



2002 SECOND QUARTER

PREVIEW OF INCOME STATEMENT

ENAG.MC / ENG <EQ>

2Q*	2Q	2002 RESULTS	1HY*	1HY
2001	2002	(Million euro)	2001	2002

Unaudited figures

16,3	25,4	Net Income before extraordinary and non-recurring items	30,6	58,4
16,4	17,6	Net Income	32,5	53,4
36,4	44,5	Operating Profit	69,8	107,8
63,6	76,7	Operating Cash Flow	124,2	169,4

Euro per share

1,36	0,11	Net Income before extraordinary and non-recurring items	2,56	0,24
1,37	0,07	Net Income	2,72	0,22
5,33	0,32	Operating Cash Flow	10,40	0,71

11,9	238,7	Number of shares at the end of the period (million)**	11,9	238,7
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*Revenues between both periods are not comparable as a result of a change in the regulatory framework as of 2/19/2002.

**On 5/3/2002, a split was carried out of 20 new shares per pre-existing share.

HIGHLIGHTS FROM THE 2002 SECOND QUARTER

- **The Company obtained a net income**, before extraordinary and non recurring items, of 25.4 million euros in the second quarter of 2002, in comparison to the 16.3 million euros obtained for the equivalent period in 2001. Reported Net Income comes to 17.6 million euros
- **On February 19, 2002, new remuneration framework was implemented.** As a result, the data corresponding to the figures on revenues and profits are not comparable with those of previous years.
- During the second quarter, **investments** amounting to 133.7 million euros were put into operation, allocations were approved for 69.5 million euros, and investments worth 32.2 million euros were made. Subsequently, in the month of July, additional allocations amounting to 90.1 million euros were approved.
- On June 26, 2002, Enagás completed its **public offering**, following the Royal Decree-Law 6/2000. The final demand for shares was ten times greater than the volume of the initial total offer.



NEW REGULATORY FRAMEWORK

Under the new remuneration structure, the general principles governing the determination of remuneration payable for regulated activities are:

- a) Ensure that any investment made by owners are recovered during the useful life of such facility;
- b) Allow for a reasonable return on capital invested; and
- c) Determine a system for remuneration of operating costs that provides incentives for efficient management and enhanced productivity, the benefits of which must be passed on, in part, to other users and customers.

The method for determining the remuneration for regulated activities will be set for periods of four years and will be reviewed by the Ministry of Economy during the last year of each four-year period. The first regulatory four-year period will start no later than January 1, 2005.

The precise method of calculating the remuneration payable to Enagás for regulated activities is set out principally in Ministerial Order ECO/301, 302 and 303 2002 , of February 15.

This remuneration comprises three different elements:

- remuneration for regasification, transport and storage activities, the calculation of which can be summarized as follows:

Financial Return: $\text{Gross Revalued Assets} \times \text{Return Rate (10-year Government Bond} + 150 \text{ basic points)} + \text{Depreciation} + \text{Operating Expenses}$

The remuneration for these activities is calculated individually for each facility, and the following expenses are taken into consideration for the calculation:

- Investment Cost: These costs depend on the characteristics of each facility, the date on which operation begins, the investments made, the period of useful life, contributions from public funds and the established rate of return.
- Operating and Maintaining Costs: These are considered to be the recognized operation and maintenance costs for each facility.
- remuneration for handling the purchase and sale of natural gas intended for supply, a continuous and sure supply to the tariff-based market.
- remuneration for acting as System Technical Manager.

As regards the remuneration for regasification, transport and storage activities, it is important to distinguish between those facilities that were operational as at December 31, 2001, and those operational after this date.

- Existing facilities that were operational as at December 31, 2001. The remuneration payable is calculated as, the book value of the investment made (after deduction of any public grant received) and the real value of the operating costs are used. Both values are updated, using an efficiency factor.
- New Facilities: New facilities are categorized based on the way in which they were authorized:



- Facilities authorized through public tenders: Remuneration is calculated following the conditions of the awarded contract.
- Facilities authorized directly: The remuneration payable is the sum of the annual investments costs plus annual operating costs of the specific facility.

These costs are adjusted annually using a **updating factor**.

This updating factor is obtained using an inflation index calculated as an average of the forecast retail and industrial price indices multiplied by an efficiency factor that is set annually for each specific case.

The Offering Prospectus registered with the National Stock Market Commission (CNMV) for the IPO of Enagás on June 10, 2002, contains more detailed information about remuneration system, as well as estimated remuneration figures for year 2002.

