón Gas AIE	5.24%
	Nautilus Gas II AIE	5.24%
Rafael Villaseca Marco	Gas Natural, Sdg.	1,000 shares
	Endesa	859 shares
	Iberdrola	636 shares
BANCAJA	Iberdrola	1%
	Endesa	0.032%
	Gas Natural, Sdg.	0.024%

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

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

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

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

29. Guarantee commitments to third parties

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

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

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

30. Environmental Information

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

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

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

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

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

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

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

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

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

31. Other information

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

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

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

- Changes in the accounting policies, measurement criteria and presentation methods used to prepare the financial statements.
- Inclusion of two new financial statements – the consolidated statement of changes in equity and the consolidated cash flow statement, and
- A significant increase in the information provided in the notes to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

- Closing balances: balances of the Group's consolidated financial statements prepared under Spanish GAAP.
- Reclassifications: changes attributable to the new method of preparing the financial statements.
- Adjustments: changes attributable to the changed measurement methods and accounting criteria required under the new regulations.
- Opening balances: balances resulting from the adjustment and reclassification of the closing balances.
- Note: Reference to the note in which the nature of the most significant adjustments and reclassifications are explained.

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

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

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

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

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

32.3 Income statement for financial year 2004

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

The main differences between Spanish GAAP and IFRS applicable to the 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 are valued at the acquisition or production cost of the goods and services giving rise to the expense and are depreciated on a straight-line basis over a period of not more than five years.

- Under IFRS, expenses arising as a result of the acquisition or internal generation of property, plant or equipment shall be charged against income for the year in which the expense was incurred. As an exception to the rule, capital increase expenses normally included under formation expenses under Spanish GAAP shall be recognised under IFRS net of any tax credits, thereby reducing the amount raised in the capital increase (issue premium or share capital). If the capital increase is not concluded, the expense relating to the said capital increase shall be charged against income for the period in which the expense was incurred.
- Formation and capital increase expenses not amortised at 31 December 2004 (5 thousand euros) have been redistributed, with 4 thousand euros being allocated to "First-application reserves" and 1 thousand euros allocated to "Deferred tax assets".

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

b) Intangible assets

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 provide adequate justification for their capitalisation. Research and development costs recognised as assets are amortized as soon as possible and at most within five years of the date on which the capitalised research and development project was concluded.

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

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

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

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

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

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

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

b.2) Other intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

c.1) Impairment test

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

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

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

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

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

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

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

- The Enagas Group has elected to recognise its property, plant and equipment at historical cost and to date no "impairment" assessment has been carried out in respect of its assets. The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. The Group has not deemed it necessary to carry out an impairment test as both the latter activities and its core business (ownership and management of gas transportation, regasification and storage infrastructures) are remunerated on the basis of prevailing legislation and there is therefore no doubt that the amount recognised under property, plant and equipment is recoverable.
- On this basis, in view of the nature of its business and the aforementioned activities and the information that the Board of Directors draws on in managing the Company, the Group has decided that the cash-generating units taken into account when valuing and classifying its property, plant and equipment, fall into the following three categories: Transportation (including gas transportation, storage and regasification), technical system management and gas sales to regulated clients.

c. 2) Capital grants

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

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

c. 3) Investment property

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

c. 4) Provision for the dismantling of Serrablo

- As required under IFRS, the Company has increased the value of property, plant and equipment corresponding to the Serrablo storage facility by the amount of the estimated cost of dismantling the facility when the concession expires.
- At 31 December 2003, the effect of this adjustment was to increase the value of the underground storage facility by 1,939 thousand euros. The adjustment was effected by deducting from the “First-application reserves” and “Deferred tax assets” captions the sums of 259 thousand euros and 140 thousand euros respectively and assigning to the provision for dismantling and accumulated depreciation of underground facilities captions the sums of 1,820 thousand euros and 517 thousand euros respectively.
- In 2004, under IFRS, the Company recognised 136 thousand euros under financial expenses corresponding to the financial adjustment of the reserve and 64 thousand euros under depreciation corresponding to the increase in the value of property, plant and equipment, plus 69 thousand under the “Deferred tax assets” caption.

