

SECOND QUARTER OF 2004

PRELIMINARY RESULTS

ENAG.MC / ENG SM<EQ>

2Q 2003	2Q 2004	2004 RESULTS (Million euros)	1H 2003	1H 2004
<u>Unaudited figures</u>				
38.2	40.9	Net Income	74.1	80.3
66.6	71.1	Operating Profit	130.4	138.8
99.8	106.8	Operating Cash-Flow	196.5	209.3
<u>Euros per share</u>				
0.16	0.17	Net Income	0.31	0.34
0.42	0.45	Operating Cash-Flow	0.82	0.88
238.7	238.7	Number of shares at the end of the period (million)	238.7	238.7

HIGHLIGHTS OF THE SECOND QUARTER OF 2004

- ✓ The Company earned a **Net Income** of 40.9 million euros in the second quarter of 2004, a **7% increase** over the figure obtained in the same period in 2003.
- ✓ **Investments** in the second quarter reached a record figure of **120.1 million euros**, 40.5% higher than those in the same period of the 2003 financial year. Since the beginning of the year, investments made amounted to 203.3 million euros.
- ✓ The accumulated assets **put into operation as of June 2004** totalled **128.1 million euros**, more than double the figure achieved in the first half of the previous year.
- ✓ During the second quarter, **total demand for gas transported** in the System was **71,866 GWh**, **18.5% higher** than second quarter of the previous financial year's figures. Demand destined for the **liberalised market currently accounts for 80.2%** of total demand transported.
- ✓ The Company's **net financial debt** as of 30 June was **1,322.2 million euros**, a **ratio of 42.6% over total assets**. During the second quarter of the year, the Company subscribed a long-term loan with EIB in the amount of 450 million euros in order to finance new gas infrastructures. **With this loan, the Company's financial needs until the year 2006 have been covered.**
- ✓ The **average cost of the Company's debt** as of 30 June was **2.67%**, compared with 3.07% at the end of the second quarter of 2003.
- ✓ **The rating agency Moody's** upgraded Enagas' **A2 long-term rating outlook** from **stable** to **positive**. Current ratings confirm Enagas' position as the most secure and financially sound company in the Spanish energy sector.

In accordance with article 37 of the Financial System Reform Measures Law, chapter 5 of this report shows details of the main contractual and financial relationships between Enagas and the physical persons or legal entities linked to it.



Investor Relations Direction

1. RESULTS

1.1 Quarterly results

Net Income for the quarter rose to **40.9 million euros, up 7%** from the 38.2 million Euros obtained during the second quarter of the previous year.

Operating Profit (EBIT) for the quarter came to **71.1 million euros, 6.8% higher** than the 66.6 million Euros obtained during the same period last year.

Operating Cash Flow (EBITDA) reached **106.8 million Euros, up 7%** from the 99.8 million Euros obtained in the same period in 2003.

Net income per share in the second quarter of 2004 came to 0.17 Euros. **Operating Cash Flow** in the same period rose to 0.45 euros.

1.2 Accumulated Results

As of 30 June 2004, Enagas earned a **Net Profit** of **80.3 million Euros, up 8.4%** from the 74.1 million Euros registered in the same period of 2003.

Extraordinary and non-recurring income for the first six months of 2004 was **0.7 million Euros**, corresponding primarily to the reversion of provisions made in 2003. This reversion was due to the Supreme Court's rejection of an annulment appeal made by a transporter against the Company in 2003.

Operating Profit (EBIT) came to **138.8 million Euros, 6.4% higher** than the 130.4 million Euros accumulated as of June 2003.

In the Personnel Expenses caption for the first six months of the year, 1 million Euros were included as part of an early retirement programme.

Operating Cash Flow (EBITDA) rose from **196.5 million Euros** in the first six months of 2003 to 209.3 million Euros in the same period in 2004, registering a **growth of 6.5%**.

Net Accumulated Profit per share as of June 2004 came to **0.34 euros**. **Operating Cash Flow per share** in the same period rose to **0.88 euros**.

1.3 Operating Highlights

2Q 2003	2Q 2004	GAS DEMAND TRANSPORTED	1H 2003	1H 2004
		(GWh)		
12,448	6,394	Regulated Market	45,387	31,472
48,185	65,472	Liberalised Market	90,233	127,549
60,633	71,866	Total Gas Demand Transported	135,620	159,021

Note: 1 bcm = approx. 11,630 GWh



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As of June 2004, the accumulated **demand for transported gas in the System** came to **159,021 GWh, up 17.2%** from the figure for the first six months of the previous fiscal year. Of this figure, **Enagas transported 92%** (146,106 GWh), the rest being transported by other companies. The demand for supply to the **liberalised market** currently accounts for **80,2%** of total demand transported, compared to 66% obtained during the first six months of 2003, proof of the sector's growing liberalisation.

