OFFERING CIRCULAR **CONFIDENTIAL**

Enagás, S.A.

(incorporated in Spain as a company with limited liability)

141,091,948 Ordinary Shares

(nominal value €1.50 per share)

Gas Natural, Enagás, S.A.'s principal shareholder, is offering an aggregate of 141,091,948 shares of Enagás, S.A. in a global equity offering. Of the total offering of 141,091,948 shares, 95,487,736 shares are being offered in Spain and 45,604,212 shares are being offered outside Spain. Enagás, S.A. will not receive any of the proceeds from the sale of the shares by Gas Natural.

The international underwriters are offering shares of Enagás, S.A. outside the United States in reliance on Regulation S under the Securities Act of 1933. In addition to the offering of shares outside the United States, the international underwriters, through their respective selling agents, are concurrently offering shares in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

Prior to this offering, there has been no public market for the shares in or outside of Spain. Enagás, S.A. has applied to list the shares on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and for quotation of the shares on the Automated Quotation System of the Spanish stock exchanges.

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the shares.

Offering Price: €6.50 per share

To the extent that the underwriters of the global equity offering sell more than 141,091,948 shares, the international underwriters and the Spanish institutional underwriters have the option to purchase up to an additional 14,085,321 shares from Gas Natural at the offering price less selling concessions and management commissions.

The international underwriters expect to deliver the shares to purchasers through the clearing facilities of the SCLV in Spain, Euroclear and Clearstream, Luxembourg against payment on June 28, 2002.

Joint Global Coordinators

BBVA Bolsa SV **Goldman Sachs International**
InverCaixa **Santander Central Hispano Investment, S.A.**

Joint Lead Managers and Bookrunners

Goldman Sachs International **Schroder Salomon Smith Barney**

BNP Paribas **Deutsche Bank** **JPMorgan**

Banca IMI **Cazenove**
ING Investment Banking **SG Investment Banking**
BBVA Bolsa SV **InverCaixa**
Santander Central Hispano Investment, S.A.

Financial Advisor to Gas Natural

Schroder Salomon Smith Barney

June 24, 2002.

The ordinary shares, €1.50 par value each, of Enagás, S.A. offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), for offer or sale as part of their distribution and, subject to certain exceptions, may not be offered or sold in the United States. The shares are not transferable except in accordance with the restrictions described herein. See "Underwriting".

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this offering circular. You must not rely on any unauthorized information or representations. This offering circular is an offer to sell only the shares offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this offering circular is current only as of its date or, if an earlier date is included, as of such earlier date.

The distribution of this offering circular and the offering and sale of the shares in certain jurisdictions may be restricted by law. Enagás, S.A., the selling shareholder and the international underwriters require persons into whose possession this offering circular comes to inform themselves about and to observe any such restrictions. This offering circular does not constitute an offer of, or an invitation to purchase, any of the shares in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

The shares have not been offered or sold and, prior to the expiry of a period of six months from the closing date, will not be offered or sold, to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended).

Each of the international underwriters has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to Enagás, S.A. Each of the international underwriters has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

NOTICE TO INVESTORS IN JAPAN

The shares have not been and will not be registered under the Securities and Exchange Law of Japan and may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or offered for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

NOTICE TO INVESTORS IN THE NETHERLANDS

The shares may only be offered in The Netherlands to persons who trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises that as an ancillary activity regularly invest in securities.

In this offering circular, references to "€" and "euro" are to euro, the currency of Spain, and references to "$", "US$" and "dollars" are to U.S. dollars. This offering circular contains a translation of certain euro amounts into dollars at specified rates solely for the convenience of the reader. In tables containing financial information certain amounts stated in dollars have been translated from euro at the official rate of the Bank of Spain published in the Spanish Official State Bulletin *(Boletín Oficial del Estado)* on the date specified in the notes to each such table. These translations should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated.

Various amounts and percentages set out in this offering circular have been subject to rounding adjustments and, accordingly, the totals in certain tables may not equal the sum of the components.

References in this offering circular to:

- the Company mean Enagás, S.A.;
- Enagás or the Enagás Group mean Enagás, S.A. and its consolidated investee companies: Gasoducto Al Andalus, S.A.; Gasoducto Extremadura, S.A.; Gasoducto Campo Maior-Leiria-Braga, S.A.; and Gasoducto Braga-Tuy, S.A.;
- Gas Natural mean Gas Natural SDG, S.A.; and
- the Gas Natural Group means Gas Natural SDG, S.A. and its consolidated subsidiaries.

Unless otherwise specified, statements contained in this offering circular assume no exercise of the underwriters' option, described in "Underwriting".

Unless otherwise stated, all the information is given as of the date on the front cover. Information included on our web sites or those of the shareholders and affiliates of Enagás or Gas Natural does not form part of this offering circular.

IN CONNECTION WITH THIS OFFERING, THE JOINT GLOBAL COORDINATORS, THROUGH BBVA BOLSA SOCIEDAD DE VALORES, S.A., MAY, ON BEHALF OF THE UNDERWRITERS, OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SHARES AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. THESE TRANSACTIONS MAY BE EFFECTED ON THE MADRID, BARCELONA, BILBAO OR VALENCIA STOCK EXCHANGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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BASIS OF PRESENTATION OF FINANCIAL INFORMATION

This offering circular includes our:

- unaudited consolidated historical financial statements as of and for the three-month periods ended March 31, 2001 and 2002;
- audited consolidated historical financial statements as of and for the year ended December 31, 2001;
- audited non-consolidated historical financial statements as of and for the years ended December 31, 1999 and 2000;
- unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000,

including their respective accompanying notes; and

- unaudited consolidated historical cash flow information for the three-month periods ended March 31, 2001 and 2002;
- unaudited consolidated historical cash flow information for the year ended December 31, 2001; and
- unaudited consolidated pro forma cash flow information for the year ended December 31, 2000.

For the purposes of preparing our audited non-consolidated historical financial statements for 1999 and 2000, all Spanish peseta amounts were converted to euro at the conversion rate of 1 euro = 166.386 Spanish pesetas, published in EC Regulation 2866/98 of December 31, 1998.

We have included our audited non-consolidated historical financial statements for 1999 and 2000 because at the time of issuance of such financial statements we did not prepare financial statements for the Enagás Group on a consolidated basis. At that time, our non-consolidated financial statements and those of Gasoducto Al Andalus, S.A. and Gasoducto Extremadura, S.A. were consolidated in the financial statements of the Gas Natural Group, and the financial statements of Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. were consolidated in the financial statements of Transgas, Sociedade Portuguesa de Gas Natural, S.A., a Portuguese natural gas transportation company (''Transgas''). References to our "consolidated investee companies" are to Gasoducto Al Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. As of the date of this offering circular, we own 66.96% of the shares of Gasoducto Al Andalus, S.A., 51% of the shares of Gasoducto Extremadura, S.A., 12% of the shares of Gasoducto Campo Maior-Leiria-Braga, S.A. and 49% of the shares of Gasoducto Braga-Tuy, S.A.

The purpose of the unaudited consolidated pro forma financial information included in this offering circular as of and for the years ended December 31, 1999 and 2000 is:

- to present our financial condition and results of operations as if the following events had occurred before January 1, 1999:
    - the spin-off and transfer of our gas supply and real estate rental businesses to Gas Natural, approved by our shareholders on October 30, 2000, reflected in our historical financial statements with effect from July 1, 2000;
    - the change in our natural gas supply arrangements reflected in our historical financial statements with effect from July 1, 2000, pursuant to which we began to purchase our natural gas requirements for supply to the tariff-based market from the Gas Natural Group rather than from producers. See "Business—Suppliers and Customers—Suppliers";
    - the sale to Gas Natural on April 27, 2001 for €34.2 million of our 20.5% shareholding in Sociedad de Gas de Euskadi, S.A. (''Gas de Euskadi''), a company engaged in natural gas transportation and distribution, and other activities incompatible with our corporate purpose under the new regulations;

    - the sale in 2001 to Gas Natural of certain inventories of natural gas that we had purchased after the spin-off of our natural gas supply business to ensure continuity and reliability of supply to the tariff-based market. For purposes of preparing the unaudited consolidated pro forma financial statements, the amounts of €203.26 million and €87.51 million, the respective book value of natural gas inventories in our audited non-consolidated historical financial statements as of December 31, 1999 and December 31, 2000, were transferred to Gas Natural; and

- to consolidate our financial statements with those of our consolidated investee companies. The financial statements of these investee companies have been consolidated in our consolidated financial statements using the proportional consolidation method, in accordance with Spanish consolidation legislation, to reflect the fact that we have joint management of these companies with Transgas.

For a more detailed description of the basis of preparation of the financial information included in this offering circular and the main assumptions and adjustments made in the preparation of the pro forma financial statements and other information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Presentation of Financial Information and Methodology of Preparation of Pro Forma Financial Information" and the financial statements and accompanying notes starting on page F-1. See also "Selected Audited and Unaudited Historical and Unaudited Consolidated Pro Forma Financial Information" for detailed numeric adjustments applied in preparing the pro forma financial information.

The unaudited consolidated pro forma financial information is provided for illustrative purposes only and does not purport to represent what the actual results of operations or the financial position of Enagás would have been had the transactions occurred on the respective dates assumed, nor is it necessarily indicative of Enagás' future operating results or consolidated financial position. The pro forma adjustments reflected in the accompanying unaudited consolidated pro forma financial statements reflect estimates and assumptions made by Enagás' management that it believes to be reasonable.

On February 19, 2002, a new regulatory framework came into force that introduced fundamental changes in the way in which our revenues will be determined for 2002 and subsequent financial years. Consequently, our revenues in our financial statements for 2002 and subsequent years will not be comparable to the revenues shown in our previous historical or pro forma financial statements included in this offering circular. In addition, the revenue figures shown in our unaudited consolidated financial statements as of and for the three-month periods ended March 31, 2001 and 2002 are not comparable.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations—Factors affecting revenues—2002 and subsequent years: new remuneration structure for regulated activities" and "Legal and Economic Regulation" for a description of the new regulatory framework and its implication on our revenues.

We prepare our financial statements in accordance with generally accepted accounting principles in Spain (''Spanish GAAP") and applicable Spanish laws and regulations. We have not prepared a reconciliation of our financial statements to generally accepted accounting principles in the United States (''U.S. GAAP") or those of other countries, and any such reconciliation could produce material differences. Spanish GAAP differs in significant respects from U.S. GAAP. For a summary of significant differences between Spanish GAAP and U.S. GAAP relevant to us, see "Annex 1: Summary of Differences Between Spanish and U.S. Reporting".

References to "billion" in this offering circular mean 1,000 million.

STATISTICAL INFORMATION

Market data and certain industry forecasts used throughout this offering circular were obtained from internal surveys prepared by us and market research, industry publications and other publicly available information. Industry publications generally state that information contained therein has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed. You should be aware that markets may be defined differently in different countries. Certain information contained in this offering circular is derived from the following sources, among others:

- the Spanish Ministry of Economy (the "Ministry of Economy");
- the Spanish National Energy Commission (*Comisión Nacional de la Energía*) (the "CNE"); and
- Sedigas, S.A. ("Sedigas"), a not-for-profit organization dedicated to the study and development of natural gas.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this offering circular and, in particular, the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry Overview" and "Business", contain forward-looking information that involves risks and uncertainties, including statements concerning strategy and expected capital expenditure. These forward-looking statements reflect our view, or the view of the stated source, with respect to future events and financial performance. Actual results could differ materially from those projected in the forward-looking statements as a result of various factors including, but not limited to, general economic conditions, conditions in the Spanish natural gas market, changes in Spanish and foreign laws, regulations and taxes and changes in competition, pricing environments and other factors discussed under the heading "Risk Factors". The words "project", "believe", "expect", "intend", "anticipate", "plan", "aim", "estimate", "objective" and other similar expressions identify forward-looking statements.

Certain forward-looking statements are based upon assumptions regarding future events that may not prove to be accurate. These assumptions include that the new regulatory framework will not be modified in the medium term, that we will be able to reduce costs and improve efficiency, and that the demand for natural gas will increase due to a number of reasons, such as developments in the electricity market, the continuing availability in Spain of natural gas imported from foreign countries, increased industrial output, the expansion of the natural gas network and strong economic growth in Spain generally.

Prospective investors in the shares are advised that actual future results are likely to be different, and may be materially different, from what is expressed or implied by the forward-looking statements made in this offering circular. Except as required by law, none of Enagás, Gas Natural or any other party intends to update the forward-looking statements included in this offering circular, even though the affairs of Enagás and Gas Natural will change in the future.

2002 ESTIMATES OF AGGREGATE REMUNERATION

A report issued by the CNE dated February 7, 2002 (the "CNE Report") contains annualized estimated remuneration figures for 2002 for operators of regulated activities in the Spanish natural gas sector. The CNE Report was issued in relation to a draft form of Ministerial Order ECO/301/2002. The estimated remuneration figures shown in the CNE Report were extracted from an explanatory memorandum attached to that draft Ministerial Order (the "Explanatory Memorandum").

The 2002 aggregate industry-wide estimated remuneration (including fixed and variable components) contained in the CNE Report for regulated activities in the Spanish natural gas sector included the following estimates:

- remuneration for transportation activities: €470.346 million, broken down as follows:
  - €88.469 million representing estimated remuneration for regasification;
  - €324.060 million representing estimated remuneration for transport; and
  - €57.817 million representing estimated remuneration for storage;
- remuneration for handling the purchase and sale of natural gas intended for the tariff-based market: €23.983 million; and
- remuneration for acting as System Technical Manager: €8.955 million.

The figures shown in the CNE Report were in respect of each of the above regulated activities as a whole. No estimated remuneration figures were included in the CNE Report for Enagás or any other single operator in the Spanish natural gas sector.

The Explanatory Memorandum does, however, break down the 2002 estimated remuneration figures by groups of companies for each regulated activity.

The estimated remuneration given in the CNE Report for regasification and storage activities for the Spanish natural gas sector matches the estimated remuneration for regasification and storage activities shown for Enagás in the Explanatory Memorandum, as Enagás is currently the only provider of regasification and storage services related to the natural gas sector.

For transport activities, however, the Explanatory Memorandum states that of the total €324.060 million estimated remuneration for transport activities, €315.4 million correspond to Enagás. We believe that this latter estimate takes into account not only Enagás' pipeline network but also some high-pressure pipelines owned by other members of the Gas Natural Group and, therefore, overstates the amount that corresponds to Enagás. On the basis of the relative values of our pipeline network and the high-pressure pipelines of the Gas Natural Group, we estimate that the portion of the estimated remuneration for transport for Enagás shown in the Explanatory Memorandum that corresponds to these Gas Natural assets is approximately €15.2 million. We have therefore excluded this amount in arriving at total estimated remuneration from transportation activities corresponding to Enagás. On this basis, that part of the estimated remuneration for 2002 from regulated activities, shown in the CNE Report and the Explanatory Memorandum corresponding to Enagás would be approximately:

Regulated activity	Estimated remuneration from regulated activities for 2002 (millions of euro)
Transportation activities (including regasification, transport and storage)	446.5
Supply to tariff-based customers	24.0
System Technical Manager	9.0
Total	479.5

The estimated remuneration figures shown in the CNE Report and in the Explanatory Memorandum are, however, annualized figures, based on a projected natural gas demand in Spain for the whole of 2002 of 237,246 GWh, and were prepared on the assumption that Ministerial Order ECO/301/2002 came into force on January 1, 2002. It actually came into force on February 19, 2002 and, accordingly, the remuneration figures (including the total of €479.5 million) referred to above have been overstated and will be subject to a proportionate adjustment.

Moreover, Ministerial Order ECO/301/2002 provides for a proportionate adjustment at the end of 2002 of the annualized remuneration figures for 2002 that have been or may be published by the Ministry of Economy by reference to actual natural gas demand in Spain for 2002. At the date of this offering circular, the only estimated annualized remuneration figure officially published by the Ministry of Economy is the fixed component for remuneration of transportation activities for the Gas Natural Group, Endesa and Gas de Euskadi, all included in Annex I to Ministerial Order ECO/301/2002. The figure for the fixed component for transportation (including regasification, transport and storage) given for the Gas Natural Group in Order ECO/301/2002 is €422,725,000.

In addition, the variable component of our 2002 reference annual remuneration for regasification and our regulated fee for handling the purchase and sale of natural gas intended for the tariff-based market will also depend on actual demand for natural gas in Spain.

Our revenues from our regulated activities for the financial year ending December 31, 2002 will comprise: (i) that part of the remuneration for regulated activities finally determined to correspond to Enagás for the period between February 19 and December 31, 2002; plus (ii) our actual revenues from our regulated activities earned during the period beginning on January 1, 2002 and ended February 18, 2002.

In view of the above factors, we believe that our actual revenues from regulated activities for the year ended December 31, 2002 are likely to differ, and may differ materially, from the estimated remuneration figures given in the CNE Report, the Explanatory Memorandum and Order ECO/301/2002, and from our estimate of the proportion of those estimated remuneration figures corresponding to Enagás.

The CNE Report includes a description of the basis on which existing assets in operation at December 31, 2001 were valued for the purpose of calculating the fixed component of the remuneration for transportation activities for 2002. In summary, the CNE Report states that valuation is carried out on the basis of the gross balance sheet value of those assets updated to 2002 by an inflation factor, multiplied by an efficiency factor. The value of capital grants actually received in respect of those assets, also updated to 2002 by an inflation factor, is deducted for purposes of the valuation. On the basis of the information contained in the CNE Report and summarized above, and taking into account the estimated fixed component of our remuneration for 2002 derived from the Explanatory Memorandum, we estimate that the valuation for regulatory purposes of our assets as of December 31, 2001, was in the order of €2.6 billion.

See "Legal and Economic Regulation—Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002 for further information on how our remuneration from regulated activities will be determined under the new remuneration structure. All figures for remuneration included in such note 2(m) are subject to the observations described above.

SUMMARY

You should read the following summary together with the more detailed information appearing elsewhere in this offering circular, including the Glossary, the financial statements and their accompanying notes and other information.

Overview

We are the leading provider of natural gas transport services in Spain and the only provider of related regasification and natural gas storage services in Spain. Currently, Gas Natural owns, directly and indirectly, all of our share capital but is required by law to reduce its shareholding to a maximum of 35%.

We transport natural gas through a network of transport pipelines. At the date of this offering circular, we operate a high-pressure transport pipeline network of approximately 6,123 km out of a total of 6,269 km of high-pressure pipeline in Spain. We also operate four pipelines with international connections to Algeria, France and Portugal. Through joint ventures with Transgas, a Portuguese natural gas transportation company, we have capacity rights over the pipelines connecting Spain and Portugal, which represent approximately 8% of our total pipeline capacity.