d) Financial assets - Provisions for liabilities and charges

- In line with its remuneration policy, the Company has established a provision to cover all obligations accrued under its Staff Loyalty Rewards Scheme. The Company invests in a non-money market investment fund (FIM) to cover these obligations. Under Spanish legislation, the corresponding financial assets (the FIM) should be recognised at cost or market value, whichever is the lowest, and any possible gains in the value of the assets should only be recognised in income once they have actually occurred. Since any gains are only realised when an employee belonging to the Staff Loyalty Scheme retires or leaves the Company, the Group recognises neither the income corresponding to the increase in value nor the expense incurred in hedging the item.
- Under IFRS, the FIM is included under available-for-sale financial assets and is recognised at fair value, in accordance with the value at which it is trading on the market at the close of each accounting year. Since the FIM was created to establish provisions for the Staff Loyalty Scheme, any change in the value of the fund entails a change, in the same amount, in the associated provision.
- The valuation of the fund at 31 December 2003 represents a 449 thousand euros increase on the value of the fund recorded under Spanish GAAP. This increase in the fund’s value implies an increase, in the same amount, in the value of the associated provision, and, accordingly, has no impact on equity.
- The valuation of the fund at 31 December 2004 represents a 534 thousand euros increase on the value of the fund recorded under Spanish GAAP. As in the case of the increase recognised at 31 December 2003, the valuation implies increases in the value of both the financial asset itself and the associated provision and, accordingly, has no impact on equity. On the income statement for financial year 2004, the change in the value of the fund since 31 December 200 (85 thousand euros) is recognised as an increase in financial revenue and increase in personnel expense (in the same amounts) and credited to the corresponding provision.

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

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

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

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

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

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

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

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

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

F) Derivative financial instruments

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

– Under IAS 32, entities are required to describe their financial risk management objectives and policies, Including their hedging policies for the different types of transactions in which they expect to use hedges, and also to provide information about the extent to which derivative financial instruments will be used, the risks associated with the instruments, and the reason for which they are being used.

- Under IFRS, all derivatives, whether or not they are classified as hedge instruments, must be recognised at fair value, which, for unquoted instruments, is equivalent to market value.
- If a cash flow hedge meets the prerequisites established for recognition as such pursuant to IAS 39, it will be recognised as follows:
  - The portion of the gain or loss on the hedge instrument that has been classified as the effective hedge shall be recognised directly in equity; and
  - The ineffective part of the gain or loss on the hedge instrument shall be recognised in income for the year.
- At 31 December 2003, the Enagas Group made a best-estimate analysis and valuation of its hedge instruments in accordance with its financial risk management policy and IFRS criteria. This valuation, which confirms the existence of an interest-rate cash flow hedge, revealed a financial liability in the amount of 2,507 thousand euros, which was recognised as such under the relevant caption. Corresponding adjustments in the amount of 1,630 thousand euros and 877 thousand euros were made to the "Hedging reserve" and "Deferred tax assets" captions respectively.
- Additionally, the derivatives valuation applied at 31 December 2004 reveals a financial liability of 27,202 thousand euros which was not recorded under Spanish GAAP. The offsetting entry for this liability can be found under "Hedging Reserve" (17,682 thousand euros) and "Deferred tax assets" (9,520 thousand euros).

g) *Capital grants*

- Under Spanish GAAP, non-refundable capital grants must be recorded on the liabilities side of the balance sheet as deferred income and, in the case of depreciable assets, recognised in income in proportion to the depreciation applied to the assets financed by the grant or, in the case of non-depreciable assets, recognised in income in the year in which the assets are sold or withdrawn from inventories.
- Under IFRS, grants used to fund assets (i.e. capital grants) may be recognised on the consolidated balance sheet either as deferred income or as a reduction in the value of the related assets. The Enagas Group has elected to deduct capital grants from the value of the related asset, as indicated in section c.2 above. The impact of this election on the financial statements for the years ended 31 December 2003 and 31 December 2004, and its impact in the course of 2004, are also discussed in the aforementioned section.

h) *Extraordinary items*

- Under Spanish GAAP, extraordinary items are defined as all revenues and expenses that are distinct from the entity's ordinary activities and are not recurrent.
- IAS 1 stipulates that no items may be presented on the face of the income statement or in the notes as "extraordinary items", since it is the nature of the revenue or expense rather than its frequency that should de-

termine its presentation. All revenues and expenses must therefore be presented as ordinary items. However, IAS 1 also stipulates that the nature and amount of all significant revenues and expenses of a non-recurrent nature must be disclosed in the notes to the financial statements.

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

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

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

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

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

i) Corporate income tax

- Under Spanish GAAP, corporate income tax is calculated on the basis of book income before tax, plus or minus, as appropriate, any permanent differences. Temporary differences reflect the different time schedules applicable to taxation and the recognition of income and expenditure.
- Under IFRS, corporate income tax is accounted for using the balance sheet liability method. Accordingly, prepaid and deferred income tax is recognised on the basis of the difference between the carrying amount of assets and liabilities and the corresponding tax bases.
- The Enagas Group has taken this into account for all accounting items. The resultant impacts for each item are detailed in the notes included in this reconciliation report.