In the first six months, **16.9% of the demand transported** was for generating electricity from natural gas for **Combined Cycles**.

The **quarterly demand in the System** came to 71,866 GWh, **up 18.5%** from the second quarter of 2003.

2. INVESTMENTS

2.1 Assets put into Operation

Over the second quarter, **assets** valued at **12.7 million Euros** were put into **operation**.

Since the beginning of the year, **assets amounting to 128.1 million Euros have been put into operation**, thus increasing the solid foundations of the Company's profitable infrastructures. This volume of assets represents a historic record, and is **105.6% higher** than the figure achieved in the first six months of 2003.

The most important assets put into operation were the following:

- ✓ Doubling of the Huelva-Seville-Cordoba gas pipeline (Huelva-Seville section).
- ✓ Alcázar de San Juan-Quintanar de la Orden gas pipeline.
- ✓ Alcázar de San Juan-Manzanares- Sta. Cruz de Mudela gas pipeline.
- ✓ Division of the Algete-Manoteras gas pipeline.
- ✓ Expansion of the Paterna Compression Station.

2.2 Investments

Over the **second quarter**, **investments** worth **120.1 million Euros** were made, giving an **annual accumulated total** of **203.3 million Euros**.

3. FINANCIAL STRUCTURE

The **net debt ratio** (net debt over total assets) as of 30 June 2004 was **42.6%** compared to 43.7% on 31 March 2004.

The Company's **net financial debt** at the end of the second quarter came to **1,322.2 million Euros**, compared to 1,381.5 million at the end of the previous quarter, and to 1,200.4 million on 30 June 2003.

The **average cost of the Company's debt** as of 30 June was **2.67%**, which means that it has maintained the average debt cost obtained in the previous quarter and improved on the figure as of



June 2003, which was 3.07%. In the 2004 financial year, interest rate contingencies were covered through various insurance operations involving a total fixed financing cost of 2.83% applied to 1,000 million Euros.

In the second quarter there was a working capital decrease of **93.1** million euros coming mostly from the **81.2** million euro received from the **liquidation table** and **the increase in short term accounts payable**, due to the change in payment terms to suppliers.

As of 30 June 2004 there was an outstanding balance pending settlement of 166.5 million Euros. Most of this amount corresponds to 2004 revenues and will be collected in the near future since the corresponding payment notifications have been received.

The Financial Result for the first six months, including the activation of financial expenses (1.9 million Euros), showed a negative figure of 16.1 million Euros, which is an **improvement of 4.2% on the same period in 2003**.

Net Cash Flow (FFO) generated in the second quarter, 70.8 million Euros, has been applied to the partial financing of investments, of 120.1 million Euros.

4. MAIN HIGHLIGHTS

Upgrade of the Company's credit rating

On 5 July, Moody's Rating Agency upgraded Enagas' long-term rating outlook, currently at A2, from stable to positive. And for the first time Moody's also assigned the Company a Prime-1 short-term credit rating.

In its report, Moody's highlights the Company's successful implementation of its investment program, while maintaining a solid financial and operational profile, the Company's optimum annual liquidity and solvency ratios, the stability of the Regulatory Framework and the Company's solid liquidity position, which improved its debt profile by covering all its financing needs until 2006.

Finally, the rating agency's report indicates that the Company's long-term credit rating may be further upgraded in the medium term, if Enagas continues to successfully implement its investment plan, in accordance with a strategy of creating added value based on a conservative and financially sound policy.

Payment of the Complementary Dividend

On 7 July, a gross complementary dividend of 0.17744 Euros per share was paid out on account of the Fiscal 2003 profits. The dividend is complementary to the one paid out in January 2004, for the gross amount of 0.12 Euros per share, also on account of Fiscal 2003 profits.

Enagas subscribes a long-term loan with the EIB for 450 million euros to finance new gas infrastructures

Enagas signed a 450 million euro loan with the European Investment Bank (EIB) to partially cover its financing needs up to 2006.

The EIB loan comes in two tranches and calls for maturity periods of between 10 and 15 years and drawdown periods of between 9 and 30 months.