We carry out regasification services at three regasification plants that we operate. Each of those plants is located in a Spanish port and has docking facilities to take deliveries of LNG supplies from LNG carriers and to load cistern lorries for delivery to satellite regasification plants. At the date of this offering circular, we have a total regasification capacity of approximately 2.1 million m^3(n)/h. Our regasification plants also have a combined storage capacity for LNG reserves of approximately 560,000 m^3. We use this storage capacity to comply with our regulatory obligations regarding natural gas reserves and to modulate seasonal fluctuations in demand for natural gas.

Of the two underground natural gas storage facilities in Spain in operation at the date of this offering circular, we operate the Serrablo facility and have usage rights over the Gaviota facility. Together, these facilities have a total utilizable capacity of 2,122 million m^3(n). We use this storage capacity principally to modulate the seasonal fluctuations in demand and to comply with our regulatory obligations regarding strategic reserves of natural gas. We also lease spare capacity in these storage facilities to our customers.

The Spanish natural gas market is heavily regulated and has recently undergone a regulatory overhaul as a result of the implementation in Spain of the E.U. Directive 98/30 (the "Gas Directive"), which sets forth common rules for the supply, transport, storage and distribution of natural gas. Under the new regulatory framework, we are responsible for ensuring a continuous and reliable supply of natural gas to the tariff-based market. We achieve this by purchasing gas from natural gas producers, transporting it through our transport pipeline network and selling it to distributors for distribution to their customers. In addition to the margin permitted on sales of natural gas intended for the tariff-based market, we are remunerated for handling the purchase and sale of natural gas intended for the tariff-based market. Our only supplier of natural gas for these purposes is the Gas Natural Group.

Under this new regulatory framework, we also have been appointed System Technical Manager. In this capacity, we are responsible for ensuring the proper coordination of the introduction of natural gas into the Spanish natural gas system and the storage, transportation and distribution of this natural gas, and for ensuring a continuous and reliable supply of natural gas to the Spanish market. As System Technical Manager, we also have a supervisory role assisting the regulatory authorities with the planning and coordination of development projects in respect of the natural gas infrastructure in Spain.

Our History

Enagás was incorporated in 1972 as a *sociedad anónima* by the Spanish National Industry Institute (*Instituto Nacional de Industria*), a public body, to operate the incipient natural gas network in Spain. In 1981, Enagás was integrated into the Spanish National Hydrocarbons Institute (*Instituto Nacional de Hidrocarburos*), a public body active in the oil and gas industry.

In 1994, Gas Natural acquired 91% of the shares of Enagás. In 1995, Enagás entered into joint ventures with Transgas in respect of four pipelines connecting Spain and Portugal. In 1998, Gas Natural acquired the remaining 9% of Enagás. Gas Natural is currently, directly and indirectly, the sole owner of Enagás. The Royal Decree-Law referred to below requires Gas Natural to reduce its shareholding in Enagás to a maximum of 35%. For a fuller description of our relationship with Gas Natural and the core shareholders in Gas Natural and how those relationships will change after the global offering, see "Relationship with the Selling Shareholder and Affiliates".

The Spanish Hydrocarbons Sector Law of 1998 (*Ley 34/1998 del Sector de Hidrocarburos*) implemented the Gas Directive in Spain. The Hydrocarbons Sector Law specifies that the regulated activities indicated therein, including natural gas transportation activities, must be provided as distinct services and cannot be bundled with other activities. Consequently, between 1998 and 2000, our natural gas distribution, real estate and import activities were spun-off to Gas Natural. On June 23, 2000, Royal Decree-Law 6/2000 was enacted under which we were appointed as System Technical Manager of the Spanish basic natural gas network. On December 27, 2001, Royal Decree 949/2001 was enacted, with the aim of regulating third-party access to, and establishing an integrated economic system in, the natural gas market in Spain. This was followed in February 2002 by the publication of the Ministerial Order ECO/301/2002 setting out the new remuneration framework for our transportation activities. For further information on legal and economic regulation of our activities, see "Legal and Economic Regulation".

Our Strategy

As described in "Industry Overview", the Spanish natural gas market has been characterized by strong growth in recent years. We expect demand for natural gas in Spain to continue to grow faster than demand for other primary energy sources. The growth in our own pipeline network from 3,525 km in 1996 to 6,123 km at the date of this offering circular reflects this growth in demand. In the same period, our pipeline network per employee increased from 4.6 km to 7.2 km and total volumes of gas transported by Enagás per employee increased from 12.2 million m^3 to 21.3 million m^3.

With the modifications introduced by the new regulatory framework, the nature of our business has changed substantially. Whereas we were previously a license holder for the national gas pipeline network and the sole entity responsible for the supply of natural gas to the national market, we are now, in accordance with the new framework, one of a number of authorized transportation companies. Our main corporate purposes are the construction and use of infrastructures in the transportation network.

We believe that the capacity provided by the Spanish natural gas transportation network is still insufficient to meet the growth in demand we expect in the coming years and our investment plan envisions investment of approximately €2.6 billion in the expansion of our transportation network during the period 2002 through 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditure" and "Business—Transportation Activities" for further information relating to our investment plan.

Our main medium-term strategy is to continue to lead the development of the liberalized natural gas market in Spain through the expansion of our natural gas transportation activities. We aim to implement our strategy by enhancing our financial performance through:

Implementation of our investment plan in order to benefit from the expected growth opportunities in the Spanish natural gas market

We believe that we can enhance the value of our investments in our transportation network and capitalize on the benefits provided by the new remuneration structure by:

- seeking to optimize our effective investment cost. One of the components used to determine our remuneration under the new regulatory framework is a standard recognized value for the construction cost of new investments authorized by the direct authorization procedure. We expect a similar standard cost component to be recognized for investments authorized under the public tender process. Our aim is to create value by optimizing our efficiency in carrying out investment projects in order to outperform this recognized construction cost component, thus increasing our profitability. We believe that our extensive experience in project development and management provides us with the means to achieve this strategic goal; and

- operating our assets beyond their respective depreciation periods. The regulations provide for continued remuneration of a fully-amortized asset still in operation, on the basis of 50% of the annual recognized return on the investment value of that asset plus 100% of the recognized operating costs corresponding to that asset.

Enhancement of our operating efficiency

Under the new regulations, a further component of our remuneration will be determined by reference to standard recognized costs reflecting operating expenses. We believe that in recent years we have made significant improvements in our operating efficiency, as demonstrated, for example, by the increases in our pipeline network and volume of natural gas transported by us per employee. We aim, however, to improve our natural efficiency further by:

- benefiting from economies of scale made possible by the characteristics of our business and the nature of our new investments, some of which are upgrades of existing assets. We expect these upgrades to result in lower operating expenses relating to the investment in question; and
- continuing to capitalize on the experience and know-how of our management team and personnel and our technology.

Improvement of our capital structure

We require financial flexibility to implement our current investment plan effectively in the future. Subsequent to the refinancing of our short-term credit facility entered into on June 20, 2002, we intend to increase our financial debt to total assets ratio from its current level of approximately 40% to approximately 55-60%, which we believe is in line with comparable operators in the E.U. natural gas market. Our objective is to reduce our cost of capital by funding our future investment from free cash flow and financial debt while maintaining a solid risk profile.

Our Relationship with the Gas Natural Group

The Gas Natural Group owns, directly and indirectly, all of our share capital. The principal shareholders of Gas Natural are Caja de Ahorros y Pensiones de Barcelona (“la Caixa”), an affiliate of InverCaixa Valores, S.V., S.A. (“InverCaixa”) (one of the joint global coordinators for the global equity offering) with 26.37%, and Repsol-YPF, S.A. (“Repsol-YPF”) with 24.04%. The remaining shares are held publicly.

Gas Natural is a multinational energy services company that focuses on the supply, transport, distribution and sale of natural gas in Spain and Latin America. It has recently started to participate in power generation and marketing, telecommunications and e-commerce. In addition to Gas Natural, SDG, S.A., the Gas Natural Group companies operating in the Spanish natural gas market include, among others, natural gas supply, distribution and wholesale companies.

The Gas Natural Group is our only supplier of natural gas and our main customer in both the tariff-based and liberalized markets. Revenues from sales of natural gas to Gas Natural Group distribution companies for supply to the tariff-based market represented 87.4% of our total sales of natural gas for supply to the tariff-based market in 2001. Revenues from providing transportation services to Gas Natural Comercializadora, S.A. (“Gas Natural Comercializadora”) provided approximately 76.1% of our total revenues for transportation services in the liberalized market for the year ended December 31, 2001. See “Business—Suppliers and Customers”.

After the offering, we expect that Gas Natural will hold approximately, but not more than, 35% of our shares, assuming that the underwriters’ option is exercised in full. If the underwriters’ option is not exercised in full, Gas Natural will exceed the 35% threshold imposed by law. In such circumstance, Gas Natural will arrange to sell the excess shares after the lock-up period described under “The Global Equity Offering—Lock-ups” below has expired and will not exercise any voting or other rights that correspond to such excess shares.

We also have a number of financial, operating and strategic relationships with Repsol-YPF, Gas Natural and their affiliates and with la Caixa and Banco Bilbao Vizcaya Argentaria, S.A.(“BBVA”), an affiliate of BBVA Bolsa Sociedad de Valores, S.A. (one of the joint global coordinators for the global equity offering).

For further details on our relationship with Gas Natural and its affiliates, see “Relationship with the Selling Shareholder and Affiliates” and “Underwriting”.

Regulation

Royal Decree-Law 6/2000 of June 23, 2000 amended the governing regulatory framework of the Hydrocarbons Sector Law and:

- limited ownership of Enagás by a single shareholder, directly or indirectly, to 35% of the total issued share capital;
- introduced a new framework of tariffs, tolls and fees within the Spanish natural gas tariff-based and liberalized markets;
- brought forward the liberalization timetable by five years to January 2003, when every customer, regardless of its level of consumption, will be entitled to be considered as an eligible customer;
- appointed Enagás as System Technical Manager of the Spanish natural gas transportation network;
- released to wholesalers 25% of the natural gas purchased under a 1992 supply agreement between Enagás and the Algerian natural gas producer Enterprise Nacionale Sonatrach (“Sonatrach”). The remaining 75% of this natural gas is currently assigned to Enagás, which is required to sell it to distributors in the tariff-based market; and
- limited the quantity of natural gas that any company or group of companies can input into the market to 70% of total natural gas consumption in Spain from January 1, 2003.

Our remuneration for regulated activities is determined by the Ministry of Economy under Ministerial Order ECO/301/2002 and includes:

- remuneration for transportation activities (comprising regasification, transport and storage activities);
- remuneration for handling the purchase and sale of natural gas intended for supply to the tariff-based market (plus a small permitted margin on the sale of natural gas to distribution companies); and
- remuneration for acting as System Technical Manager of the Spanish natural gas network.

For details of this remuneration and the method of calculation, see “Legal and Economic Regulation” and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002.

The Global Equity Offering

Except as otherwise indicated, the following information assumes that the international underwriters and the Spanish institutional underwriters do not exercise the option Gas Natural has granted to them to purchase additional shares in the global equity offering. Please see "Underwriting" for more information about the underwriters' option.

The Company	Enagás, S.A.
Selling shareholder	Gas Natural SDG, S.A.
The global equity offering	Gas Natural, as selling shareholder, is offering 141,091,948 existing shares of capital stock of nominal value €1.50 each of Enagás, S.A. The global equity offering comprises the international offering, the Spanish institutional offering and the Spanish retail offering. In the light of demand for our shares in the global equity offering, Gas Natural has decided, in consultation with the joint global coordinators, to allocate significant shareholdings to certain investors. See "Risk Factors—Certain investors are expected to take significant shareholdings in Enagás and could influence the day-to-day management of our company".
The international offering	The international offering comprises an offering of 45,604,212 shares (i) outside the United States and Spain in reliance on Regulation S under the Securities Act, and (ii) only to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act.
The Spanish institutional offering	The Spanish institutional offering comprises an offering of 42,578,255 shares in Spain to institutional investors.
The Spanish retail offering	The Spanish retail offering comprises an offering of 52,909,481 shares in Spain to retail investors.
Underwriters' option	The selling shareholder has granted an option to the international underwriters and the Spanish institutional underwriters, to purchase an aggregate of up to 14,085,321 additional shares at the offering price less the selling and management discounts and commissions. The underwriters' option is exercisable by the joint global coordinators, on behalf of the underwriters, on one or more occasions, in whole or in part, during the period ending 30 days after the closing date. The closing date, which is expected to be on or about June 25, 2002, is the date on which purchasers will become entitled to receive delivery of and be obligated to pay for the shares under Spanish law. The shares will be delivered on the settlement date, which is expected to be on or about June 28, 2002. See "Underwriting".
Use of proceeds	Enagás will not receive any of the proceeds from the sale of the shares. Gas Natural intends to use the proceeds from the sale of the shares for general corporate purposes.
Lock-ups	Each of Enagás and Gas Natural has agreed with the international underwriters that Enagás and Gas Natural will not, and will procure that their respective consolidated subsidiaries and investee companies will not, during the period ending on the date 180 days after the date on which the shares are admitted to listing on the Spanish stock exchanges, which is expected to be on or about June 26, 2002,

	(A) offer, sell, contract to sell or otherwise dispose of, except as provided under the international underwriting agreement and under the Spanish underwriting agreements, any securities of Enagás that are substantially similar to the shares which are the subject of this offering circular, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Enagás' shares or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of the underwriting agreement) or (B) purchase or sell any option or other guaranty or enter into any swap, hedge or other arrangement that transfers to any other entity, in whole or in part, any of the economic consequences of ownership of shares, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of shares or such other securities, in cash or otherwise, except with the prior written consent of the joint global coordinators. If the underwriters' option is not exercised, Gas Natural will exceed the 35% threshold set by law. In such circumstances, Gas Natural will arrange to sell the excess shares after the lock-up period has expired. So long as Gas Natural's shareholding exceeds the threshold set by law, Gas Natural will not exercise the voting rights or any other non-economic rights pertaining to its excess shares.
Voting rights	Each share carries one vote. A shareholder must hold at least 100 shares to attend a general meeting of shareholders. Shareholders with less than 100 shares may, however, aggregate their respective shareholdings to exceed the threshold, in which case, a representative of the group could vote on their behalf. See "Description of the Shares—Attendance and Voting at Shareholders' Meetings".
Listing and quotation	We have applied for the shares to be admitted to listing on the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the "Spanish stock exchanges") and to be quoted on the Automated Quotation System of the Spanish stock exchanges. We expect this to take place on or about June 26, 2002.
Payment and settlement	Payment for the shares in the international offering will be made on the settlement date, which is expected to be on or about June 28, 2002. Delivery of the shares is expected to be made on the settlement date in book-entry form through the facilities of the SCLV, Euroclear and Clearstream, Luxembourg.
ISIN	ES0 130960018
Common Code	015006137

Summary Audited and Unaudited Consolidated Historical and Unaudited Consolidated Pro Forma Financial Information

The summary audited and unaudited consolidated historical and unaudited consolidated pro forma financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to: "Selected Audited and Unaudited Historical and Unaudited Consolidated Pro Forma Financial Information"; "Management's Discussion and Analysis of Financial Condition and Results of Operations"; our unaudited consolidated historical financial statements as of and for the three-month periods ended March 31, 2001 and 2002; our audited consolidated historical financial statements as of and for the year ended December 31, 2001; our audited non-consolidated historical financial statements as of and for the years ended December 31, 1999 and 2000; our unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000; our unaudited consolidated historical cash flow information for the three-month periods ended March 31, 2001 and 2002; our unaudited consolidated historical cash flow information for the year ended December 31, 2001; and our unaudited consolidated pro forma cash flow information for the year ended December 31, 2000, each included elsewhere in this offering circular.

Our unaudited consolidated pro forma financial statements for the two years ended December 31, 1999 and 2000 have been prepared from our audited non-consolidated historical financial statements and applicable pro forma and consolidation adjustments. The summary unaudited unconsolidated pro forma data set out in the following tables has been derived from, and should be read in conjunction with: the more detailed tables set forth under "Selected Audited and Unaudited Historical and Unaudited Consolidated Pro Forma Financial Information"; the audited non-consolidated historical financial statements as of and for the years ended December 31, 1999 and 2000; and the unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000.

In reading the summary financial information provided below, you should consider the information relating to the basis of preparation of financial information and methodology of preparation of pro forma financial information included elsewhere in this offering circular. In particular, see "Basis of Presentation of Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations – Basis of Presentation of Financial Information and Methodology of Preparation of Pro Forma Financial Information" and the notes accompanying our unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000.

	Year ended December 31,				Three months ended March 31,		
	1999	2000	2001		2001	2002	
	Unaudited consolidated pro forma		Audited consolidated historical		Unaudited consolidated historical		
	(in thousands of euro)			(in thousands of US dollars)[(1)]	(in thousands of euro)		(in thousands of US dollars)[(2)]
Income Statement information							
Income:							
Net turnover	1,500,214	2,662,983	2,414,258	2,127,686	752,713	568,278	495,766
Other operating income	39,526	71,686	51,284	45,196	13,038	12,923	11,274
Expenses:							
Supplies	1,157,952	2,356,313	2,032,094	1,790,885	662,360	445,158	388,356
Personnel costs	43,002	42,330	47,143	41,547	11,581	12,323	10,750
Fixed asset depreciation	107,730	109,242	111,308	98,096	27,222	29,435	25,679
Other operating expenses	91,224	123,172	136,884	120,636	31,165	30,943	26,995
Operating profit	139,832	103,612	138,113	121,718	33,423	63,342	55,260
Net financial income / (expense)	(4,265)	(18,509)	(40,031)	(35,279)	(12,692)	(8,513)	(7,427)
Profit from ordinary activities	135,567	85,103	98,082	86,439	20,731	54,829	47,833
Net extraordinary profit / (loss)	6,881	(1,281)	60,223	53,075	2,636	147	128
Profit before taxes	142,448	83,822	158,305	139,514	23,367	54,976	47,961
Corporate income tax	47,724	29,388	40,461	35,658	7,254	19,188	16,740
Profit for the period	94,724	54,434	117,844	103,856	16,113	35,788	31,221
Earnings per share (€ per share)[(3)]	0.40	0.23	0.49	0.44	0.07	0.15	0.13

(1) Amounts stated in dollars for the year ended December 31, 2001 have been translated at the rate of €1.00 = US$0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(2) Amounts stated in dollars for the three-month period ended March 31, 2002 have been translated at the rate of €1. 00 = US$0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

(3) Net income per share has been calculated using 238,734,260 shares. This was the number of our shares outstanding on May 3, 2002 after giving effect to the 20:1 share split described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Subsequent Events". No method of calculating net income per share is defined in Spanish GAAP. This data is presented in this offering circular only for the information of prospective investors.