THE COMPANY'S VALUE-CREATION POLICY

In the process of the public offering, the basic points of the Company's policy on value creation were mainly presented through:

- An intensive investment program:

Enagás projects an increase in the volume of the investment plan until it reaches a total of 2.6 billion euros for the 2002-2006 period. Approximately 80% of these investments will be made in transportation and regasification activities.

- Maximun enhancement of capacity to improve efficiency:

- The enhancement in operating efficiency has consolidated itself as one of Enagás's main priorities in recent years, resulting in significant improvements in the operating efficiency.

- Enagás will continue with this effort, as there is still margin for improvement of operating efficiency with its activities.

- Improvement of the capital structure:

- The current capital structure will allow Enagás to finance its expansion plan through the generation of free cash flow and new debt. This will lead to the establishment of a better leverage ratio in the middle term, reduced cost of capital and the capacity to maintain broad financial flexibility due to the inherently low-risk profile of its activities.

- Finally, an attractive dividend policy aims to situate pay-outs at around 50%.

CONSOLIDATION PERIMETER

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

Gasoducto Al Andalus S.A. (Spain)	66.96%
Gasoducto Extremadura S.A. (Spain)	51.00%
Gasoduto Campo Maior - Leiria- Braga S.A. (Portugal)	12.00%
Gasoduto Braga - Tui S.A. (Portugal)	49.00 %



The activity of these companies is the transportation of gas.

The consolidation was carried out as follows:

- By the proportional integration method for the aforementioned companies.
- The credits, debits, revenues and expenses and results for operations with other group companies were eliminated in the consolidation process in proportional relation to the holdings of Enagás S.A. in each one.
- The criteria of the partially-owned companies were made consistent and adjusted in order to present the consolidated financial statements according to homogeneous valuation standards.
- All of the companies included in the consolidation parameter record their accounts in euros, and there was therefore no need to convert any financial statements made in foreign currencies.

1. **RESULTS**

2T* 2001	2T 2002	Net Income before extraordinary and non-Recurring Items (Million euro)	1S* 2001	1S 2002
16,4	17,6	Net Income	32,5	53,4
-0,1	5,1	Net Extraordinary Items	-1,9	5,0
0,0	2,7	Net Non-Recurring Items	0,0	0,0
16,3	25,4	Net Income before Extraord. & Non-Rec. Items	30,6	58,4

*Revenues between both periods are not comparable as a result of a change in the regulatory framework as of 2/19/2002.

1.1 **Quarterly Result**

In the second quarter of 2002, Enagás obtained a **Net Income** of 17.6 million euros.

In the second quarter of 2002, have been included extraordinary expenses amounting to 7.8 million euros, corresponding to the recent IPO and personnel costs, were recorded as **Extraordinary Items**. The after-tax effect comes to 5.1 million euros.

Operating Profit (EBIT) came to 44.5 million euros in the second quarter of 2002.

Operating Cash Flow (EBITDA) came to 76.7 million euros.

8.4 million euros corresponding to corporate assistance services on the part of Gas Natural in the first quarter of the year were recorded under the heading **Other Operating Expenses**. The after-tax effect of deducting the expenses of the first quarter from the results comes to 2.7 million euros. This expense will disappear as of the second quarter of 2002.

Earnings per share in the second quarter of 2002 were 0.07 euros. Operating Cash Flow per share in the same period came to 0.32 euros.

These quarterly results are the first to incorporate the effects of the new regulatory frameworks for a full quarter.



1.2 Half-Year Results.

In the first half of 2002, Enagás obtained a **Net Income** of 53.4 million euros.

During the six-month period, negative **Extraordinary Items** amounting to 7.7 million euros were recorded, including an extraordinary profit of 0.1 million euros in the first-quarter. The net total for the half-yearly income account comes to 5.0 million euros.

Operating Profit (EBIT) amounted to 107.8 million euros.

Operating Cash Flow (EBITDA) came to 169.4 million euros.

On May 3, 2002, all existing shares were **split** into 20 new shares, resulting in an increase from 11.9 to a total of 238.7 million shares.

Earnings per share in the first half of 2002 came to 0.22 euros. Operating Cash Flow per share amounted to 0.71 euros in 2002.

1.3 Operating Highlights

The demand for gas transported by Enagás in the second quarter and first half of 2002 was as follows:

2Q 2001	2Q 2002	GAS DEMAND TRANSPORTED	1HY 2001	1HY 2002
		(Gwh)		
27.009	23.209	Regulated Market	67.035	58.815
20.558	34.194	Liberalized Market	37.257	62.494
47.567	57.403	Total Gas Demand Transported	104.292	121.309

2. INVESTMENTS

2.1 Investments Put into Operation.

In the second quarter of the year, assets amounting to 133.7 million euros were put into operation. The following highlights should be noted:

- Second tank in the Cartagena plant, with a storage capacity of 105,000 m³ of Liquid Natural Gas (LNG).
- Increase of 150,000 m³/h in the Cartagena production capacity for a total of 450,000 m³/h.