5. **MAIN TRANSACTIONS WITH MAJOR SHAREHOLDERS AND OTHER RELATED PARTIES**

In accordance with article 37 of the Financial System Reform Measures Law, and as part of the Enagas commitment to transparency, the main contractual and financial relationships between Enagas and the physical persons or legal entities linked to it in the **second quarter of 2004** are listed below.

The figures refer to accounting details, although they include adjustments for previous periods, and where necessary, estimations when the final figures are not available. The TPA service operations are expressed in physical (GWh) rather than financial volumes because they are regulated operations, subject to the liquidation system in which invoicing does not really reflect the amount and importance of the services provided.

5.1 **Operations with the Gas Natural Group**

- ✓ Purchase of gas for supply to the market at tariffed prices: the companies of the Natural Gas Group supplied Enagas with 6,614 GWh, for the sum of 72 million Euros, which the latter needs to supply its consumers at tariffed prices.
- ✓ Sales of gas by Enagas to Gas Natural Group distributors - during the second quarter, 11,519 GWh were transferred, for the sum of 59 million Euros.
- ✓ Services related to access by third parties to Enagas infrastructures (TPA): During the second quarter 2004, regasification of 17,700 GWh (43.2% of the total TPA regasification services) took place for the Gas Natural Group; 35,239 GWh (60.6 %) was transported; and an average amount of 606 GWh (34%) was stored.
- ✓ Others:
 - Gas Natural Group services to Enagas: rental of minimum safety stocks and strategic reserves, rental of fibre optic cables and supply of electric energy. For these services, the Gas Natural Group invoiced Enagas the sum of 6.9 million Euros.
 - Services by Enagas to the Gas Natural Group: maintenance of fibre optic cables and maintenance of gas pipelines and networks. For these services, Enagas invoiced the Gas Natural Group the sum of 0.7 million Euros.

5.2 **Relations with BP ESPAÑA S.A.**

- ✓ BP España and Enagas have signed contracts for TPA Services, by virtue of which, during the first quarter of 2004, regasification of 4,990 GWh took place (12.2% of the total TPA regasification services); 4,968 GWh (8.5 %) was transported; and an average amount of 283 GWh (15.9%) was stored.

5.3 **Relations with Repsol YPF and its subsidiaries**

- ✓ Services provided by the Repsol YPF Group to Enagas: rental of goods and services (Gaviota underground storage), engineering services (through the Economic Interest Grouping, EIG, established by Repsol YPF and Enagas) and purchasing administration services. For these services, the Repsol YPF Group invoiced Enagas the sum of 8.2 million euros.



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- ✓ Services provided by Enagas to the Repsol YPF group: Personnel transfer (including the staff transferred to the EIG), for which it was paid 0.4 million Euros.

5.4 Relations with Caixa d'Estalvis i Pensions de Barcelona (la Caixa)

- ✓ La Caixa has a stake of 200 million Euros in the syndicated loan signed on 10 April 2003.
- ✓ Enagas has a credit of 100 million Euros. The amount drawn is 19,7 million Euros
- ✓ The guarantees granted by La Caixa to Enagas are 32,5 million Euros.
- ✓ The renting contracts signed with the La Caixa Group amount to 4.2 million Euros.
- ✓ There are four FRA contracts for a total sum of 300 Million Euros for the period 07-01-2004/10-01-2005
- ✓ An insurance policy with a single premium of 2.9 million Euros has been signed with companies in the La Caixa Group.

5.5 Relations with Caja de Ahorros del Mediterráneo (CAM)

- ✓ There is a Credit line for the sum of 6 million Euros, which at June 30th was not been disposed yet.
- ✓ There is an interest coverage contract (COLLAR) for the sum of 15 million Euros for period January-2005/April 2008.

5.6 Relations with BANCAJA

- ✓ There is an interest coverage contract (COLLAR) for the sum of 15 million Euros for period January-2005/April 2008.

5.6 Relations with Caja Asturias

- ✓ Caja Asturias participate with 20 million Euros in the syndicated loan signed on 10 April 2003.