	At December 31,				At March 31,		
	1999	2000	2001		2001	2002	
	Unaudited consolidated pro forma		Audited consolidated historical		Unaudited consolidated historical		
	(in thousands of euro)		(in thousands of euro)	(in thousands of dollars)[1]	(in thousands of euro)		(in thousands of dollars)[2]
Balance Sheet information:							
Cash in hand and at bank	7,044	1,098	4,102	3,616	1,951	3,620	3,159
Current investments	1,766	2,667	1,947	1,716	8,323	8,245	7,193
Other current assets	286,264	384,488	417,765	368,175	368,337	258,535	225,545
Tangible fixed assets	2,083,282	2,186,824	2,261,184	1,992,781	2,190,460	2,266,179	1,977,015
Other fixed assets	58,572	51,891	49,686	43,788	88,457	52,312	45,637
Deferred expenses	22,103	21,000	19,898	17,537	20,724	19,623	17,119
Total assets	2,459,031	2,647,968	2,754,582	2,427,613	2,678,252	2,608,514	2,275,668
Short-term financial debt[3]	14,282	30,719	83,383	73,486	17,956	85,134	74,271
Long-term financial debt	488,302	1,118,991	982,964	866,286	936,291	907,555	791,751
Non-financial liabilities	743,611	690,770	908,592	800,742	934,025	800,394	698,264
Total liabilities	1,246,195	1,840,480	1,974,939	1,740,514	1,888,272	1,793,083	1,564,286
Shareholders' equity	1,212,836	807,488	779,643	687,099	789,980	815,431	711,382
Total liabilities and shareholders' equity	2,459,031	2,647,968	2,754,582	2,427,613	2,678,252	2,608,514	2,275,668
Net debt[4]	495,540	1,148,612	1,062,245	936,156	952,296	989,069	862,864

(1) Amounts stated in dollars as at December 31, 2001 have been translated at the rate of €1.00 = US$0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(2) Amounts stated in dollars as at March 31, 2002 have been translated at the rate of €1.00 = US$0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

(3) Includes current portion of long-term debt and accrued interest payable at the end of the relevant period.

(4) Long-term financial debt and short-term financial debt less cash in hand and at bank.

	Year ended December 31,			Three months ended March 31,		
	2000	2001		2001	2002	
	Unaudited consolidated pro forma	Unaudited consolidated historical		Unaudited consolidated historical	Unaudited consolidated historical	
	(in thousands of euro)		(in thousands of dollars)[2]	(in thousands of euro)		(in thousands of dollars)[3]
Cash Flow information[1]:						
Net cash provided by/(used in) operating activities	(22,921)	483,226	425,867	309,161	90,983	79,374
Net cash provided by/(used in) investing activities	(207,268)	(139,451)	(122,898)	(27,228)	(36,707)	(32,023)
Net cash provided by/(used in) financing activities	224,243	(340,771)	(300,321)	(281,080)	(54,758)	(47,771)
Net cash flow for the period	(5,946)	3,004	2,648	853	(482)	(420)
Cash at beginning of the period	7,044	1,098	968	1,098	4,102	3,579
Cash at end of the period	1,098	4,102	3,616	1,951	3,620	3,159

(1) This unaudited cash flow information has been derived from the unaudited consolidated pro forma financial statements and the audited and unaudited consolidated historical financial statements referred to above and included elsewhere in this offering circular.

(2) Amounts stated in dollars for the year ended December 31, 2001 have been translated at the rate of €1.00 = US$0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(3) Amounts stated in dollars for the three-month period ended March 31, 2002 have been translated at the rate of €1.00 = US$0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

RISK FACTORS

An investment in the shares involves a substantial number of risks. You should consider carefully the following risk factors, as well as all the other information in this offering circular, before buying our shares. Risks that all companies face and additional risks not currently known to us or that we currently believe are not material may also harm our business, financial condition and results of operations. Any of these risks may adversely affect the value of our shares, and you may lose all or part of your investment.

We operate in a highly regulated industry and recent or future changes to regulations could create uncertainty in matters that are significant to our business and have an adverse effect on our financial condition or results of operations.

We operate in a highly regulated industry. The laws, regulations, directives, decisions and policies of the European Union, Spain, the Ministry of Economy and the CNE determine the scope of our activities, and substantially affect our revenues and the way we conduct our business.

The new regulations do not legislate for, and create uncertainty in, important matters. We believe that the regulatory framework introduced in Spain since the publication of the Hydrocarbons Sector Law in 1998 does not address certain matters that are important to the way we conduct our business and to our financial condition or results of operations, such as:

- the detailed regulation of our role as System Technical Manager;
- the criteria for the remuneration of new investments authorized by the public tender process;
- the remuneration for investments we are required to carry out in our capacity as System Technical Manager;
- the recognition for remuneration purposes of investment projects that do not become operational;
- the precise method for calculating strategic reserve requirements; and
- a definitive settlement mechanism for payment of this remuneration.

Moreover, uncertainty exists as to the interpretation of the new regulations in respect of other important matters. These include:

- the criteria governing third-party access to our transportation network; and
- the appropriate method for recognition in our management accounts and financial statements of our remuneration for regulated activities.

In addition, future changes in regulations could affect our business and our remuneration in ways we cannot predict. Further changes to the new regulations are expected to be made in the short to medium term. We cannot predict how any such changes may affect our business.

As regards our remuneration for regulated activities, the regulatory framework provides for the introduction of stable regulatory periods of four years, during which the provisions for determining our remuneration for regulated activities cannot be substantially altered. The start date for the first of these four-year periods is scheduled to be between January 1, 2003 and January 1, 2005. Accordingly, prior to the commencement of the first regulatory remuneration period, the Ministry of Economy may introduce changes to the remuneration structure. Moreover, the remuneration structure may be changed at the end of the first or subsequent four-year regulatory periods. See “Legal and Economic Regulation” for a description of the current regulatory framework.

Other aspects of the new regulations could also change, although the regulations provide that any future amendment must be in accordance with the basic principles underlying the new regulations, as described in “Legal and Economic Regulation”.

A future change in the regulations could have an adverse effect on the way we conduct our business or on our financial condition and results of operations. Moreover, it may be difficult for us to obtain judicial review of any future decision by the regulatory authorities that may adversely affect us.

We may not be able to expand our transportation network and increase our remuneration as planned.

Our ability to increase our remuneration under the new remuneration structure depends to a significant extent on our ability to expand our transportation network. We are currently the leading provider of natural gas transport services in Spain and the only provider of related regasification and natural gas storage services in Spain. However, under the new regulations we may face increased competition from other operators for the construction or expansion of the natural gas transportation network, as a result of which we may not be able to expand our transportation network and increase our remuneration as planned. Failure to expand our transportation network will impact negatively on our remuneration, which would adversely affect our business, financial condition or results of operations.

Implementation of our investments is subject to prior authorization by the Ministry of Economy.

The Hydrocarbons Sector Law currently provides that any investments affecting the regasification capacity of the system, or involving the construction of pipelines operating at a pressure of over 60 bar or strategic reserve storage facilities, will be subject to a mandatory strategic plan *("planificación obligatoria")* for the hydrocarbons sector in preparation by the Spanish government. Investments included in the mandatory strategic plan will, in general, be awarded by public tender and must be authorized by the Ministry of Economy. We cannot assure you that if a tender were to be convened in any particular case, we would be awarded the contract to construct the relevant infrastructure. Our failure to win any tender could adversely affect our financial condition or results of operations.

Until the mandatory strategic plan is approved, the Ministry of Economy may directly authorize the construction of new transportation network facilities. Because the current natural gas transportation network is insufficient to meet the expected growth in demand for natural gas in Spain, the CNE has recommended to the Ministry of Economy that certain infrastructure investment projects be classified as urgent. Except for the construction of the pipeline from central Spain to the east coast of Spain, all of the major investments envisioned in our current investment plan have been recommended as urgent by the CNE. We cannot, however, be sure that the Ministry will authorize, via the direct authorization procedure those investments that the CNE considers urgent. Failure to obtain the relevant authorization would prevent the construction of such facilities, which would restrict our ability to grow our business and impact negatively on our future remuneration. This, in turn, could adversely affect our financial condition and results of operations.

Delays in implementing our investment projects could adversely affect our financial condition or results of operations and could give rise to third-party liabilities.

Once we have received approval for a given infrastructure investment from the Ministry of Economy, our ability to implement that investment, and the speed at which the investment is implemented, may be affected by delays in receiving other necessary authorizations and approvals, delays in the required expropriation procedures or in construction, objections by local residents and other factors outside our control. Any such delays could adversely affect our financial condition or results of operation.

In addition, the CNE has indicated in its resolutions regarding access to the Spanish natural gas network that we are required to enter into contracts to provide third-party access to our transportation network not only on the basis of the currently available capacity, but also on the basis of our expected future capacity in accordance with our business plan. Our current and expected capacity is fully booked through 2005. We will, therefore, need to implement our investment plan in its entirety on schedule in order to be able to meet our contractual commitments. Any delays in the construction of new infrastructure could give rise to claims against us by third parties for any loss or damage caused to any such third party as a result of such delay, which could adversely affect our financial condition or results of operations.

We may need additional capital to fund our planned infrastructure investments.

We may require capital in addition to that currently available to us to fund planned expansions of our infrastructure. If we fail to generate or raise sufficient funds in the future for this purpose, we may have to delay or abandon our expansion plans, which would restrict our ability to grow our business and impact negatively on our future remuneration. This, in turn, could adversely affect our financial condition or results of operations.

Our future results of operations may be adversely affected if we are required by the Ministry of Economy to carry out investments that are not included in our infrastructure investment plans.

Under Royal Decree 949/2001, the Ministry of Economy may require us, in our capacity as System Technical Manager, to carry out infrastructure investments subject to the competitive tender process if no other operator presents a bid. Accordingly, we may be required to carry out investments in addition to those envisioned in our business plan, which may require us to obtain additional funding to that currently contemplated. Moreover, any such investments may be less profitable than other investments for which a number of competitive bids have been presented, and any new facility not previously included in our business plan may be more costly for us to operate. The occurrence of any of the risks described above in respect of any such investments could adversely affect our financial condition or results of operations.

Our future profitability will be adversely affected if our actual costs exceed costs recognized by the regulations.

Under the current regulations, certain components of our remuneration for the regulated activities are determined by reference to standard recognized construction and operating costs. These standard recognized costs will be fixed in advance for each year. If our actual construction and operating costs exceed the standard recognized costs under the new remuneration structure, we will not be compensated for those excess costs, which could adversely affect our financial condition or results of operations.

Breach of our regulatory obligations could lead to sanctions and liabilities.

As System Technical Manager, we are responsible for ensuring a continuous and reliable supply of natural gas to the Spanish market, coordinating the introduction of natural gas into the Spanish natural gas system and the storage, transportation and distribution of this natural gas. We are also required by the regulations to maintain certain operating and strategic natural gas reserves as described in “Business—Transportation Activities” below. Failure by us to comply with these or other regulatory obligations could cause loss or damage to third parties, which could result in liabilities for us. Moreover, the Spanish government or the Ministry of Economy could impose sanctions on us for any breach of the Hydrocarbons Sector Law or its implementing legislation. The types of possible sanctions vary depending on the nature of the breach, but could include a fine of up to €3 million for any single breach or suspension or revocation of our operating authorization.

Liability to third parties or the imposition of regulatory sanctions could adversely affect our ability to carry on our business and our financial condition or results of operations.

Gas Natural will continue to exercise significant influence over decisions affecting our company after the offering.

We are currently a wholly-owned subsidiary of Gas Natural through its direct and indirect shareholdings in our company, which itself is controlled by la Caixa and Repsol-YPF. After the offering, Gas Natural will remain our largest single shareholder, holding 35% of our shares, assuming that the underwriters exercise their purchase option in full. In addition, Gas Natural has six representatives on our board of directors as of the date of this offering circular, and will continue to have at least three members on our board of directors after the global equity offering. Gas Natural will, therefore, continue to exercise significant influence over key management and shareholder decisions affecting our company. The interests of Gas Natural may not coincide with the interests of our other shareholders.

We may remain liable under certain natural gas and LNG supply agreements transferred to the Gas Natural Group.

Before the spin-off of our natural gas supply business to Gas Natural (which was reflected in our historical financial statements with effect as of June 30, 2000), we received our natural gas and LNG supplies under agreements that we entered into, directly or through our then wholly-owned subsidiary, Sagane, with natural gas producers. In the context of the spin-off of our natural gas supply business, all of our assets relating to that business (including our agreements with natural gas producers) were assigned to the Gas Natural Group, and our shares in Sagane were transferred to Gas Natural. Certain of the counterparties to the supply agreements have not expressly accepted the assignment of the supply agreements to the Gas Natural Group, while others have made their acceptance conditional upon Enagás remaining as guarantor of the obligations of Gas Natural. Accordingly, we may still be subject to obligations and claims under the supply agreements, including under so-called "take-or-pay" clauses. These clauses impose an obligation to pay for a specific volume of natural gas or LNG even if we do not take the full contracted amount.

Gas Natural has entered into a counter-indemnity agreement with us under which it has agreed to indemnify us for certain liabilities incurred by us under the supply agreements in respect of which we may remain liable (which are listed in the counter-indemnity agreement). However, failure by Gas Natural to perform its obligations under this indemnity or claims against us in respect of obligations not covered by the indemnity could give rise to significant liabilities for us to the producers who are counter-parties to those supply agreements, which could adversely affect our financial condition or results of operations.

Changes in our relationship with Gas Natural after the offering may affect our ability to carry on our operations and may result in the breach of our obligations.

Companies within the Gas Natural Group are currently our main customers for our regasification, transport and storage services in the liberalized market. The Gas Natural Group, acting through Gas Natural Aprovisionamientos and Sagane, is also our only current supplier of natural gas and LNG and, through its distribution companies, our main customer in the tariff-based market. See "Business—Suppliers and Customers" and "Relationship with the Selling Shareholder and Affiliates" for more information.

We are, therefore, heavily dependent on supplier and customer relationships with the Gas Natural Group. Loss of Gas Natural or members of its group as suppliers or customers, failure by Gas Natural to meet its payment obligations for the services we provide or for the gas we supply to it in its capacity as distributor to the tariff-based market, or termination or suspension of the arrangements described above or their renegotiation on terms less favorable to us, could adversely affect our financial condition or results of operations and may result in us breaching our regulatory obligations.

Gas Natural could terminate our lease of strategic reserves on three months' notice, which could result in liabilities and regulatory sanctions for us.

Our lease of natural gas for seasonal modulation and our strategic reserves from the Gas Natural Group is currently governed by an agreement dated April 1, 2002. This agreement has an initial term of one year and is automatically renewable. However, this agreement may be terminated upon three months' notice by either party. Termination of this agreement by the Gas Natural Group could deprive us of our strategic natural gas reserves. The inability to draw on our strategic reserves in times of shortage of supply of natural gas intended for the tariff-based market could result in claims being brought against us by distribution companies in respect of losses and liabilities incurred by them as a result of their own failure to supply their customers. In addition, we could be in breach of our regulatory obligations, and, consequently, subject to monetary and other sanctions. Any resulting liabilities or sanctions could adversely affect our financial condition or results of operations.

Our results of operations will be adversely affected if the demand for natural gas in Spain does not increase at the pace expected or declines from current levels.

Expansion of our business operations is ultimately driven by demand for natural gas in Spain, which in turn depends on a number of factors outside of our control, including:

- the development of the electricity market;
- the price of natural gas compared to other fuels;
- economic growth in Spain generally;
- climate fluctuations;
- the availability of capacity in international importation pipelines;
- environmental laws; and
- the continuing availability of natural gas and LNG for importation from foreign countries.

Additionally, our infrastructure investment plan is based on the projected demand for natural gas in Spain published by the Ministry of Economy, which reflects currently available data and historical information on market growth trends. If demand for natural gas does not increase at the expected rate, our financial condition or results of operations could be adversely affected.

Under the new remuneration structure, our remuneration for existing regasification facilities (i.e., those facilities in operation as at December 31, 2001) includes a variable component, which depends on the volume of LNG regasified in our facilities in any given year. Furthermore, our regulated remuneration for handling the purchase and sale of natural gas intended for the tariff-based market is also dependent on demand for natural gas. Therefore, any decline in the demand for natural gas would result in a reduction of those components of our remuneration, which could adversely affect our financial condition or results of operations.

Failure of our gas pipeline network or regasification or storage terminals may impair our operations and revenues and expose us to liability.

There are risks associated with the operation of our natural gas pipeline network and regasification and storage terminals, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include accidents, the breakdown or failure of equipment or processes, the performance of our facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, landslides or other similar events beyond our control.

Any accident might result in injury or loss of life and extensive damage to property or to the environment. Liabilities resulting from any such accident could increase our costs, which could adversely affect our financial condition or results of operations.

Any interruption to our operations arising from an occurrence of this kind could also impair our operations and result in increased costs and liabilities for us, including successful third-party claims, if any. Such interruptions could also cause us to breach our regulatory obligations as System Technical Manager or supplier of natural gas intended for the tariff-based market and as a result sanctions could be imposed on us. Any such costs, liabilities or sanctions could adversely affect our financial condition or results of operations.

We may incur substantial liabilities and costs if we fail to comply with current environmental laws or if those laws become more stringent.

We are subject to Spanish and European Union ("E.U.") regulations regarding the protection of the environment. Although we believe that our operations are in substantial compliance with applicable environmental and safety laws and regulations, the risk of substantial costs and liabilities is inherent in the nature of our operations. We cannot assure you that we will not incur substantial costs and liabilities, including the cost of clean-up operations and claims for damages to property and persons resulting from our operations. Any such costs and liabilities could significantly increase our costs, which could adversely affect our financial condition or results of operations.

It is also possible that future changes in applicable environmental laws and regulations, or in the interpretation or enforcement of those laws and regulations, or the development or discovery of other facts and conditions that we are not currently aware of, could result in increased costs or liabilities for us, which could also adversely affect our financial condition or results of operations. We are unable to predict what effect any such changes, facts or conditions could have on our costs and liabilities or on our ability to carry out our operations.

Our insurance cover under the Repsol-YPF Group umbrella policy expires on June 30, 2002.

Our parent company Gas Natural is an affiliate of the Repsol-YPF group, and all of the insurance coverage relating to our business operations is currently provided under an umbrella policy arranged by Repsol-YPF to cover all of its subsidiaries and affiliates. Under this arrangement, we pay the insurer, Musini, S.A. ("Musini"), for that proportion of the insurance coverage related to our business. This coverage expires on June 30, 2002.