j) Presentation of the financial statements

- IFRS-1 stipulates that all assets, liabilities and components of equity recognised previously under Spanish GAAP, must be reclassified and assigned to the corresponding asset, liability or equity component caption under IFRS.
- The Enagas Group has therefore made various reclassifications, effective as of 31 December 2004. The main reclassification effected, and not considered in other sections of this report, was the reduction in the income and expenditure accounts corresponding to port taxes paid and received by the Group (a total amount of 8,751 thousand euros) necessitated by the new regulations governing ports and port concessions.

k) Operating income and supplies

- Under Spanish GAAP, sales revenues are measured as the remuneration received from clients or consumers of goods supplied, exclusive of amounts collected on behalf of third parties. Income from the sale of goods must be recognised when a series of conditions or prerequisites demonstrating that a transaction has been concluded are satisfied — i.e. when the seller of the goods has transferred to the buyer all significant risks and rewards of ownership, all significant actions have been concluded and the seller has no effective control over the goods transferred that would normally be construed as ownership, and there is no material uncertainty in respect of the consideration to be received from the sale of the goods, the associated costs incurred or to be incurred in producing or purchasing the goods, and the manner in which the goods may be returned.
- Under IFRS, revenue from the sale of goods should be recognised in the financial statements when all the following conditions have been satisfied:
  - The entity (seller) has transferred to the buyer the significant risks and rewards of ownership of the goods.
  - The entity (seller) retains neither continuing management involvement to the degree normally associated with ownership nor effective control over the goods sold.
  - The amount of revenue can be measured reliably.
  - It is probable that any economic benefits associated with the transaction will flow to the entity.
  - The costs incurred or to be incurred in respect of the transaction can be measured reliably.
- Revenue should be measured at the fair value of the consideration received or receivable.
- Revenues include only the gross inflows of economic benefits received or receivable by the entity on its own account. Amounts collected on behalf of third parties, such as sales taxes, goods and services taxes, and value added taxes are not economic benefits that flow to the entity and do not result in increases in equity. Similarly, in an agency relationship, the gross inflows of economic benefits received by the agent include amounts collected on behalf of the principal, which do not result in increases in equity for the entity. The amounts collected on behalf of the principal do not constitute revenue. Instead, revenue is the amount of the commission.
- The Enagas consolidated balance sheet for the year ended 31 December 2004 prepared under Spanish GAAP included sales revenues and cost of sales associated with the supply of gas to regulated customers of 724,469 thousand euros and 720,551 thousand euros respectively.
- Under IFRS, as described in the preceding section, Enagas acts as manager in the sale of gas to regulated clients and receives remuneration from this activity in theory sufficient to cover the costs incurred. The revenue and costs deriving from the sale of gas to regulated customers are therefore eliminated from the consolidated income statement and only the amount of 8,653 thousand euros corresponding to the cost of sales associated with gas shrinkage suffered in the process has been recognised. Additionally, revenue

corresponding to regulated remuneration for the management of gas sales activities has been reclassified, resulting in a 12,571 thousand euros increase in the value of the "Revenue from regulated activities" caption.

l) Trade and other receivables

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

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

33. Joint ventures

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

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

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

34. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

MANAGEMENT REPORT OF THE ENAGAS GROUP

Performance of the Group in 2005

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

Net revenue totalled 646,211 thousandeuros.

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

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

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

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

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

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

- A fifth tank with LNG storage capacity of 150,000m^3 was brought into service at the Group's Barcelona Plant, and a third tank with LNG storage capacity of 127,000m^3 was opened at the Cartagena Plant. Emission capacity at the Barcelona, Cartagena and Huelva plants was also increased, to 1,500,000m^3 (n)/h, 900,000 m3 (n)/h and 1,050,000m^3 (n)/h respectively.
- Total combined nominal re-gasification capacity at the three Plants was increased to 750,000 m^3 (n)/h.
- At the end of 2005 the Enagas, S.A. Group was operating 7,360Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,158.1Km operational in December 2004, thus helping secure continuity of supply and the development of areas that previously had no access to natural gas supplies.

- The main transportation assets brought into service in 2005 were the aforementioned new tanks in Barcelona and Cartagena, section II of the Málaga-Estepona gas pipeline, the Castelnou-Fraga-Tamarite de Litera and Arbós-Tivisa pipelines, stage II of the Cartagena-Lorca pipeline and the Totana-Murcia branch pipeline. The Group also extended the Cordoba (stage II), Almendralejo, Seville, Bañeras (stage II) and Tivissa compressor stations.
- 19 new regulating and measuring stations were brought into service in the course of the year, taking the total number in operation at the year-end to 310.

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

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

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

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

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

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

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

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

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

The following system entry points:

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

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

Subsequent events

On 12 January 2006 an interim dividend was paid against 2005 results. The dividend totalled 0.12 euros per share and was approved by the Board of Directors of Enagas, S.A. at a meting held on 22 December 2005.

Research and development initiatives

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

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

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