2.2 Allocations.

Allocations amounting to 69.5 million euros were approved during the quarter.

2.3 Investments Made.

The investments made in the second quarter amounted to 32.2 million euros, resulting in a total of 70.6 million euros for the half-year period.

The breakdown of the investments is as follows:



INVESTMENTS

2T 2001	2T 2002	TYPE OF INVESTMENT (million euro)	1S 2001	1S 2002
49,3	31,0	Tangible Investments	80,3	66,2
0,8	1,0	Intangible Investments	1,2	3,8
0,8	0,2	Financial Investments	0,8	0,6
50,9	32,2	TOTAL INVESTMENTS	82,3	70,6

The main projects, all currently underway, are as follows:

Transportation Networks:

- Extension of the Puente Genil-Málaga pipeline.
- Extension of the Cartagena-Lorca pipeline, phase II.
- Tarancón-Fuentes-Cuenca pipeline.

Regasification Plants:

- Huelva Plant: Increase of vaporization capacity to 900,000 m³/h and construction of a new tank with a 150,000 m³ capacity for LNG.
- Cartagena Plant: Increase of the vaporization capacity to 600,000 m³/h and construction of a new tank with a capacity of 130,000 m³ for LNG.

Underground storage facilities:

Increase of 2 million m³/day in the production capacity of the Serrablo storage facilities.

3. FINANCIAL STRUCTURE

In keeping with the company policy, the net debt ratio (net debt / total assets) as of June 30, 2002, was 42,4% as compared to the 38.6% registered at the end of 2001 and the 37.9% registered at the end of the 2002 first quarter.

Net Debt of the Company at the end of second quarter amounted to 1.143 million euros, as compared to 1,062.2 million euros at the end of 2001 and 989.1 million euros at the close of the first quarter of 2002.

The evolution of net debt over the quarter was the result of the following factors:

- Cash flow generated in the quarter came to 40.1 million euros.
- Investments were made amounting to 32.2 million euros.
- Payment of the final for the 2001 fiscal year, amounting to 16 million euros.
- The difference corresponds to the variation in the working capital.

Financial Results, not including the capitalization of financial expenses (1.8 million euros) posted a negative figure of 18.1 million euros.

On June 20th last, the restructuring of the Company's debt was completed, and the inter-company loan granted by Gas Natural SDG was substituted with a loan contract with various financial institutions.

The average cost of debt dropped from 5.19% in the first quarter of 2001 to 3.84% in the first quarter of 2002.



4. **HIGHLIGHTS**

4.1. **Enagás Public Offering.**

The public offering of Enagás was completed on June 26, 2002, with an initial price of 6.5 euros per share. The demand for shares was more than 10 times greater than the volume of the total initial offering.

The underwriting contracts for the domestic and international offering were assigned to the following tranches:

Retail tranche.....	37.5%
Domestic Tranche.....	30.2%
International Institutional Tranche.....	32.3%

This final division of the tranches includes the entrance of institutional and industrial investors, who hold a total of 11% of the Enagás capital.

4.2 **New Board of Directors and Composition**

After the Public Offering, the Board of Directors proceeded to appoint the following members:

- Mr. Luis Javier Navarro Vigil, proposed by BP Energía.
- BANCAJA, Caja de Ahorros de Valencia, Castellón y Alicante.
- Atalaya Inversiones, SRL .

With these appointments, the Board is made up of 12 members: six dominant shareholders and six independents.

In addition, the Board approved the appointments of the members of the "**Audit and Compliance Committee**" and of the "**Appointments and Salaries Committee**", as well as the new "**Organizational and Operational Regulations for the Board of Directors**" and the "**Internal Code of Conduct**".

4.3 **Cancellation of the Inter-Company Loan from Gas Natural SDG.**

On June 20, Enagás, S.A., entered into a loan contract with various financial institutions and proceeded to cancel the inter-company loan with Gas Natural SDG.