We are currently in negotiations with Musini to replace our existing insurance coverage. However, we cannot assure you that we will be able to obtain equivalent coverage on terms equally beneficial to us or at all. In addition, the policy we are negotiating with Musini will have a one-year term and is designed to provide short-term coverage in order to allow us to seek a replacement insurance policy in the insurance market. Similarly, we cannot assure you that we will be able to replace any short-term insurance with Musini on terms equally beneficial to us or at all. Failure to obtain such replacement insurance would impair our ability to carry on our operations and would, accordingly, adversely affect our financial condition or results of operations. See "Business—Insurance" for more information on the status of the negotiations to replace our existing coverage.

Our customers' and supplier's access to and ability to manage natural gas reserves is subject to local and political conditions.

A substantial portion of the natural gas we transport comes from countries that may be subject to adverse changes in political or economic conditions. These natural gas supplies are therefore subject to risks, including increases in taxes and royalties, the establishment of limits on production and export volumes, the compulsory renegotiation of contracts, the nationalization or renationalization of assets, changes in local government frameworks and policies, changes in business customs and practices, currency exchange restrictions, civil unrest, terrorist activity, acts of war and losses and impairment of operations by actions of insurgent groups.

If any of our customers should be unable to access natural gas supplies in these countries due to such adverse changes or be otherwise affected by such adverse changes, their subsequent inability to fulfill their contractual obligations with us could result in liabilities or regulatory sanctions for us, which could adversely affect our financial condition or results of operations. In particular, given that approximately 57% of the annual supply of natural gas in Spain comes from Algeria, any such adverse changes which may take place in this country are likely to have a more profound adverse effect on our financial condition or results of operations.

Political and economic developments internationally or in Spain may adversely affect our financial condition or results of operations or increase the volatility of share prices.

Any repetition of terrorist attacks similar to those in the United States during September 2001 in the same or other countries may give rise to a climate of significant political and economic uncertainty in certain regions of the world and cause deterioration to the economic environment in the United States and Europe. A recession or significant slow-down in the economic environment or growth in Spain could result in lower consumption of natural gas by industrial users and power plants, which could adversely affect our revenues and prospects for growth. This, in turn, could adversely affect our financial condition or results of operations.

Moreover, our facilities might be subject to acts of terrorism, whether by national or international terrorist groups, and such acts could adversely affect our financial condition or results of operations. In addition, political, military and economic developments following any such event may increase the volatility of equity valuations and trading prices, including the market price of our ordinary shares.

We may be unable to replace our current short-term bridge loan on favorable terms when it expires in one year, and our lenders may require pre-payment of the loan if we fail to achieve certain credit ratings.

On June 20, 2002, we entered into a credit facility agreement with affiliates of BBVA, la Caixa and Goldman Sachs International, who are acting as joint global coordinators of the global equity offering, to replace our current inter-company credit agreement with Gas Natural. The maximum aggregate principal amount under the new credit facility is €1 billion, and it has a maximum term of 364 days. The terms of this credit facility, in respect of, among other things, interest rates, commissions and covenants, reflect prevailing market terms. The lenders may further syndicate their participations in the credit facility. The lenders will be entitled to demand repayment if we have not received a credit rating from either Standard & Poor's or Moody's by November 30, 2002, or our credit rating when set is, or subsequently falls below, BBB- from Standard & Poor's or Baa3 from Moody's. Failure by us to obtain these credit ratings or to find new financing on similar terms when this facility expires in one year, would result in higher financing costs and could adversely affect our financial condition and results of operations. See "Relationship with the Selling Shareholder and Affiliates for further information on this credit facility.

Increased interest charges and changes in interest rates may affect our financial condition or results of operations.

We intend to fund our investment plan in part by increasing our external debt financing. Subsequent to the refinancing of our short-term credit facility entered into on June 20, 2002 and described in the preceding paragraph, we expect to increase our financial debt to total assets' ratio from approximately 40% to between approximately 55% and 60%. An increase in our external debt financing will increase our interest charges, which could adversely affect our financial condition or results of operations.

In addition, a significant proportion of our interest charges may be primarily indexed at spread to benchmark rates such as the Europe Interbank Offered Rate, "EURIBOR", and the London Interbank Offered Rate, "LIBOR". We do not currently hedge our exposure to changes in interest rates through derivative instruments. As a consequence, movements in interest rates can have an appreciable impact on our financial expense in respect of our floating rate borrowings, which could adversely affect our financial condition or results of operations.

Our historical consolidated and non-consolidated financial statements for the financial years 1999, 2000 and 2001 are not representative of our results as a company operating under the new regulatory framework and our future results may differ materially.

During 1999 and 2000, certain transactions took place between Enagás and other members of the Gas Natural Group in order to ensure compliance with the separation of regulated activities required by the new regulatory framework. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Presentation of Financial Information and Methodology of Preparation of Pro Forma Financial Information".

We have included pro forma financial statements and other pro forma financial information as of and for the years ended December 31, 1999 and 2000 for illustrative purposes only in order: (i) to give an indication of what our financial condition and results of operations would have been if the relevant transactions had occurred before January 1, 1999; and (ii) to consolidate our financial statements with those of our consolidated investee companies. These pro forma financial statements and other financial information have not, however, been audited, and they may not give a true and fair view of what our financial condition and results of operations for the financial years indicated above would have been if: (i) the relevant transactions had occurred before January 1, 1999; and (ii) we had prepared historical consolidated financial statements for those financial years. See "Basis of Presentation of Financial Information".

Our future revenues will differ materially from our revenues in previous financial years.

The vast majority of our revenues for 2002 and subsequent financial years will be pre-determined in accordance with the regulatory remuneration structure that came into effect on February 19, 2002. See "Legal and Economic Regulation—Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002. This new method of determination of remuneration differs materially from the way we have earned our revenues in previous financial years and will materially affect the way we recognize our revenues in our management accounts for future financial periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations—Revenue recognition". Consequently, the results of operations shown in our historical and pro forma financial information included in this offering circular are not representative of our future results of operations.

The new regulatory framework imposes restrictions on the ownership of our shares.

The new regulations provide that no single entity or group may hold, directly or indirectly, more than 35% of our shares of capital stock. Within the Spanish energy market as a whole, regulatory limitations on maximum shareholdings in the network operators vary (for example, 25% and 10% in the fossil fuel and electricity markets, respectively). The Spanish government may harmonize these thresholds across the energy market in the future, and, in the interests of competition, we believe that any harmonization would be likely to be based on the lowest of these percentages or an even lower percentage. Accordingly, the 35% threshold currently applicable to us may be reduced further in the future. Any shareholder that acquires a significant shareholding in Enagás as a result of this offering may be forced to reduce that shareholding to the extent that it exceeds the limitation on ownership of our shares in effect from time to time.

Spanish regulations also contain a restriction on cross-shareholdings that prevents any single entity that owns in excess of 3% of the voting shares in more than one significant operator active in the Spanish natural gas market from exercising any voting rights in excess of the 3% threshold in another such significant operator. In addition, regulations also provide that no significant operator active in the Spanish natural gas market may exercise any voting rights in excess of the 3% threshold in any other significant operator active in the same market, although the CNE has stated that, in its opinion, this last restriction would not apply to a shareholding in Enagás by another significant operator in the natural gas market in Spain. See "Legal and Economic Regulation" for further information.

The application of the restrictions on ownership described above make it impossible to exercise sole control of our company, and may restrict your voting rights in respect of your investment in our shares.

Certain investors are expected to take significant shareholdings in Enagás and could influence the day-to-day management of our company.

In the light of demand for our shares in the global equity offering, Gas Natural has decided, in consultation with the joint global coordinators, to allocate significant shareholdings to certain investors, including a number of Spanish financial institutions and an international industrial company. We expect these investors together to hold approximately 11% of our shares following the global equity offering. These or other investors may also acquire further significant shareholdings in our company in the market following the global offering. Significant shareholders, acting alone or together, could influence the decisions made at meetings of our shareholders. In addition, some of these significant shareholders may in the future have representatives on our board of directors. As such, they could influence the day-to-day management of our company. The interests of any significant shareholders may not coincide with the interests of our other shareholders. See "Legal and Economic Regulation".

An active public market for our shares may fail to develop and the market price of our shares may be volatile.

There has been no public market for our shares prior to the global equity offering. We have applied for the listing of our shares on the Spanish stock exchanges and for our shares to be quoted on the Automated Quotation System of the Spanish stock exchanges. We cannot assure you that the initial public offering price will reflect the price at which our shares will trade in the public market subsequent to the offering or that an active public market for our shares will develop and be sustained after the offering.

Moreover, a number of factors, some of which are beyond our control, may significantly affect the market price of our shares, including, but not limited to, our operating results, regulatory developments in Spain and the E.U., general economic and business trends and changes in our relationship with the Gas Natural Group or the shareholders of Gas Natural or Repsol-YPF after the offering. As a consequence, the market price of our shares may be volatile.

In addition, the acquisition of significant shareholdings in Enagás by other investors would reduce the number of shares available to the public and could impair the liquidity of your investment.

The market price of our shares could be adversely affected by potential future sales.

The trading price of our shares could be adversely affected as a result of sales of substantial numbers of our shares in the public market after the offering, or by the perception that such sales could occur. These factors could also make it more difficult to raise capital through subsequent equity or equity-linked offerings. After the global equity offering, approximately 35% of our shares will be held by Gas Natural, assuming full exercise of the underwriters' option. If the underwriters do not exercise their option in full, Gas Natural could hold up to approximately 41% of our shares after the offering. Gas Natural will agree in the underwriting agreement not to sell any further shares in Enagás for a period of 180 days following the date of admission of our shares to listing on the Spanish stock exchanges and quotation on the Automatic Quotation System (the "lock-up period"). Once the lock-up period has ended, Gas Natural may sell its remaining shareholding in Enagás.

Gas Natural has indicated that it has no current intention to sell any more Enagás shares in the near future but retains the right to do so at any time after the expiration of the lock-up period.

In accordance with the Hydrocarbons Sector Law, so long as Gas Natural's shareholding exceeds the 35% threshold imposed by the regulations, it will not exercise its voting rights or any other non-economic rights pertaining to excess shares.

Your investment may be returned to you and no shares transferred to you if there is a delay in listing our shares.

It is possible that the selling shareholder may receive payment for the shares being offered in the global equity offering even though our shares have not been approved for listing on the Spanish stock exchanges or for quotation on the Automated Quotation System. If our shares are not admitted to listing and quotation by July 8, 2002, the selling shareholder will unwind the sale and the purchase price of the shares will be returned to investors with interest accrued on it. See "Underwriting".

Any delay in the commencement of trading of our shares on the Spanish stock exchanges or their quotation on the Automated Quotation System of the Spanish stock exchanges would impair the liquidity of the market for our shares and make it more difficult for the holders of our shares to sell them.

U.S. holders of our shares may not be offered preferential subscription rights.

U.S. holders of our shares may not be able to exercise any future preferential subscription rights in respect of their shares unless a registration statement under the Securities Act is effective with respect to such exercise, or an exemption from the registration requirements thereunder is available. We cannot assure you that we will have declared effective any such registration statement or that such an exception will be available.

EXCHANGE RATES

On January 1, 1999, the euro was introduced as a single currency for participants in the third stage of the European Monetary Union (the "EMU"). The following 12 E.U. member states are participating in the third stage of the EMU: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

On January 1, 2002, the participating member states issued new euro-denominated bills and coins for use in cash transactions. On March 1, 2002, the participating member states withdrew the bills and coins denominated in their respective currencies from circulation and they are no longer legal tender for any transactions.

The following table describes, for the periods and dates indicated, information concerning the noon buying rate for the euro in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York ("noon buying rate"). Amounts are expressed in dollars per euro, and average figures reflect the average of the noon buying rates on the last day of each month during the relevant period.

Quarter ended	Rate at Period End	Average	High	Low
September 30, 2000	0.8837	0.8996	0.9548	0.8462
December 31, 2000	0.9389	0.8689	0.9389	0.8287
March 31, 2001	0.8840	0.9224	0.9517	0.8820
June 30, 2001	0.8466	0.8729	0.9028	0.8418
September 30, 2001	0.9107	0.8897	0.9295	0.8369
December 31, 2001	0.8904	0.8951	0.9204	0.8762
March 31, 2002	0.8724	0.8770	0.9043	0.8609
Period from				
April 1, 2002 through June 21, 2002	0.9705	0.9135	0.9705	0.8750

Monetary policy within the participating member states of the euro zone is set by the European Central Bank. The European Central Bank has announced an objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables, such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges.

USE OF PROCEEDS

Enagás will not receive any of the proceeds from the global equity offering. Gas Natural intends to use the proceeds of sale of the shares for general corporate purposes.

DIVIDEND POLICY

After the global equity offering, we will seek to adopt a dividend pay-out policy in line with comparable regulated companies in the natural gas sector in Europe. We intend to propose the distribution to our shareholders of a dividend equal to approximately 50% of our consolidated net income after tax and minority interests. However, the declaration, amount and payment of dividends will depend on our earnings, financial condition, capital requirements, general business conditions and other factors, including confirmation of our future dividend policy by our new board of directors following the offering. There can be no assurance that any dividends will be declared with respect to future periods or that, if declared, they will correspond to the policy described above.

No dividends are payable on treasury shares held by our subsidiaries or us. Holders of the shares on the applicable dividend record date will be entitled to the full amount of all dividends paid after delivery of the shares, beginning with dividends paid with respect to the year 2002. Dividends are subject to Spanish withholding tax. See “Taxation—Spanish Taxation—Non-Residents Income Tax—Dividends”.

Spanish corporate law requires companies to contribute 10% of net income (after tax and minority interests) each year to a legal reserve, until the balance in this reserve is equivalent to 20% or more of our share capital. As of March 31, 2002, our legal reserves were €46,988,000, representing 13.10% of our outstanding share capital at that date. See “Description of the Shares—Dividends” for more information.

CAPITALIZATION

The following table sets out the unaudited consolidated capitalization and long-term indebtedness of the Enagás Group based on the unaudited consolidated historical financial statements as of and for the three-month period ended March 31, 2002.

You should read this information together with our unaudited consolidated financial statements and the notes to those statements as of and for the three months ended March 31, 2002 appearing elsewhere in this offering circular.

	As of March 31, 2002 (in thousands of euro)	As of March 31, 2002 (in thousands of dollars)[1]
Long-term indebtedness [2][3]		
Gas Natural SDG, S.A.—due February, 2005 [4]	792,000	690,940
Transgas, S.A.—due 2011	41,257	35,993
Non-Group Bank loans—due 2003 to 2012 [4][5]	74,298	64,818
	907,555	791,751
Shareholders' equity [6]		
Share capital [3][7][8][9]	358,705	312,934
Revaluation reserve	342,505	298,801
Legal reserve	46,988	40,993
Voluntary reserve	15,942	13,908
Reserves in consolidated companies	(741)	(646)
Undistributed profit	117,844	102,807
Consolidated profit and loss account	35,788	31,221
Interim dividend paid [10]	(101,600)	(88,636)
Total capital and reserves	815,431	711,382
Total capitalization and long-term indebtedness	1,722,986	1,503,133

(1) Amounts stated in US dollars as of March 31, 2002 have been translated at the rate of €1.00 = US dollars 0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

(2) The long-term debt has been converted to euro from Spanish pesetas using the fixed exchange rate effective January 1, 1999 of 166.386 Spanish pesetas to the euro.

(3) On May 3, 2002, our board of directors was authorized to issue long-term convertible or non-convertible notes or bonds up to a maximum amount of €2 billion and to increase the share capital by a maximum amount of €179 million over the next five years.

(4) Our borrowings under our inter-company credit agreement with Gas Natural increased from €792 million as of March 31, 2002 to €848 million as of June 20, 2002. However, on June 20, 2002, we entered into a credit facility agreement with three financial institutions, affiliates of BBVA, la Caixa and Goldman Sachs International, who are acting as joint global coordinators of the global equity offering, to replace our current inter-company loan. The maximum principal amount of this replacement credit facility is €1 billion, and the facility has a maximum term of 364 days. The terms of this credit facility, in respect of, among other things, interest rates, commissions and covenants, reflect prevailing market terms. The lenders may further syndicate their participations in the credit facility. The lenders will be entitled to demand repayment if we have not received a credit rating from either Standard & Poor's or Moody's by November 30, 2002, or our credit rating when set is, or subsequently falls below, BBB– from Standard & Poor's or Baa3 from Moody's.

(5) See "Relationship with the Selling Shareholder and Affiliates" for further information relating to various guarantees of our obligations under the EIB credit facility.

(6) On May 3, 2002, the nominal value of the shares of Enagás was reduced to €30 per share from €30.050605 per share with the related reduction in share capital of €0.604 million. This reduction in share capital has been transferred to the "Restricted Reserve" account but has not been reflected in the above capitalization table.

(7) All the issued share capital is paid up.

(8) On May 3, 2002, a 20:1 share split was approved by our shareholders, which increased the total shares outstanding to 238,734,260 shares with a par value of €1.50 each.

(9) We will not receive any of the proceeds of the sale of our shares in the global equity offering.

(10) On April 26, 2002, a general meeting of our shareholders approved the distribution of a total dividend from the net profit for 2001 of €117.64 million of this total, €101.60 million related to an interim dividend approved by our board of directors on December 10, 2001 and paid on December 14, 2001. The balance of the dividend (€16.04 million) was paid on June 3, 2002. Approval of the €16.04 million final dividend has resulted in a net decrease in our shareholders' equity.

SELECTED AUDITED AND UNAUDITED HISTORICAL AND UNAUDITED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION

The selected audited and unaudited historical financial information and unaudited consolidated pro forma financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to: "Summary Audited and Unaudited Consolidated Historical and Unaudited Consolidated Pro Forma Financial Information"; "Management's Discussion and Analysis of Financial Condition and Results of Operations"; our unaudited consolidated historical financial statements as of and for the three-month periods ended March 31, 2001 and 2002; our audited consolidated historical financial statements as of and for the year ended December 31, 2001; our audited non-consolidated historical financial statements as of and for the years ended December 31, 1999 and 2000; our unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000; our unaudited consolidated historical cash flow information for the three-month periods ended March 31, 2001 and 2002; our unaudited consolidated historical cash flow information for the year ended December 31, 2001; and our unaudited consolidated pro forma cash flow information for the year ended December 31, 2000, each included elsewhere in this offering circular.

In reading the selected financial information provided below, you should consider the information relating to the basis of preparation of financial information and methodology of preparation of pro forma financial information included elsewhere in this offering circular. In particular, see "Basis of Presentation of Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Presentation of Financial Information and Methodology of Preparation of Pro Forma Financial Information" and the notes accompanying our unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000.