Madrid, 19 July 2004

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INCOME STATEMENT

(Million Euros)

(Unaudited Figures)

2Q 2003	2Q 2004		1H 2003	1H 2004
168.4	71.4	Sales	617.2	359.5
131.7	139.1	Provision of Services	261.6	275.9
10.6	16.2	Other Operating Revenues	21.4	27.7
310.7	226.7	Total Revenues	900.2	663.1
-165.9	-71.9	Supplies	-614.5	-358.0
-13.3	-15.0	Personnel Expenses	-26.7	-29.4
-31.7	-33.0	Other Operating Expenses	-62.5	-66.4
99.8	106.8	Operating Cash Flow (EBITDA)	196.5	209.3
-33.2	-35.7	Provision for Depreciation of Fixed Assets	-66.1	-70.5
66.6	71.1	Operating Profit (EBIT)	130.4	138.8
-7.8	-8.3	Financial Results	-16.8	-16.1
58.8	62.8	Profit from ordinary activities	113.6	122.7
0.0	0.1	Extraordinary Items	0.0	0.7
58.8	62.9	Results Before Taxes	113.6	123.4
-20.6	-22.0	Corporate Income Tax	-39.5	-43.1
38.2	40.9	Net Income	74.1	80.3



Investor Relations Direction

BALANCE SHEET		
(Million Euros)		
(Unaudited Figures)		
	JUNE	JUNE
	2003	2004
Intangible Fixed Assets.....	9.7	10.8
Tangible Fixed Assets.....	2,409.5	2,736.0
Permanent Financial Assets.....	34.5	33.5
Fixed Assets	2,453.7	2,780.3
Deferred Expenses	20.6	19.7
Stocks.....	2.4	2.4
Accounts Receivable.....	380.3	284.9
Short-term Financial Investments.....	12.9	5.9
Cash.....	1.8	1.8
Accrual Accounts.....	5.8	9.5
Liquid Assets	403.2	304.5
TOTAL ASSETS	2,877.5	3,104.5
Equity.....	358.1	358.1
Reserves.....	461.2	532.0
Reserves incomps. consol. using proport. consol. meth	-0.4	0.0
Consolidated Profits and Losses.....	74.1	80.3
Interim Div. Assets.....	0.0	0.0
Shareholders' Equity.	893.0	970.4
Deferred Income	464.8	436.8
Provisions Contingencies & Expenses	2.2	5.0
Long-term Debts with Financial Institutions.....	1,151.1	1,210.5
Long-term Debts w/ Group Companies & Assoc.	8.4	8.5
Other Accounts Payable.....	34.5	30.1
Long-term Liabilities	1,194.0	1,249.1
Current financial debt.....	14.1	73.9
Short-term Debts w/ Group Companies.....	91.9	57.2
Trade Accounts Payable.....	119.0	194.2
Other non-trade current liabilities.....	98.5	117.9
Short-term Liabilities	323.5	443.2
TOTAL LIABILITIES	2,877.5	3,104.5

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CONSOLIDATED STATEMENT OF CASH FLOWS

(Million Euros)
(Unaudited Figures)

2T 2003	2T 2004	ALLOCATIONS	1S 2003	1S 2004
85.5	120.1	Acquisition of Fixed Assets	160.5	203.3
33.5	71.0	Dividends	33.5	71.0
0.0	-28.6	Interim Dividends	0.0	-28.6
-1,004.6	1.6	Long-term Debts	-958.1	6.4
0.0	0.0	Provisions Contingencies and Expenses	0.0	0.1
897.0	0.0	Surplus Sources Over Allocations (increase in working capital)	897.0	0.0
11.4	164.1	Total Allocations	132.9	252.2
SOURCES OF FUNDS				
64.6	70.8	Sources from Operations	125.9	137.2
1.9	-1.3	Capital Subventions	2.9	-0.3
0.1	0.1	Other Reserves	0.1	0.1
1.9	1.4	Disposal of Fixed Assets	4.0	2.3
-57.1	93.1	Excess Allocations Over Sources (decrease in working capital)	0.0	112.9
11.4	164.1	Total Sources	132.9	252.2



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MAIN OPERATING HIGHLIGHTS

Relative to gas demand transported (total system)

GAS DEMAND TRANSPORTED	1S 2003	1S 2004
(GWh)		
Regulated Market	45,387	31,472
Liberalised Market	90,233	127,549
Total Transported Demand	135,620	159,021

Relative to Assets

REGASIFICATION ASSETS	Units	m3 or m3/h
LNG Tanks (number and capacity)	8	560,000 m3
Nominal Regasification Capacity		2,250,000 m3/h
Cistern Loading Bays	9	
Transportation Assets	Units	Km
Km of pipelines in operation		6,783
Compression Stations	9	
Regulating and Measuring Stations (RMS) and Measuring Stations (MS)	287	
Underground Storage Assets	Units	Gw/h
No. Of Storage Facilities	2	
Capacity		24,671

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