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INCOME STATEMENT

(Million euro)

(Unaudited Figures)

2Q* 2001	2Q 2002		1HY* 2001	1HY 2002
436,8	303,2	Sales	1.156,8	788,2
43,7	110,6	Provision of Services	76,4	193,9
11,3	12,1	Other Operating Revenues	24,3	25,0
491,8	425,9	Total Revenues	1.257,5	1.007,1
-381,2	-299,8	Supplies	-1.043,5	-745,0
-11,5	-12,0	Personnel Expenses	-23,1	-24,3
-35,5	-37,4	Other Operating Expenses	-66,7	-68,4
63,6	76,7	Operating Cash Flow (EBITDA)	124,2	169,4
-27,2	-32,2	Provision for Depreciation of Fixed Assets	-54,4	-61,6
36,4	44,5	Operating Profit (EBIT)	69,8	107,8
-11,5	-9,6	Financial Results	-24,2	-18,1
24,9	34,9	Results of Ordinary Activities	45,6	89,7
0,2	-7,8	Extraordinary Items	2,9	-7,7
25,1	27,1	Consolidated Results Before Taxes	48,5	82,0
8,7	9,5	Corporate Income Tax	16,0	28,6
16,4	17,6	Net Income	32,5	53,4

*Revenues between both periods are not comparable as a result of a change in the regulatory framework as of 2/19/2002.



BALANCE SHEET FOR ENAGAS

(Million euro)
(Unaudited Figures)

	JUNE*	JUNE
	2001	2002
Intangible Fixed Assets.....	5,3	8,4
Tangible Fixed Assets.....	2.212,6	2.265,3
Permanent Financial Assets.....	50,0	43,7
Fixed Assets	2.267,9	2.317,4
Deferred Expenses	20,5	19,4
Stocks.....	151,2	8,3
Accounts Receivable.....	170,0	285,1
Short-term Financial Investments.....	10,2	56,8
Cash.....	3,4	4,5
Accrual Accounts.....	1,2	1,6
Liquid Assets	336,0	356,3
TOTAL ASSETS	2.624,4	2.693,1
Equity.....	358,7	358,1
Reserves.....	392,1	405,6
Consolidated Profits and Losses.....	32,5	53,4
(Surplus - Interim Div. Assets).....	23,0	0,0
Shareholders' Equity.	806,3	817,1
Deferred Income	492,3	491,0
Provisions Contingencies & Expenses	61,6	2,1
Long-term Debts with Financial Institutions.....	86,3	74,3
Long-term Debts w/ Group Companies & Assoc.	873,6	39,5
Other Accounts Payable.....	2,8	2,4
Long-term Liabilities	962,7	116,2
Current financial debt.....	15,3	1.033,7
Short-term Debts w/ Group Companies.....	171,6	118,8
Trade Accounts Payable.....	75,8	64,3
Other non-trade current liabilities.....	38,8	49,9
Short-term Liabilities	301,5	1.266,7
TOTAL LIABILITIES	2.624,4	2.693,1

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Million Euro)
(Unaudited Figures)

2T* 2001	2T 2002	ALLOCATIONS**	1S* 2001	1S 2002
50,9	32,2	Acquisition of Fixed Assets	82,3	70,6
0,0	16,0	Dividends	102,2	16,0
-1,0	814,6	Long-term Debts	178,1	869,3
49,9	862,8	Total Allocations	362,6	955,9
		Surplus Sources Over Allocations (increase in working capital)		
		SOURCES OF FUNDS**		
36,8	40,1	Sources from Operations	74,2	100,2
27,7	27,0	Capital Subventions	27,7	27,0
0,0	0,0	Other Reserves	0,0	0,0
34,9	1,2	Disposal of Fixed Assets	39,1	2,9
99,5	68,4	Total Sources	141,1	130,2
-49,5	794,4	Excess Allocations Over Sources (decrease in working capital)	221,6	825,7

*Revenues between both periods are not comparable as a result of a change in the regulatory framework as of 2/19/2002.

** To calculate the sources and allocation of funds, the pro-forma balances from FY2000 contained in the Informatyional Prospective, registered at the CNMV on June 10, 2002, were used.



MAIN OPERATING HIGHLIGHTS

Relative to gas demand transported

GAS DEMAND TRANSPORTED	1HY 2001	1HY 2002
(Gwh)		
Regulated Market	67.035	58.815
Liberalized Market	37.257	62.494
Total Transported Demand	104.292	121.309

Relative to Assets

REGASIFICATION ASSETS	Units	m3 or m3/h
LNG Tanks (number and capacity)	8	560.000 m3
Nominal Regasification Capacity		2.100.000 m3/h
Cistern Loading Bays	9	
Transportation Assets	Units	Km
Km of pipelines in operation		6.124
Compression Stations	9	
Regulating and Measuring Stations (RMS) and Measuring Stations (MS)	225	
Underground Storage Assets	Units	Gw/h
No. Of Storage Facilities	2	
Capacity		25.125