Income Statement information:

	Year ended December 31, 1999				Year ended December 31, 2000				Year ended December 31, 2001	
	Audited non-consolidated historical	Pro forma adjustments	Consolidation adjustments	Unaudited consolidated pro forma	Audited non-consolidated historical	Pro forma adjustments	Consolidation adjustments	Unaudited consolidated pro forma	Audited consolidated historical	
	(in thousands of euro)				(in thousands of euro)				(in thousands of euro)	(in thousands of dollars)(3)
Income										
Net turnover	1,503,786	(15,256)(1)	11,684	1,500,214	2,669,457	(17,101)(1)	10,627	2,662,983	2,414,258	2,127,686
Sales	1,503,775	(15,256)		1,488,519	2,624,164	(17,101)		2,607,063	2,239,412	1,973,594
Services rendered	11		11,684	11,695	45,293		10,627	55,920	174,846	154,092
Other operating income	71,533	(20,786)(1)	(11,221)	39,526	87,786	(4,115)(1)	(11,985)	71,686	51,284	45,196
Other income	56,929	(20,786)	(11,221)	24,922	70,978	(4,115)	(11,985)	54,878	33,094	29,165
Capital grants	14,604			14,604	16,808			16,808	18,190	16,031
Expenses										
Supplies	1,153,858	4,094(2)	—	1,157,952	2,261,335	94,978(2)	—	2,356,313	2,032,094	1,790,885
Consumption of goods purchased for resale	108		8	116	4,741			4,741	2,978	2,625
Consumption of raw materials and consumable materials	1,149,352	4,094		1,153,446	2,254,572	94,978		2,349,550	2,026,266	1,785,748
Other external expenses	4,398		(8)	4,390	2,022			2,022	2,850	2,512
Personnel costs	44,739	(1,742)(1)	5	43,002	43,303	(973)(1)	—	42,330	47,143	41,547
Wages, salaries and similar remuneration	31,690	(1,395)	5	30,300	30,935	(789)		30,146	33,818	29,804
Staff welfare expenses	13,049	(347)		12,702	12,368	(184)		12,184	13,325	11,743
Fixed asset depreciation	108,760	(1,239)	209	107,730	109,557	(524)(1)	209	109,242	111,308	98,096
Other operating expenses	118,148	(9,982)(1)	(16,942)	91,224	149,279	(8,482)(1)	(17,625)	123,172	136,884	120,636
External services	117,150	(9,982)	(16,980)	90,188	147,848	(8,482)	(17,676)	121,690	135,314	119,252
Taxes	998		38	1,036	1,431		51	1,482	1,570	1,384
Operating profit	149,814	(27,173)	17,191	139,832	193,769	(106,215)	16,058	103,612	138,113	121,718
Net financial income / (expense)	2,009	644(1)	(6,918)	(4,265)	(6,405)	(853)(1)	(11,251)	(18,509)	(40,031)	(35,279)
Profit from ordinary activities	151,823	(26,529)	10,273	135,567	187,367	(107,068)	4,804	85,103	98,082	86,439
Net extraordinary profit / (expense)	6,880	—	1	6,881	279	—	(1,560)	(1,281)	60,223	53,075
Profit before taxes	158,703	(26,529)	10,274	142,448	187,646	(107,068)	3,244	83,822	158,305	139,514
Corporate income tax	52,322	(7,686)	3,088	47,724	62,489	(35,961)	2,860	29,388	40,461	35,658
Profit for the year	106,381	(18,843)	7,186	94,724	125,157	(71,107)	384	54,434	117,844	103,856
Earnings per share (€ per share)(4)	0.45	—	—	0.40	0.52	—	—	0.23	0.49	0.44

(1) Pro forma adjustments relating to the spin-off and transfer of our gas supply and real estate rental businesses to Gas Natural, approved by our shareholders on October 30, 2000, with retroactive effect from July 1, 2000.

(2) Pro forma adjustments relating to the change in our gas supply arrangements reflected in our historical financial statements with effect from July 1, 2000, when we began to purchase our natural gas requirements from the Gas Natural Group rather than directly from producers.

(3) Amounts stated in dollars for the year ended December 31, 2001 have been translated at the rate of €1.00 = US $0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(4) Net income per share has been calculated using 238,734,260 shares. This was the number of our shares outstanding on May 3, 2002, after giving effect to the 20:1 share split described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Subsequent Events." No method of calculating net income per share is defined in Spanish GAAP. This data is presented in this offering circular only for the information of prospective investors.

	Three months ended March 31,		
	2001	2002	
	Unaudited consolidated historical		
	(in thousands of euro)		(in thousands of dollars)(1)
Income			
Net turnover	752,713	568,278	495,766
Other operating income	13,038	12,923	11,274
Expenses			
Supplies	662,360	445,158	388,356
Personnel costs	11,581	12,323	10,750
Fixed asset depreciation	27,222	29,435	25,679
Other operating expenses	31,165	30,943	26,995
Operating profit	33,423	63,342	55,260
Financial income / (expense)	(12,692)	(8,513)	(7,427)
Profit from ordinary activities	20,731	54,829	47,833
Net extraordinary profit / (loss)	2,636	147	128
Profit before taxes	23,367	54,976	47,961
Corporate income tax	7,254	19,188	16,740
Profit for the period	16,113	35,788	31,221
Earnings per share (€ per share)(2)	0.07	0.15	0.13

(1) Amounts stated in dollars as of March 31, 2002 have been translated at the rate of €1.00 = US $0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

(2) Net income per share has been calculated using 238,734,260 shares. This was the number of shares outstanding on May 3, 2002 after giving effect to the 20:1 share split described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Subsequent Events". No method of calculating net income per share is defined in Spanish GAAP. This data is presented in this offering circular only for the information of prospective investors.

Balance sheet information:

	At December 31, 1999				At December 31, 2000				At December 31, 2001		At March 31,		
	Audited non-consolidated historical	Pro forma Adjustments	Consolidation Adjustments	Unaudited consolidated pro forma	Audited non-consolidated historical	Pro forma Adjustments	Consolidation Adjustments	Unaudited consolidated pro forma	Audited consolidated historical		2001 Unaudited consolidated historical	2002 Unaudited consolidated historical	2002 Unaudited consolidated historical
		(in thousands of euro)				(in thousands of euro)			(in thousands of euro)	(in thousands of dollars)[6]	(in thousands of euro)		(in thousands of dollars)[7]
Balance Sheet information:													
Assets:													
Intangible fixed assets	4,758	—	456	5,214	4,209	—	244	4,453	5,713	5,035	4,476	7,954	6,939
Tangible fixed assets	2,104,850	(21,568)[1]	—	2,083,282	2,186,824	—	—	2,186,824	2,261,184	1,992,781	2,190,460	2,266,179	1,977,015
Investments	249,894	(99,100)[3][1]	(97,436)	53,358	164,703	(23,004)[3][4]	(94,261)	47,438	43,973	38,753	83,981	44,358	38,698
Others	7,813	(7,112)[1]	21,402	22,103	634	—	20,366	21,000	19,898	17,537	20,724	19,623	17,119
Current assets	535,673	(239,761)[4][1]	(838)	295,074	479,588	(87,515)[4]	(3,820)	388,253	423,814	373,507	378,611	270,400	235,897
Total assets:	2,902,988	(367,541)	(76,416)	2,459,031	2,835,958	(110,519)	(77,471)	2,647,968	2,754,582	2,427,613	2,678,252	2,608,514	2,275,668
Liabilities:													
Shareholders' equity	1,421,009	(206,743)	(1,430)	1,212,836	862,228	(53,842)	(898)	807,488	779,643	687,099	789,980	815,431	711,382
Share capital	540,909	(182,204)	—	358,705	358,705	—	—	358,705	358,705	316,127	358,705	358,705	312,934
Revaluation reserve	348,199	(5,694)	—	342,505	342,505	—	—	342,505	342,505	301,850	342,505	342,505	298,801
Legal reserve	41,348	(17,513)	—	23,835	34,473	—	—	34,473	46,988	41,410	34,473	46,988	40,992
Voluntary reserve	384,172	17,511	—	401,683	1,388	17,265[3][1]	(1)	18,652	15,942	14,050	1,388	15,942	13,908
Reserves in companies consolidated using proportional method			(8,616)	(8,616)			(1,281)	(1,281)	(741)	(654)	(741)	(741)	(645)
Reserves in companies consolidated using equity method											14,554		
Retained earnings											125,155	117,844	102,807
Consolidated profit and loss account	106,381	(18,843)	7,186	94,724	125,157	(71,107)	384	54,434	117,844	103,856	16,113	35,788	31,221
Interim dividend paid relating to prior year	—	—	—	—	—	—	—	—	(101,600)	(89,540)	(102,172)	(101,600)	(88,636)
Deferred income	584,576		(136,425)	448,151	605,850		(129,276)	476,574	479,553	422,630	495,216	494,464	431,370
Provision for liabilities and charges	153,128	(94,354)[1]		58,774	60,119			60,119	1,290	1,137	60,595	2,051	1,789
Long-term debt	390,129	50,168	50,666	490,963	893,467	182,716	45,575	1,121,758	985,513	868,533	939,046	910,049	793,928
Amounts owed to credit institutions	108,240			108,240	85,344			85,344	78,612	69,281	86,321	74,298	64,818
Amounts owed to Group and associated companies	279,137	50,259[5]	50,666	380,062	805,356	182,716[5]	45,575	1,033,647	904,352	797,005	849,970	833,257	726,933
Other creditors	2,752	(91)[1]		2,661	2,767			2,767	2,549	2,247	2,755	2,494	2,177
Current liabilities	354,146	(116,612)[2][1]	10,773	248,307	414,294	(239,393)[2][1]	7,128	182,029	508,583	448,214	393,415	386,519	337,199
Total liabilities:	2,902,988	(367,541)	(76,416)	2,459,031	2,835,958	(110,519)	(77,471)	2,647,968	2,754,582	2,427,613	2,678,252	2,608,514	2,275,668

(1) Pro forma adjustments reflecting the spin-off and transfer of our gas supply and real estate rental businesses to Gas Natural, approved by our shareholders on October 30, 2000, with retroactive effect from July 1, 2000.

(2) Pro forma adjustments reflecting the change in our gas supply arrangements reflected in our historical financial statements with effect from July 1, 2000, when we began to purchase our natural gas requirements from the Gas Natural Group rather than directly from producers.

(3) Pro forma adjustments reflecting the sale of Gas Natural on April 27, 2001 for €34.17 million, of our 20.5% shareholding in Gas de Euskadi, a company engaged in natural gas transportation distribution and other activities incompatible with our corporate purposes under the new regulations.

(4) Pro forma adjustments reflecting the sale to Gas Natural of certain inventories of natural gas in 2001. We had purchased these stocks after the spin-off of our gas supply business to ensure continuity and reliability of supply to the tariff-based market. In 2001, we sold these natural gas inventories to Gas Natural for €203.26 million and €85.71 million, the respective book value of natural gas inventories in our audited non-consolidated historical financial statements at December 31, 1999 and December 31, 2000.

(5) The net balance after all pro forma adjustments was included in "Amounts owed to Group and associated companies".

(6) Amounts stated in dollars as of December 31, 2001 have been translated at the rate of €1.00 = US $ 0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(7) Amounts stated in dollars as of March 31, 2002 have been translated at the rate of €1.00 = US $ 0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

Cash Flow information[1]:

	Year ended December 31,			Three months ended March 31,		
	2000	2001		2001	2002	
	Unaudited consolidated pro forma	Unaudited consolidated historical		Unaudited consolidated historical	Unaudited consolidated historical	
	(in thousands of euro)	(in thousands of euro)	(in thousands of dollars)[2]	(in thousands of euro)	(in thousands of euro)	(in thousands of dollars)[3]
Cash flow from operating activities						
Results for the year (net profit)	54,434	117,844	103,856	16,113	35,788	31,221
Depreciation and amortization	107,244	111,308	98,096	27,222	29,235	25,505
Net deferred expenses (income)	(23,970)	(24,504)	(21,595)	(3,758)	(5,521)	(4,817)
(Profit) losses on disposal of fixed assets	61	(5,925)	(5,222)	(2,636)	(147)	(128)
Net (credit) charges in provisions	4,713	(59,357)	(52,311)	476	761	664
Net cash provided by operating activities before working capital changes	142,482	139,366	122,824	37,417	60,116	52,445
Increase/decrease in current assets (liabilities), net:						
(Increase) / decrease in debtors	(98,346)	(32,788)	(28,896)	107,567	158,941	138,661
(Increase) / decrease in inventories	22	87,245	76,889	(4,350)	(166)	(145)
Increase / (decrease) in creditors	(66,278)	288,903	254,610	173,735	(122,064)	(106,489)
(Increase) / decrease in current investments	(901)	720	634	(5,656)	(6,298)	(5,494)
(Increase) / decrease in prepayments and accrued income	100	(220)	(194)	448	454	396
Net cash provided by / (used in) operating activities	(22,921)	483,226	425,867	309,161	90,983	79,374
Cash flow from investing activities:						
Disposal of fixed assets	88,618	77,385	68,199	4,216	1,665	1,453
Investments in fixed assets	(295,886)	(216,836)	(191,097)	(31,444)	(38,372)	(33,476)
Net cash used in investment activities	(207,268)	(139,451)	(122,898)	(27,228)	(36,707)	(32,023)
Cash flow from financing activities:						
Other reserves	18,739	154	136	—	—	—
Increase / (Decrease) in long-term debt	684,025	(126,685)	(111,647)	(179,062)	(54,758)	(47,771)
Dividends	(478,521)	(214,240)	(188,810)	(102,172)	—	—
Other	—	—	—	154	—	—
Net cash provided by/(used in) financing activities	224,243	(340,771)	(300,321)	(281,080)	(54,758)	(47,771)
Net cash flow for the period	(5,946)	3,004	2,648	853	(482)	(420)
Cash at the beginning of the year	7,044	1,098	968	1,098	4,102	3,579
Cash at the end of the year	1,098	4,102	3,616	1,951	3,620	3,159

(1) This unaudited cash flow information has been derived from the unaudited consolidated pro forma statements and the audited and unaudited consolidated historical financial statements referred to above.

(2) Amounts stated in dollars for the year ended December 31, 2001 have been translated at the rate of €1.00 = US$0.8813 (the official rate published in the Spanish Official State Bulletin dated December 28, 2001).

(3) Amounts stated in dollars for the three-month period ended March 31, 2002 have been translated at the rate of €1.00 = US$0.8724 (the official rate published in the Spanish Official State Bulletin dated March 28, 2002).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with our historical and pro forma consolidated financial statements and the notes to those financial statements beginning on page F-1 of this offering circular and other historical and pro forma financial information for Enagás included elsewhere in this offering circular. All of the financial statements included in this offering circular have been prepared in accordance with Spanish GAAP, which differ in certain respects from U.S. GAAP. The information included in this MD&A compares the consolidated historical financial information for 2001 with the consolidated pro forma financial information for 1999 and 2000. For a summary of significant differences between Spanish GAAP and U.S. GAAP, relevant to us, see "Annex 1: Summary of Differences Between Spanish and U.S. Reporting" beginning on page A 1-1 of this offering circular. Our financial condition and results of operations as of and for the three-month period ended March 31, 2002 are not indicative of the financial condition and results of operations for the entire year or for any future period.

Basis of Presentation of Financial Information and Methodology of Preparation of Pro Forma Financial Information

This offering circular includes our:

- unaudited consolidated historical financial statements as of and for the three-month periods ended March 31, 2001 and 2002;
- audited consolidated historical financial statements as of and for the year ended December 31, 2001;
- audited non-consolidated historical financial statements as of and for the years ended December 31, 1999 and 2000;
- unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000,

including their respective accompanying notes; and

- unaudited consolidated historical cash flow information for the three-month periods ended March 31, 2001 and 2002;
- unaudited consolidated historical cash flow information for the year ended December 31, 2001; and
- unaudited consolidated pro forma cash flow information for the year ended December 31, 2000.

For the purposes of preparing our audited non-consolidated historical financial statements for 1999 and 2000, all Spanish peseta amounts were converted to euro at the conversion rate of 1 euro = 166.386 Spanish pesetas, published in EC Regulation 2866/98 of December 31, 1998.

Unless otherwise specified, references in the following discussion to:

- financial information for 1999 or 2000 are references to information extracted or derived from our unaudited consolidated pro forma financial statements and other unaudited consolidated pro forma financial information as of and for the years ended December 31, 1999 and 2000;
- financial information for 2001 are references to information extracted or derived from our audited consolidated historical financial statements and other audited and unaudited consolidated historical financial information as of and for the year ended December 31, 2001;
- financial information as of and for the three-month periods ended March 31, 2001 and 2002 are references to information extracted or derived from our unaudited consolidated historical financial statements and other unaudited consolidated historical financial information as of and for those periods,

each included elsewhere in this offering circular.

We have included our audited non-consolidated historical financial statements for 1999 and 2000 because at the time of issuance of such financial statements we did not prepare financial statements for the Enagás Group on a consolidated basis. At that time, our non-consolidated financial statements and those of Gasoducto Al Andalus, S.A. and Gasoducto Extremadura, S.A. were consolidated in the financial statements of the Gas Natural Group, and the financial statements of Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. were consolidated in the financial statements of Transgas. References in the discussion that follows to our "consolidated investee companies" are to Gasoducto Al Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. At the date of this offering circular, we own 66.96% of the shares of Gasoducto Al Andalus, S.A., 51% of the shares of Gasoducto Extremadura, S.A., 12% of the shares of Gasoducto Campo Maior-Leiria-Braga, S.A. and 49% of the shares of Gasoducto Braga-Tuy, S.A.

The purpose of the unaudited consolidated pro forma financial information included in this offering circular as of and for the years ended December 31, 1999 and 2000 is:

(i) to present our financial condition and results of operations as if the following events had occurred before January 1, 1999:

  (1) the spin-off and transfer of our gas supply and real estate rental businesses to Gas Natural, approved by our shareholders on October 30, 2000, reflected in our historical financial statements with effect from July 1, 2000;

  (2) the change in our natural gas supply arrangements reflected in our historical financial statements with effect from July 1, 2000, pursuant to which we began to purchase our natural gas requirements for supply to the tariff-based market from the Gas Natural Group rather than from producers. See "Business—Suppliers and Customers—Suppliers";

  (3) the sale to Gas Natural on April 27, 2001 for €34.2 million, of our 20.5% shareholding in Gas de Euskadi, a company engaged in natural gas transportation and distribution and other activities incompatible with our corporate purpose under the new regulations; and

  (4) the sale in 2001 to Gas Natural of certain inventories of natural gas purchased after the spin-off of our natural gas supply business to ensure continuity and reliability of supply to the tariff-based market. For purposes of preparing the unaudited consolidated pro forma financial statements, the amounts of €203.26 million and €87.51 million, the respective book value of natural gas inventories in our audited non-consolidated historical financial statements as of December 31, 1999 and December 31, 2000, were transferred to Gas Natural; and

(ii) to consolidate our financial statements with those of our consolidated investee companies. The financial statements of these investee companies have been consolidated in our consolidated financial statements using the proportional consolidation method in accordance with Spanish consolidation legislation, to reflect the fact that we have joint management of these companies with Transgas.

As described in the notes to our unaudited pro forma consolidated financial statements, the following are the main assumptions and adjustments that have been applied to prepare the pro forma financial information:

- for 1999 and the period beginning on January 1, 2000 and ended June 30, 2000, transactions and balances relating to our gas supply and real estate rental businesses have been identified and eliminated;
- the following adjustments have been made to reflect the change in natural gas supply arrangements described in paragraph (i)(2) above:

  (a) the real purchase price of natural gas paid by Enagás during 1999 and the first six months of 2000 has been replaced by a standard gas price based on the arrangements in effect between Enagás and the Gas Natural Group from July 1, 2000. These standard prices are based on raw material cost according to natural gas sale prices published in the Spanish Official State Bulletin (*Boletín Oficial del Estado*); and

  (b) the standard gas price described in (a) above has been applied to the actual quantities of gas purchased during the periods prior to July 1, 2000, resulting in the figures shown in "Supplies—Consumption of raw materials and consumable materials" in the unaudited consolidated pro forma financial statements;

- an amount of €34.17 million, representing the net book value of our 20.5% shareholding in Gas de Euskadi (€19.62 million at the date of sale, plus the after-tax profit of €14.55 million we obtained from the sale), has been applied as a deduction from our long-term debt with group companies, and the after-tax profit of €14.55 million has been applied to increase our voluntary reserves, in our pro forma financial statements as of December 31, 1999. Gas de Euskadi was consolidated using the equity method in our unaudited consolidated financial statements as of and for the three months ended March 31, 2001;
- the natural gas inventories included in our balance sheet at December 31, 1999 and December 31, 2000 have been eliminated to reflect the sales to Gas Natural described in (i)(4) above, and the corresponding amount has been deducted from our long-term debt with group companies;
- credits, debits, revenues, expenses and the results of operations with other members of the Enagás Group have been eliminated proportionately to our shareholding in each of them; and
- where our consolidated investee companies use different accounting and valuation criteria in their non-consolidated accounts and the effect is significant, we have conformed these criteria to those used by Enagás. These adjustments did not have a material effect on the unaudited consolidated pro forma financial statements.

See "Selected Audited and Unaudited Historical and Unaudited Consolidated Pro Forma Financial Information" for detailed numeric adjustments applied in preparing our unaudited consolidated pro forma financial statements as of and for the years ended December 31, 1999 and 2000 included in this offering circular, together with note 1 to those financial statements.

Our natural gas distribution business was spun off to Gas Natural with effect from December 31, 1998. Accordingly, no data relating to that business is included in our audited non-consolidated historical financial statements or our unaudited consolidated pro forma financial statements as of and for the year ended December 31, 1999.

Certain other disposals and acquisitions of assets between Enagás and the Gas Natural Group also took place in the years under discussion. These are described in the notes to our financial statements. These transactions were not included in the pro forma financial statements because they related to current activities. See also "—Related Party Transactions".

Our Revenues and Expenses

Our revenues

The main components of our revenues are:

- net turnover; and
- other operating income.

Net turnover. In the three years ended December 31, 1999, 2000 and 2001, the three-month period ended March 31, 2001 and the period from January 1, 2002 through February 18, 2002 (the period in 2002 prior to introduction of our new remuneration structure), net turnover comprised our revenues from:

(a) sales of natural gas to distribution companies for supply to customers. Following the introduction of the new regulatory framework, these sales to distribution companies were for supply to customers in the tariff-based market only; and

(b) services rendered, representing revenues from providing operators in the Spanish natural gas sector and eligible customers in the liberalized market with third-party access to our transportation network. We started to provide these services in late 1999. In 2001, the transportation of natural gas owned by third parties represented approximately 38% of the total volume of natural gas we transported during that year. In our unaudited consolidated financial statements as of and for the three-month period ended March 31, 2002, services rendered also included amounts payable to us under our lease of natural gas storage capacity to the Gas Natural Group

See "Business—Suppliers and Customers—Customers".

For the period from February 19, 2002 through December 31, 2002, and for subsequent financial periods, our net turnover for services rendered will comprise the remuneration we receive for our regulated activities under the new regulatory remuneration structure. Under the new regulations, we will receive remuneration for the following regulated activities:

- transportation activities (including regasification, transport and storage facilities);
- handling the purchase and sale of natural gas intended for supply to the tariff-based market (plus a small permitted margin on the sale of the natural gas to distribution companies); and
- acting as System Technical Manager.

See "Factors Affecting Results of Operations—Factors affecting revenues—2002 and subsequent years—New remuneration structure for regulated activities".

Other operating income. Other operating income comes from non-regulated activities and comprises: the current portion of outstanding capital grants received from the E.U., the Spanish state and other public authorities; and other income. Other income consists principally of:

- the portion due for amortization of the fee payable to us by Gasoducto Al Andalus, S.A. and Gasoducto Extremadura, S.A. for use of the Al Andalus and Extremadura pipelines. We granted this right of usage under agreements between each of these two companies and Enagás. These agreements expire in 2028. The portion of this fee (net of consolidation adjustments) payable over the remaining term of the agreements is included under "deferred income" in our financial statements, and transferred to our income statement for inclusion in "other operating income" on a straight line basis over the term of the agreements. The unamortized portion of the fee remaining in "deferred income" in our balance sheet as of December 31, 2001 was €68.97 million;
- revenues earned by us for providing pipeline, sealine and fiber optic maintenance services under agreements with other members of the Gas Natural Group. Gas Natural has stated that it intends to terminate the pipeline maintenance service agreement during 2002. Our total revenues from providing pipeline and sealine maintenance services in 2001 were approximately €7.45 million. Our total revenues from providing fiber optic maintenance services in 2001 were €2.08 million;
- revenues earned by our consolidated investee companies (after consolidation adjustments) for providing natural gas transportation services to Transgas and Enagás;
- for the years ended December 31, 1999, 2000 and 2001, and for the three-month period ended March 31, 2001, rents receivable by us under our lease of natural gas storage capacity to the Gas Natural Group. For the three-month period ended March 31, 2002, these revenues were included in "services rendered"; and
- revenues from the construction of ancillary natural gas pipelines connecting customers to the Spanish pipeline network, commissioned on an ad-hoc basis by third-parties and members of the Gas Natural Group.

Our expenses

The main components of our expenses are:

- supplies;
- personnel costs;
- fixed asset depreciation; and
- other operating expenses.

We recognize all our expenses on an accrual basis.

Supplies. The cost of our supplies is broken down into the following components: consumption of raw and consumable materials; consumption of goods purchased for resale; and other external expenses.

Consumption of raw materials and consumable materials includes the cost of natural gas for our supply to distribution companies and other products used in the regasification and transport processes; the cost of natural gas lost during transportation; and the cost of own consumption of natural gas. The cost of raw and consumable materials represented our main item of expense in each of the periods under discussion.

Consumption of goods purchased for resale includes principally the cost of materials resold in the context of the pipeline maintenance and construction work we carried out for members of the Gas Natural Group during the periods under discussion.

Other external expenses included principally the cost of materials for the maintenance of our own facilities.

Personnel costs. Wages, salaries and similar remuneration are the main component of our personnel costs. Other personnel welfare costs included in personnel costs comprise: social security and pension fund contributions; medical insurance; training costs; health and safety insurance premia; catering; uniforms; and study grants.

Pension fund obligations represent the charge for the period in question relating to our commitments under our pension plan to current employees, and recognizes certain vested rights for past services. We make monthly contributions averaging 6.8% of qualifying monthly salary amounts. The charge in our income statement in 2001 was €1.79 million.

Fixed asset depreciation. Our tangible fixed assets are stated at acquisition or production cost, except for those of our fixed assets that were in operation as of December 31, 1996. These fixed assets were revalued in 1996 under the provisions of Royal Decree 7/96. Under this legislation, we were required to create a restricted revaluation reserve reflecting the increase in the value of the revalued assets.

The value of our tangible fixed assets in our balance sheets includes financial expense incurred in relation to infrastructure projects, which we capitalize if construction periods exceed one year. If any such infrastructure project is discontinued, the accumulated amount of the capitalized expense is recorded as an expense in our income statement in the financial period in which the project is discontinued.

The cost of remodeling, extensions or improvements is booked as an increase in the value of the asset only when its capacity, productivity or useful life is increased as a result of such remodeling, extensions or improvements. The net book value of assets replaced is deducted.

Our tangible fixed assets are depreciated on the basis of their useful life. The annual depreciation rates applicable to our most significant categories of assets throughout the three years under discussion were:

- 5% for our compressor stations;
- 3.33% for pipelines;
- 10% for regasification installations;
- 5% for LNG storage tanks located at our regasification plants;
- 8% for the docking facilities and loading bays located at our regasification plants;
- 4% for the permanent gas pool in our underground storage facilities or the duration of the lease of the related facility, if shorter; and
- 2% to 3% for buildings.

See the notes captioned "Accounting Principles" and "Tangible Fixed Assets" in our financial statements for a description of our accounting policies with respect to tangible fixed assets.

Our intangible fixed assets include research and development expenses, and are generally stated at their acquisition or production cost and amortized over five years. The exception to this principle is for administrative concessions, relating generally to land on which our regasification plants are constructed and to the Serrablo underground storage facility. Our administrative concessions are amortized during the applicable concession period, which ranges from 30 to 75 years.

Other operating expenses. Our other operating expenses consist mainly of:

- external services, principally comprising:
    - payments to Grupo Gaviota (a consortium in which Repsol-YPF has an indirect interest of 82%) for the right of usage and operating costs relating to the Gaviota underground storage facility. This payment totaled €25.69 million in 2001;
    - the cost of services, repairs and maintenance we commission from third parties;
    - the cost of corporate services provided by the Gas Natural Group, which are generally calculated by reference to our operating profit for the previous financial year;
    - the cost of IT services provided by the Gas Natural Group;
    - the cost of natural gas transport services provided to us by our consolidated investee companies and costs incurred by our consolidated investee companies for use of the pipelines owned by Enagás and Transgas, net of consolidation adjustments;
    - rental payments to the Gas Natural Group for the lease of natural gas for seasonal modulation and our 35-day strategic reserves and of our fiber optic communication network, calculated by reference to our consolidated operating profit for the previous financial year; and
    - the cost of electricity for our own consumption, mainly in the regasification process; and
- business levies charged by the local authorities of the municipalities through which our pipeline network passes.

The following table gives a breakdown of the costs included in "External Services" for 2000 and 2001. The information shown in the table is unaudited and is derived, for the year ended December 31, 2000, from our unaudited consolidated pro forma financial information for that year, and, for the year ended December 31, 2001, from our audited consolidated historical financial information for that year.

	Year ended December 31,	
	2000	2001
	(in thousands of euro)	
Rental payments[(1)]	42,040	38,290
Repairs and maintenance[(2)]	13,089	18,920
Supplies[(3)]	7,867	9,045
Fees[(4)]	19,142	23,175
External professional services[(5)]	6,829	6,605
Transport costs[(6)]	17,412	16,855
Other services[(7)]	15,312	22,424
	121,691	135,314

(1) Includes principally payments to Grupo Gaviota for the use and operation of the Gaviota underground storage facilities, rental payments for the lease of natural gas from Gas Natural and rental payments for our headquarters in Madrid.
(2) Includes principally payments for pipeline, sealine and fiber optic maintenance services.
(3) Includes principally payment for electricity, water and telephone utilities.
(4) Includes principally the fee payable to Gas Natural for corporate and IT services.
(5) Includes principally work commissioned from third parties.
(6) Includes principally the cost of natural gas services provided to us by our consolidated investee companies and costs incurred by them for use of the pipelines owned by Enagás and Transgas.
(7) Includes principally insurance costs and other overheads.

See the notes headed "Transactions with Group Companies" in our financial statements for information regarding our principal transactions with the Gas Natural Group during the periods in question.

Factors Affecting Results of Operations

Factors affecting revenues

Years ended December 31, 1999, 2000 and 2001. The main factors affecting our revenues shown in our unaudited consolidated pro forma financial statements for the two years ended December 31, 1999 and 2000 and in our audited consolidated historical financial statements for the year ended December 31, 2001 were the evolution of demand for natural gas in Spain and the fluctuations in its average unit price.

Between 1999 and 2001, demand for natural gas in Spain increased from approximately 10.3% of total primary energy sources in Spain in 1999 to approximately 12.8% in 2001, according to Ministry of Economy information. See "Industry Overview". The average unit price of natural gas in 1999, 2000 and 2001 was 1.6481 Spanish pesetas (€0.0099) per therm, 2.7658 Spanish pesetas (€0.0166) per therm and 2.8476 Spanish pesetas (€0.0171) per therm, respectively.

The adoption of the Hydrocarbons Sector Law resulted in a change in our customer mix. This change in customer mix was, in turn, also reflected in our revenues in the three years ended December 31, 1999, 2000 and 2001, as the provision of third-party access to our network for the liberalized market increased and sales to distribution companies for the tariff-based market decreased. Approximately 38% of the total natural gas we transported in 2001 was for the liberalized market. See "Legal and Economic Regulation".

2002 and subsequent years—new remuneration structure for regulated activities. The new remuneration structure for regulated activities in the Spanish natural gas sector, which came into force on February 19, 2002, has significantly changed the way in which we are remunerated for our regulated activities. Consequently, the revenue figures shown in our financial statements for 2001 and previous financial periods are not comparable to our revenues for 2002 or any future financial period.

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

- to ensure that any investment made by owners of the relevant natural gas facility are recovered during the useful life of such facility;
- to allow for a reasonable return on capital invested; and
- to determine a system for the 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 earlier than January 1, 2003 and no later than January 1, 2005.

The precise method of calculating the remuneration payable for regulated activities is set out principally in Ministerial Order ECO/301/2002. The remuneration payable to companies carrying out regulated activities for the period until the entry into force of this Ministerial Order was subject to the former regulatory framework.

The remuneration payable to Enagás for its regulated activities comprises three distinct elements:

- remuneration for our regasification, transport and storage activities;
- remuneration for handling the purchase and sale of natural gas intended for supply to the tariff-based market, plus a small permitted margin on the sale of that natural gas to distribution companies; and
- remuneration for acting as System Technical Manager.

Estimated remuneration for 2002 from our regulated activities. The CNE Report contains annualized estimated remuneration figures for 2002 for operators of regulated activities in the Spanish natural gas sector. The CNE Report was issued in relation to a draft form of Ministerial Order ECO/301/2002. The estimated remuneration figures shown in the CNE Report were extracted from the Explanatory Memorandum.

The 2002 aggregate industry-wide estimated remuneration (including fixed and variable components) contained in the CNE Report for regulated activities in the Spanish natural gas sector included the following estimates:

- remuneration for transportation activities: €470.346 million, broken down as follows:
    - €88.469 million representing estimated remuneration for regasification;

    - €324.060 million representing estimated remuneration for transport; and
    - €57.817 million representing estimated remuneration for storage;
- remuneration for handling the purchase and sale of gas intended for the tariff-based market: €23.983 million; and
- remuneration for acting as System Technical Manager: €8.955 million.

The figures shown in the CNE Report were in respect of each of the above regulated activities as a whole. No estimated remuneration figures were included in the CNE Report for Enagás or any other single operator in the Spanish natural gas sector.

The Explanatory Memorandum does, however, break down the 2002 estimated remuneration figures by groups of companies for each regulated activity.

The estimated remuneration given in the CNE Report for regasification and storage activities for the Spanish natural gas sector matches the estimated remuneration for regasification and storage activities shown for Enagás in the Explanatory Memorandum, as Enagás is currently the only provider of regasification and storage services related to the natural gas sector.

For transport activities, however, the Explanatory Memorandum states that of the total €324.060 million estimated remuneration for transport activities, €315.4 million correspond to Enagás. We believe that this latter estimate takes into account not only Enagás' pipeline network, but also some high-pressure pipelines owned by other members of the Gas Natural Group and, therefore, overstates the amount that corresponds to Enagás. On the basis of the relative values of our pipeline network and the high-pressure pipelines of the Gas Natural Group, we estimate that the portion of the estimated remuneration for transport for Enagás shown in the Explanatory Memorandum that corresponds to these Gas Natural assets is approximately €15.2 million. We have therefore excluded this amount in arriving at total estimated remuneration from transportation activities corresponding to Enagás. On this basis, that part of the estimated remuneration for 2002 from regulated activities, shown in the CNE Report and the Explanatory Memorandum, corresponding to Enagás would be approximately:

Regulated activity	Estimated remuneration from regulated activities for 2002 (millions of euro)
Transportation activities (including regasification, transport and storage)	446.5
Supply to tariff-based customers	24.0
System Technical Manager	9.0
Total	479.5

The estimated remuneration figures shown in the CNE report and in the Explanatory Memorandum are, however, annualized figures, based on a projected natural gas demand in Spain for the whole of 2002 of 237,246 GWh, and were prepared on the assumption that Ministerial Order ECO/301/2002 came into force on January 1, 2002. It actually came into force on February 19, 2002, and, accordingly, the remuneration figures (including the total of €479.5 million) referred to above have been overstated and will be subject to a proportionate adjustment.

Moreover, Ministerial Order ECO/301/2002 provides for a proportionate adjustment at the end of 2002 of the annualized remuneration figures for 2002 that have been or may be published by the Ministry of Economy by reference to actual natural gas demand in Spain for 2002. At the date of this offering circular, the only estimated annualized remuneration figure officially published by the Ministry of Economy is the fixed component for remuneration of transportation activities for the Gas Natural Group, Endesa and Gas de Euskadi, all included in Annex I to Ministerial Order ECO/301/2002. The figure for the fixed component for transportation (including regasification, transport and storage) given for the Gas Natural Group in Order ECO/301/2002 is €422,725,000.

In addition, the variable component of our 2002 reference annual remuneration for regasification and our regulated fee for handling the purchase and sale of natural gas intended for the tariff-based market will also depend on actual demand for natural gas in Spain.

Our revenues from our regulated activities for the financial year ending December 31, 2002 will comprise: (i) that part of the remuneration for regulated activities finally determined to correspond to Enagás for the period between February 19 and December 31, 2002; plus (ii) our actual revenues from our regulated activities earned during the period beginning on January 1, 2002 and ended February 18, 2002.

In view of the above factors, we believe that our actual revenues from regulated activities for the year ended December 31, 2002 are likely to differ, and may differ materially, from the estimated remuneration figures given in the CNE Report, the Explanatory Memorandum and Order ECO/301/2002, and from our estimate of the proportion of those estimated remuneration figures corresponding to Enagás.

The CNE Report includes a description of the basis on which existing assets in operation at December 31, 2001 were valued for the purpose of calculating the fixed component of the remuneration for transportation activities for 2002. In summary, the CNE Report states that valuation is carried out on the basis of the gross balance sheet value of those assets updated to 2002 by an inflation factor, multiplied by an efficiency factor. The value of capital grants actually received in respect of those assets, also updated to 2002 by an inflation factor, is deducted for purposes of the valuation. On the basis of the information contained in the CNE Report and summarized above, and taking into account the estimated fixed component of our remuneration for 2002 derived from the Explanatory Memorandum, we estimate that the valuation for regulatory purposes of our assets as of December 31, 2001, was in the order of €2.6 billion.

See "Legal and Economic Regulation—Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002 for further information on how our remuneration from regulated activities will be determined under the new remuneration structure. All figures for remuneration shown in such note 2(m) are subject to the observations described above.

Revenue recognition. For the three years ended December 31, 1999, 2000 and 2001, the three-month period ended March 31, 2001 and the period from January 1, 2002 through February 18, 2002, we recognized our revenues from regulated activities on an accruals basis: for gas sales, based on amounts actually invoiced by distribution companies to their customers; and for third-party access services, based on amounts we actually invoiced to our customers. These revenues were therefore subject to seasonal fluctuations, reflecting actual demand for natural gas in Spain during the period in question.

The way in which we recognize revenues from our regulated activities has changed as a result of the entry into force of Ministerial Order ECO/301/2002 on February 19, 2002, which provides that, for each year from 2002 onward, the Ministry of Economy will provide us with estimated figures before January 31 of each year for: (i) the fixed component of our remuneration for transportation activities (including regasification, transport and storage); (ii) our remuneration for handling the purchase and sale of natural gas intended for the tariff-based market; and (iii) our remuneration for acting as System Technical Manager. The Ministry of Economy will also inform us before January 31 of each year of: (i) the criteria for calculating the variable component of our remuneration for regasification activities for the following year; and (ii) our permitted margin on the sale of natural gas to distribution companies for the supply of natural gas to the tariff-based market.

From February 19, 2002, we began to recognize revenues in respect of remuneration for our regulated activities under the new regulatory framework as follows:

- ***on a straight-line basis.*** we will recognize the amounts notified by the Ministry of Economy for each year for the following remuneration on a straight-line basis over our financial year:

  (i) the fixed component of our remuneration for regasification, transport and storage;

  (ii) our handling fee for the purchase and sale of natural gas intended for supply to the tariff-based market; and

  (iii) our remuneration for acting as System Technical Manager.

  We consider that, where sufficient information is available to us, straight-line recognition more closely reflects the underlying principles of the new remuneration structure, which links remuneration to infrastructure assets.

- ***on an accruals basis***. we will recognize (i) the variable component of our remuneration for regasification and (ii) our permitted margin on the sale of natural gas to distribution companies for supply to the tariff-based market on an accruals basis, as follows:
  - (i) with respect to the variable component of our regasification remuneration; we will recognize in each month the product of: (a) the standard recognized cost for regasification applicable under Ministerial Order ECO/301/2002 for the year in question (which was set at 0.000243/kWh for 2002) and (b) the actual number of kWh of LNG we regasify in that month;
  - (ii) with respect to the margin on the sale of gas to distribution companies for supply to the tariff-based market, we will recognize in each month the product of: (a) the permitted margin; and (b) the actual number of kWh invoiced in that month by the distribution companies to which we sell the natural gas for supply to customers in the tariff-based market.

We will continue to recognize our revenues from non-regulated activities (included in “Other operating income”) on an accruals basis, reflecting amounts actually invoiced to customers in the financial period in question.

Because of the differences in remuneration structure and revenue recognition described above, our revenues for the three-month periods ended March 31, 2001 and 2002 are not comparable with each other.

Settlement mechanism. Our invoicing to customers and our remuneration for regulated activities, other than our remuneration and margin for handling the supply of natural gas to the tariff-based market, will be subject to detailed settlement regulations, which are still in draft form. Royal Decree 949/2001, however, provides for monthly provisional settlements on account of a definitive settlement process at the end of each year. See “Legal and Economic Regulation—Economic Regulation—Settlement”.

Factors affecting expenses

Supplies. Our main expense item is the cost of natural gas for supply to the tariff-based market. Our natural gas supply costs are dependent on fluctuations in the price of natural gas. Under the new regulations, however, we sell the natural gas we have purchased for supply to the tariff-based market at a regulated price, representing our average cost of raw materials plus a margin reflecting transportation costs incurred by us in the supply of natural gas for the tariff-based market. In practice, the cost of raw materials includes not only the cost of the natural gas itself, but also the cost of other gases and substances used in the transportation process (for example, odorization gases); the cost of gas lost during the transportation process; the cost of related insurance; and loading and unloading costs. Under the new regulations, the regulated natural gas sale price is equal to the average raw material cost plus our margin reflecting transportation costs incurred in the supply of natural gas to the tariff-based market. We are therefore not significantly exposed to the fluctuation of natural gas purchase and selling prices.

Personnel costs. Our personnel costs vary mainly in accordance with the number and mix of employees, and salary increases in each year. There was no substantial change in the overall average number of employees of Enagás during the periods under discussion. Our consolidated investee companies have no employees. The notes captioned “Personnel Costs” in our consolidated financial statements show the evolution of the average number of Enagás employees during each of the periods under discussion.

The entry of new members of our management team in late 2000 and early 2001 had the effect of increasing our personnel costs in 2001. Management services had previously been provided directly by Gas Natural under our corporate services agreement.

Fixed asset depreciation. The main factor influencing the charge for fixed asset depreciation recorded in our income statement is the value of infrastructure assets in operation during the financial period in question.

Under the new regulations, one of the components of our remuneration is a standard recognized cost representing a depreciation allowance for our infrastructure investments. The allowance is calculated by reference to: (i) the underlying gross value for each asset that is updated by reference to inflation each year; and (ii) standard depreciation periods. The main standard depreciation periods are:

- 30 years for pipelines;
- 20 years for storage tanks; and

- 10 years for regasification facilities.

The provisions relating to the depreciation of our infrastructure assets under the new remuneration structure will influence our results of operations in the following ways:

- the standard depreciation cost component of our revenues is calculated on the basis of an underlying asset value that is revalued by reference to inflation each year, while our depreciation charge for accounting purposes remains the same throughout the useful life of the asset. This combination enhances the base value for calculating the depreciation component of our remuneration relative to that asset, while the related charge for depreciation in our financial statements remains stable; and
- in addition, in the long term, once assets have been fully written down by reference to the regulatory depreciation periods, we will continue to receive 50% of the annual recognized return on the updated investment value plus 100% of the standard recognized operating costs relative to that asset. See note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002.

Other operating expenses. The cost of our external services was affected in the periods under discussion by: paying rent for the first time to Gas Natural in 2000 for the lease of natural gas for seasonal modulation and strategic reserves; increases in the amounts invoiced by the Gas Natural Group for central services it provided to Enagás, in particular, corporate and IT services. These services will be discontinued with effect from June 30, 2002. See "Relationship with the Selling Shareholder and Affiliates".

Fixed and variable operating costs. Our principal fixed costs (other than personnel costs and fixed asset depreciation, which are discussed above) are:

- payments to Grupo Gaviota for the use and operation of the Gaviota underground storage facility;
- costs related to repair and maintenance of our network;
- the cost of external services we commission for the maintenance of our own facilities; and
- central structural services, such as rental payments for the lease of fiber optic communication capacity and the cost of corporate and IT services provided by the Gas Natural Group. Gas Natural will discontinue the provision of corporate and IT services to us with effect from June 30, 2002.

Our main variable costs are:

- payments to Gas Natural for the lease of our strategic and operational reserves of natural gas;
- the cost of natural gas transport services provided by our consolidated investee companies and costs incurred by them for use of the pipelines owned by Enagás and Transgas (in each case, net of consolidation adjustments); and
- the cost of other external services, such as fees for professional services.

Financial unbundling

In accordance with the principle of financial unbundling required by the new regulatory framework, we will be required in future financial periods to show regasification, storage, transport, handling the purchase and sale of natural gas intended for the tariff-based market and our activities as System Technical Manager separately in our annual report and accounts. We must also maintain separate accounts in respect of our Portuguese investee companies.

Corporate taxation

During the years ended December 31, 1999, 2000 and 2001, Enagás was a member of the consolidated Gas Natural corporate income tax group. As a result of the offering, Enagás will cease with effect from January 1, 2002 to be a member of this tax group and will start to pay corporate income tax on an individual basis. We do not anticipate any material change in the basis on which we pay corporate income tax as a result of leaving the Gas Natural consolidated tax group.

In 2001, the Gas Natural consolidated tax group was subject to a corporate income tax inspection for the tax years 1995 through 1998. As a result of this inspection, an additional corporate income tax assessment was made against the Gas Natural consolidated tax group in respect of Enagás for a total amount of €8.47 million. Gas Natural is disputing this tax assessment, and has made a provision for the full amount in its consolidated financial statements for 2001. We have paid the full amount of this provision to Gas Natural in advance. We will be reimbursed to the extent the dispute is finally determined in favor of Gas Natural.

In addition, the tax years 1996 through 1998 of the Gas Natural consolidated tax group remain open to inspection for taxes other than corporate income tax, and the tax years 1999 through 2001 of the Gas Natural consolidated tax group remain open to inspection for all taxes. Additional tax liabilities could arise from any future inspection.

Upon our departure from the Gas Natural consolidated tax group, Gas Natural will have primary responsibility for tax liabilities arising in respect of Enagás for any tax years during which we were members of that consolidated tax group. Under Spanish law, Enagás will have secondary liability if Gas Natural fails to pay any tax liability in respect of Enagás for those years.

In March 2002, a tax inspection of Gasoducto Al Andalus, S.A. relating to value added tax and personal income tax for the years 1998 and 1999 and corporate income tax for the years 1997, 1998 and 1999 was completed without significant additional tax liabilities. All tax returns of Gasoducto Al Andalus, S.A. for 2000 and 2001 remain open to inspection. All tax returns for Gasoducto Extremadura, S.A. for the tax years 1997 through 2001 remain open to inspection. Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are also open to inspection for all taxes for the years 1997 through 2001.

Our effective corporate income tax rates in the years ended December 31, 1999, 2000 and 2001 were 33.5%, 35.1% and 25.6%, respectively, against a standard rate under Spanish law of 35% in each of these years. The difference between the standard corporate income tax rate in 1999 and 2000 was mainly a result of timing differences. The significantly lower rate in 2001 was due to the extraordinary profit recorded on the release of the €59.36 million provision described below, of which approximately €41.4 million was not subject to corporate income tax in that year.

Extraordinary items

We recorded a net extraordinary profit of approximately €60 million in our financial statements for the year ended December 31, 2001. The main component of this net extraordinary profit was the release of a provision related to an assessment for sales taxes made against us in 1990 by the Spanish tax authorities, which we disputed.

In our financial statements for 1993, we made an initial provision of approximately €41.4 million, corresponding to the principal amount of the disputed tax assessment plus an element representing possible penalty payments. In the following years, we made successive additional provisions to reflect accruing interest on the amount of the contingency. We appealed the assessment, and in May 2001, the Spanish Supreme Court issued its final decision in our favor.

On release of the provision, the initial €41.4 million provided for in 1993 was not subject to corporate income tax in 2001 as we had not been entitled to any tax deduction for this amount in previous financial years. We had, however, deducted the provisions for interest payments made in succeeding years, and this element of the released provision was consequently subject to the payment of corporate income tax in our financial statements for December 31, 2001.

Seasonal and other fluctuations in demand for natural gas

Seasonal and other fluctuations in the demand for natural gas in Spain affect the following components of our revenues: (i) the variable component of our remuneration for regasification activities under the new regulations; and (ii) our remuneration for handling the purchase and sale of natural gas intended for the tariff-based market.

Fluctuations in demand also affect the following component of our expenses: (i) our cost of supply of raw materials and consumable materials (although under the new regulations we recover the cost of raw materials incurred by us in purchasing natural gas for supply to the tariff–based market, plus a small margin on that purchase cost); and (ii) the payments we are required to make to Gas Natural for the lease of natural gas for seasonal modulation and our strategic reserves.

Natural gas demand is subject typically to the following seasonal and other fluctuations:

- demand in the residential and commercial market is significantly higher in the winter months than in the summer months;
- demand in the industrial market shows a marked decrease at weekends, on public holidays and in August, the traditional holiday month in Spain; and
- fluctuations in demand from year to year is linked to climatic conditions. Moreover, extraordinary climatic conditions at any given time can have a marked effect on demand.

Capital grants

We receive on an ad hoc basis capital grants relating to our construction projects from the E.U., the Spanish regional governments (*comunidades autónomas*) and the central Spanish government. We receive the payments of capital grants upon certification of works carried out. We record these amounts in our balance sheet on actual receipt of payment. We amortize our capital grants over the useful life of the assets in question to which each capital grant relates, starting in the year in which those assets enter into operation. In our balance sheet as of December 31, 2001 and March 31, 2002, total capital grants included in "Deferred income" were approximately €410 million and €428.29 million, respectively. We currently expect to receive approximately €37 million in additional capital grants in the medium term.

The current portion of capital grants included in "Other operating income" increased from approximately €14 million in 1999 to approximately €18 million in 2001.

Capitalization of finance costs relating to construction work in progress

Where the construction period exceeds one year, we record the finance costs relating to our construction work in progress as an asset in our balance sheet on an accruals basis. These costs are included in "Prepayments and fixed assets in course of construction".

If any such construction work in progress is discontinued, we transfer the related capitalized finance costs to our income statement as an expense for the period in which the relevant construction project is discontinued.

Results of Operations

Audited consolidated historical results of operations for the year ended December 31, 2001 and unaudited consolidated pro forma results of operations for the years ended December 31, 1999 and 2000

Revenues

Net turnover. Our net turnover increased by 77.5% from €1,500 million in 1999 to €2,663 million in 2000, and decreased by 9.4% to €2,414 million in 2001, as explained below.

Sales. Sales of natural gas to distribution companies increased by 75.2% from €1,488 million in 1999 to €2,607 million in 2000. This increase was principally the result of a 72% increase in the average unit price of natural gas from 1.6481 Spanish pesetas (€0.0099) per therm in 1999 to 2.8476 Spanish pesetas (€0.0171) per therm in 2000. In addition, demand for natural gas as a primary energy source in Spain increased by 12% in 2000.

Sales decreased by 14.1% to €2,239 million in 2001. This decrease was mainly the result of a decrease in the sale of natural gas to distribution companies for resale to large industrial users following the liberalization of the market. The decrease was offset in part by the increase in revenues from our third-party access services rendered to eligible customers in the liberalized market. There was no significant price change in 2001.

Services rendered. Revenues from services rendered increased from €11.69 million in 1999 to €55.92 million in 2000 and to €174.85 million in 2001. We started providing third-party access services in 1999 following the initial liberalization of the market. Accordingly, revenues from services rendered increased significantly during the three years under discussion.

Other operating income. Our other operating income increased by 82.0% from €39.25 million in 1999 to €71.44 million in 2000, and decreased by 28.5% to €51.08 million in 2001, as described below.

Other income. Our other income increased from €24.64 million in 1999 to €54.63 million in 2000, and decreased to €32.89 million in 2001.

The increase in 2000 was mainly attributable to the following factors:

- an increase in revenues from pipeline and fiber optic maintenance services provided to other members of the Gas Natural Group;
- an increase in revenues from the construction of ancillary pipelines for third parties and the Gas Natural Group, connecting customers to the pipeline network;
- an increase in natural gas transportation revenues from our consolidated investee companies (net of consolidation adjustments); and
- invoicing Gas Natural for the first time for rental payments for the lease of natural gas storage capacity.

The decrease in 2001 was mainly attributable to a decrease in the construction of ancillary pipelines for third parties and members of the Gas Natural Group.

Capital grants. The current portion of capital grants recorded in our income statement increased by 15.1% from €14.60 million in 1999 to €16.80 million in 2000, and by 8.3% to €18.19 million in 2001.

Expenses

Supplies. Our cost of supplies increased from €1,158 million in 1999 to €2,356 million in 2000 and to €2,032 million in 2001, as described below.

Consumption of raw and consumable materials. Consumption of raw and consumable materials increased from €1,153 million in 1999 to €2,349 million in 2000, and decreased to €2,026 million in 2001. The increase in 2000 reflects the increase in sales of natural gas described above. The decrease in 2001 was a result of a decrease in natural gas sales, reflecting the migration of eligible customers to the liberalized market.

Consumption of goods purchased for resale. Consumption of goods purchased for resale increased from €0.12 million in 1999 to €4.74 million in 2000, and decreased to €2.98 million in 2001. Historically, we purchased materials required for maintenance work for the Gas Natural Group as a whole. These changes reflect increases and decreases in the volume of materials resold. We expect this item of expense to decline following the global equity offering.

Other external expenses. Other external expenses decreased by 53.9% from €4.39 million in 1999 to €2.02 million in 2000, and increased by 41.1% to €2.85 million in 2001. The decrease in 2000 resulted from a decrease in pipeline maintenance costs. The increase in 2001 was the result of an increase in the cost of providing pipeline maintenance services to the Gas Natural Group.

Personnel costs. Our personnel costs decreased by 1.6% from €43.00 million in 1999 to €42.33 million in 2000, and increased by 11.4% to €47.14 million in 2001. Wages, salaries and similar remuneration decreased by 0.5% from €30.30 million in 1999 to €30.15 million in 2000 and increased by 12.2% to €33.82 million in 2001. Personnel welfare expenses decreased by 4.0% from €12.70 million in 1999 to €12.18 million in 2000, and increased by 9.4% to €13.32 million in 2001.

The slight decrease in wages, salaries and similar remuneration in 2000 represents a corresponding decrease in the overall average number of employees. Salary increases to employees covered by our collective bargaining agreement typically reflect the increase in the retail prices index plus a margin of between 0.5% and 1%.

The increase in wages, salaries and similar remuneration in 2001 corresponds principally to the incorporation of some new members of the senior management team and other central support personnel in late 2000 and early 2001. There was no material change in the number of average employees over the three years.

Fixed asset depreciation. Fixed asset depreciation increased by 1.4% from €107.73 million in 1999 to €109.24 million in 2000, and by 1.8% to €111.31 million in 2001, reflecting the entry into operation of new infrastructure assets.

Other operating expenses. Our other operating expenses increased by 35.0% from €91.21 million in 1999 to €123.17 million in 2000, and by 11.1% to €136.88 million in 2001, as detailed below.

External services. External services increased by 34.9% from €90.18 million in 1999 to €121.69 million in 2000, and by 11.1% to €135.31 million in 2001.

The increase in 2000 was attributable principally to the following factors:

- payment of rent to the Gas Natural Group for the lease of natural gas for seasonal modulation and our strategic reserves for the first time. This rent totaled €12.6 million in 2000;
- an increase in the transportation costs of our consolidated investee companies (to the extent not eliminated in consolidation), reflecting the increase in revenues from this source;
- an increase in the cost of IT services provided by the Gas Natural Group;
- an increase in the cost of corporate services provided by the Gas Natural Group;
- an increase in electricity costs reflecting an increase in regasification services provided;
- a slight increase in the number of temporary employees hired through employment agencies; and
- an increase in the construction of auxiliary pipelines for third parties and the Gas Natural Group, reflecting the corresponding increase in revenues from this source.

The increase in 2001 was principally a result of:

- an increase in the cost of repairs and maintenance, reflecting the introduction of an extraordinary maintenance programme for compressor stations with more than 20,000 hours in service;
- an increase in the fiber optic network we lease from Desarrollo del Cable, S.A., resulting in increased rental payments;
- an increase in the cost of supplies, reflecting the increased electricity consumption needed to increase production at our regasification plants; and
- the increased cost of corporate and IT services provided to us by Gas Natural.

See the notes captioned "Transactions with Group companies" accompanying our financial statements for further information relating to the principal transaction between Enagás and the Gas Natural Group during the periods under discussion.

Taxes. Taxes increased by 42.3% from €1.04 million in 1999 to €1.48 million in 2000, and by 6.1% to €1.57 million in 2001. The increase in 2000 was a result of back-payments of local business levies payable in connection with the Huelva regasification plant. The increase in 2001 was a result of back-payments of local business levies in Cartagena and an increase in the annual rate of these levies.

Operating profit

As a result of the factors discussed above, our operating profit decreased by 25.9% from €139.83 million in 1999 to €103.61 million in 2000, and increased by 33.3% to €138.11 million in 2001.

Net financial expense

Net financial expense was €4.26 million in 1999, €18.51 million in 2000 and €40.03 million in 2001. The main item of financial expense in each year constituted interest payments on increased financial debt. The main factor resulting in this increase in financial debt in 2001 resulted primarily from the inclusion of the following amounts in "Long-term debt with Group companies" in our financial statements for the year ended December 31, 2001:

- payment of an interim dividend to Gas Natural of €101.6 million on account of the final dividend for 2001 and payment of a final dividend of €112.6 million for 2000; and
- an amount of approximately €46.72 million, representing the profit from the natural gas supply and real estate rental businesses for the July 1, 2000 to December 31, 2000 period, pending completion of the spin-offs to the Gas Natural Group, net of the effect of the sale of our 20.5% shareholding in Gas de Euskadi and our natural gas inventories during 2001 (the sales of gas inventories being approximately €152.59 million).

Profit from ordinary activities

As a result of the factors discussed above, profit from ordinary activities decreased by 37.2% from €135.56 million in 1999 to €85.10 million in 2000, and increased by 15.2% to €98.08 million in 2001.

Net extraordinary profit/loss

We had net extraordinary profit of €6.89 million in 1999, a net extraordinary loss of €1.28 million in 2000 and extraordinary profit of €60.22 million in 2001. The significant extraordinary profit in 2001 is principally the result of:

- the elimination of the €59.36 million provision relating to a disputed sales tax assessment decided by the Spanish Supreme Court in our favor in 2001, as described above; and
- the payment of a €2.71 million dividend to us by Gas de Euskadi after the sale of our 20.5% shareholding in this company to Gas Natural in April 2001. This dividend was paid to us as holder of record at the time the dividend was declared.

Our extraordinary profit in 1999 reflected principally the profit on the sale of our shareholding in Gas de Galicia, S.A.

Profit before taxes

For the reasons discussed above, our profit before taxes decreased by 41.2% from €142.45 million in 1999 to €83.82 million in 2000, and increased by 88.9% to €158.30 million in 2001.

Corporate income tax

Against a standard corporate income tax rate of 35%, our effective corporate income tax rates were 33.5% in 1999, 35.1% in 2000, and 25.6% in 2001.

Profit for the year

As a result of the factors discussed above, our profit for the year decreased by 42.5% from €94.72 million in 1999 to €54.43 million in 2000, and increased by 116.5% to €117.84 million in 2001.

Unaudited consolidated historical results of operations for the three-month periods ended March 31, 2001 and 2002

Net turnover. Our net turnover decreased by 24.5% from approximately €752.71 million in the three months ended March 31, 2001 to approximately €568.28 million in the three months ended March 31, 2002. Our net turnover for the two periods are not comparable as a result of the introduction of the new remuneration structure in effect from February 19, 2002.

Other operating income. Our other operating income remained flat at approximately €13.04 million in the three months ended March 31, 2001 compared to approximately €12.92 million in the three months ended March 31, 2002.

Other income. Our other income decreased by 20.9% from €8.94 million in the three months ended March 31, 2001 to €7.08 million in the three months ended March 31, 2002. The decrease was a result of a decrease in the number of ancillary pipelines we constructed for third parties and members of the Gas Natural Group.

Capital grants. Revenues recognized from capital grants received increased by 43.9% from €4.03 million in the three months ended March 31, 2001 to €5.80 million in the three months ended March 31, 2002, reflecting the entry into operation of related infrastructure assets.

Supplies. Our cost of supplies decreased by 32.8% from approximately €662.36 million in the three months ended March 31, 2001 to approximately €445.16 million in the three months ended March 31, 2002, reflecting a decrease in sales of natural gas to distribution companies for supply to the tariff-based market.

Personnel costs. Our personnel costs increased by 6.4% from approximately €11.58 million in the three months ended March 31, 2001 to approximately €12.32 million in the three months ended March 31, 2002. The increase was principally a result of salary increases for our employees whose employment conditions are governed by our collective bargaining agreements, and also reflected the entry of certain new members of the senior management team.

Fixed asset depreciation. Our charge for fixed asset depreciation increased by 8.1% from approximately €27.22 million in the three months ended March 31, 2001 to approximately €29.43 million in the three months ended March 31, 2002 reflecting the entry into operation of new infrastructure assets.

Other operating expenses. Our other operating expenses remained flat at approximately €31.16 million in the three months ended March 31, 2001 compared to approximately €30.94 million in the three months ended March 31, 2002.

Operating profit

As a result of the above factors, our operating profit increased 89.5% from approximately €33.42 million in the three months ended March 31, 2001 to approximately €63.34 million in the three months ended March 31, 2002.

Net financial income

Our net financial income was approximately €12.69 million in the three months ended March 31, 2001 and approximately €8.51 million in the three months ended March 31, 2002. Our main financial expense in both periods was interest payments on our financial indebtedness, which decreased from approximately €13.41 million in the three months ended March 31, 2001 to approximately €9.00 million in the three months ended March 31, 2002. This decrease reflected a reduction in interest rates payable and lower average outstanding borrowings.

The decrease in financial income reflected the fact that, following the sale of our shareholding in Gas de Euskadi, no dividend was paid by this company to Enagás.

Profit from ordinary activities

Our profit from ordinary activities increased from approximately €20.73 million in the three months ended March 31, 2001 to approximately €54.83 million in the three months ended March 31, 2002.

Net extraordinary profit

The net extraordinary profit of approximately €2.64 million in the three months ended March 31, 2001 was principally the effect of a dividend payment from Gas de Euskadi in respect of profit for 2000. There were no significant extraordinary items in the three-month period ended March 31, 2002.

Profit before taxes

As a result of the factors described above, our profit before taxes increased from approximately €23.36 million in the three months ended March 31, 2001 to approximately €54.98 million in the three months ended March 31, 2002.

Corporate income tax

Our effective corporate income tax rate was 31.0% in the three months ended March 31, 2001 and 34.9% in the three months ended March 31, 2002. The lower tax rate for the three-month period ended March 31, 2001 was a result of permanent differences arising from dividends paid to us by Gas de Euskadi. These dividends, distributed out of net after-tax profit of the paying company, were not subject to corporate income tax in the hands of Enagás.

Profit for the period

As a result of the factors described above, our profit for the period increased from approximately €16.11 million in the three months ended March 31, 2001 to approximately €35.79 million in the three months ended March 31, 2002.

Liquidity and Capital Resources

Our most significant liquidity requirements arise from the funding of capital expenditures necessary to implement our investment plan and the payment of operating expenses. Other liquidity requirements arise in connection with meeting our working capital requirements, the service of our debt obligations, and dividend payments to shareholders. See "Dividend Policy".

Cash flow items

The most significant cash flow items during the periods under discussion were:

Net cash provided by operations. In 2001, net cash provided by operations was €483.22 million applied towards financing our investment plan, repayment of long-term debt and payment of dividends.

Net cash used in investment activities. Net cash used in investment activities was €207.27 million in 2000 and €139.45 million in 2001, reflecting an increase in the level of infrastructure investment, including investments in our León-Oviedo pipeline and Zamora compressor station in 2000, and the purchase of gas transport assets and investment in our Cartagena regasification plant in 2001, partially offset in 2001 part by the sale of pipelines to the Gas Natural Group. In the three months ended March 31, 2002, net cash used in investment activities of €36.70 million corresponded principally to construction works at the Cartagena regasification plant.

Changes in long-term debt. In 2000, long-term debt increased by €684.03 million, reflecting principally the €478.52 million dividend payable to Gas Natural and net pro forma adjustments reflecting amounts payable to Gas Natural as a result of the spin-off of our supply and real estate rental businesses. Our voluntary reserves decreased from €401.68 million as of December 31, 1999 to €18.65 million as of December 31, 2000, reflecting these dividend payments to Gas Natural. In 2001, long-term debt decreased by €126.69 million, reflecting repayment of part of our outstanding borrowings under our inter-company credit facility with Gas Natural, offset in part by an increase of €214.24 million, representing dividends payable to Gas Natural for the year.

Long-term debt decreased by €179.06 million in the three-month period ended March 31, 2001 and by €54.76 million in the three-month period ended March 31, 2002. These decreases were the result of partial repayment of outstanding borrowings under our inter-company credit facility with Gas Natural.

Changes in working capital. Debtors increased by €98.35 million in 2000 and by €32.79 million in 2001. The increases in debtors in 2000 and 2001 were a direct result of the increase in sales of gas in those years.

Debtors decreased by €107.57 million in the three-month period ended March 31, 2001 and by €158.94 million in the three-month period ended March 31, 2002. The decreases in debtors in the three-month periods ended March 31, 2001 and 2002 reflect the decreases in natural gas sales to distribution companies for the tariff-based market in the periods.

Inventories decreased by €87.25 million in 2001. This decrease reflected the transfer to the Gas Natural Group of our supply agreements with producers of natural gas.

Creditors decreased in 2000 by €66.28 million and increased in 2001 by €288.90 million. These changes reflect the fact that, all net balances resulting from the spin-offs of our natural gas supply and real estate rental businesses, were transferred to "Long-term debt with group companies", thus reducing creditors in "Current Liabilities". Creditors increased again in 2001, reflecting the receipt of trade invoices by Enagás in the normal way. Creditors increased by €173.73 million in the three months ended March 31, 2001 for the same reason. Creditors decreased by €122.06 million in the three months ended March 31, 2002, reflecting the fact that we had lower gas sales (and therefore lower purchase costs). We also improved our promptness in paying trade creditors.

Long-term and short-term debt

The following table shows the evolution of our consolidated financial debt at December 31, 1999, 2000 and 2001 and at March 31, 2002.

	At December 31,			At March 31,
	1999	2000	2001	2002
	Unaudited pro forma		Audited historical	Unaudited historical
	(in thousands of euro)			
Long-term credit facilities and bank loans	108,240	85,344	78,612	74,298
Long-term debt with group companies	380,062	1,033,647	904,352	833,257
Short-term credit facilities and bank loans	14,282	30,719	83,383	85,134
Total financial debt	502,584	1,149,710	1,066,347	992,689

Long-term debt with credit institutions at December 31, 2001 and March 31, 2002 represents amounts outstanding under our credit facility with EIB.

Of our total long-term debt with group companies at December 31, 2001 and March 31, 2002, approximately €862 million and €792 million, respectively, represented outstanding borrowings under our inter-company credit facility with Gas Natural. The remaining amounts of long-term debt with group companies represented loans granted by Transgas to our consolidated investee companies.

We also had total consolidated short-term credit facilities and bank loans of approximately €85.13 million at March 31, 2002. Of this total, approximately €23 million was owed to Banco Bilbao Vizcaya Argentaria, S.A., and approximately €17 million was owed to la Caixa. In addition, approximately €7 million was owed to BSCH.

Affiliates of these three banks are acting as three of the joint global coordinators of the global offering. La Caixa is a significant shareholder of Gas Natural and la Caixa and BBVA are significant shareholders of Repsol-YPF. See "Relationship with the Selling Shareholder and Affiliates".

At March 31, 2002, all of our total interest obligations were floating rate, indexed to EURIBOR. See "—Information About Market Risk" below.

Our credit agreements with financial institutions are on customary market conditions, and subject to customary covenants and events of default.

Our inter-company credit facility with Gas Natural provides for early termination by either party on three months' notice. On June 20, 2002, we entered into a short-term credit facility agreement with three financial institutions, affiliates of BBVA, la Caixa and Goldman Sachs International, who are acting as joint global coordinators of the global equity offering, to replace this inter-company loan. See "Relationship with the Selling Shareholder and Affiliates".

Under our credit agreement with EIB, Gas Natural, la Caixa, a syndicate of financial institutions and the European Investment Fund ("EIF") have guaranteed certain of our obligations. We were required to replace certain of those guarantees as a result of the sale by Gas Natural of 65% of our shares in the global equity offering. See "Relationship with the Selling Shareholder and Affiliates".

Loans and guarantees to consolidated investee companies

At March 31, 2002, we owed €41.25 million to Transgas under outstanding loans granted by Transgas to our consolidated investee companies. These loans fall due in 2011 and are at variable rates of interest reflecting market conditions.

We have also provided a guarantee of Gasoducto Braga-Tuy, S.A.'s obligations under a loan granted by Banco Santander Central Hispano, S.A. (an affiliate of one of the joint global coordinators for the global equity offering). As of March 31, 2002, the outstanding principal amount of the guarantee was €8.88 million.

Capital structure

We expect our capital structure to change following the global equity offering, as we will require financial flexibility in order to be able to implement our investment plan. Subsequent to the refinancing of our short-term credit facility entered into on June 20, 2002 and described above, we intend to increase our financial debt to total assets ratio from the current ratio of approximately 40% to between approximately 55% to 60%, a level we believe is in line with the average financial debt to total assets ratio of other operators in the European gas sector. Our aim in doing so is to reduce our financing costs. Our intention is to apply funds provided by financing activities principally in the implementation of our investment plan (see "—Capital Expenditure" below) and in meeting our working capital requirements. We intend to seek a credit rating for our debt following the global equity offering.

Capital Expenditure

The following table sets out our capital expenditure for the periods indicated:

	Year ended December 31,	
	2000	**2001**
	(thousands of euro)	
Land and buildings	2,140	2,934
Plant and machinery	102,551	79,628
Prepayments and fixed assets in course of construction	185,490	126,419
Fixtures, fittings, tools and equipment	619	620
Other fixed assets	120	1,744

Our investments can be classified in two categories:

- large infrastructure projects that increase capacity significantly and have a longer construction period; and
- smaller local investments directly related to trends in local demand and market growth.

Our main items of capital expenditure in the three financial years ended December 31, 1999, 2000 and 2001 related to investment in our network, and are summarized below:

Regasification.
- Docking station in Cartagena, started in 1995, finished in 1999
- Plant expansion in Barcelona, started in 1998, finished 2001
- Plant amplification in Cartagena, started in 1995, finished in 2001-2002

Transport.
- Almendralejo-Salamanca pipeline, started in 1996, finished in 1999
- León-Oviedo pipeline, started in 1995, finished in 2000
- Expansion of Valencia-Alicante section, started in 1997, finished in 2001
- Granada-Motril pipeline, started in 1998, finished in 2001
- Aranda-Soria-Almazán pipeline, started in 1998, finished in 2001
- Compressor station in Almendralejo, started in 1996, finished in 1999
- Compressor station in Zamora, started in 1996, finished in 2000
- Compressor station in Paterna, started in 1997, finished in 2001

Underground Storage Facilities[1].
- Huete
- Santa Bárbara
- Valle del Ebro
- Sariñena
- Reus

(1) Feasibility studies carried out in 2001.

Our investment plan for 2002 through 2006 envisions investments of approximately €2.6 billion in infrastructure, generally to be applied uniformly over the period, although we expect investment to be slightly lower than the average in 2002 and slightly higher than the average in 2003. We anticipate that of this total, approximately 43% will be invested in pipeline network, approximately 38% in regasification facilities and approximately 19% in natural gas storage facilities.

The following table gives details of our work in progress at the date of this offering circular.

Investment[1]	**Estimated completion date**
Transport:	
Puente Genil-Málaga[2]	2002
Tarancón-Cuenca[2]	2002
Huelva-Madrid	2003-2004
Centro-Levante	2005
Regasification:	
Increase in capacity of the Huelva plant to 950,000 m^3/h	2004-2005
Increase in capacity of the Barcelona to 600,000 m^3/h	2005
Increase in capacity of the Cartagena plant to 600,000 m^3/h	2003-2005
Underground storage facilities:	
Santa Bárbara (1,000 million m^3)	2005

(1) Subject to administrative authorization
(2) We believe that €90 million corresponding to these investments should qualify for remuneration in 2003.

See "Business—Transportation Activities—Development projects" under "—Regasification" and "—Transport".

Entry into operation of new investments

At December 31, 2001, we had €350.5 million of work in progress reflected in our balance sheet. Of this total, at the date of this offering circular:

- investments of €150.7 million relating to our Cartagena regasification plant are operational and are reflected as such in our financial statements; and

- investments of €44.8 million in pipelines are operational, but are still reflected as work in progress in our financial statements pending grant of the official certificate of completion.

Information about market risk

We are subject to market risks from changes in interest rates because of our current medium and long-term debt position. All of our interest obligations under our current outstanding indebtedness is at floating rates. We expect that this risk will increase as we increase our financial indebtedness after the offering. Movements in interest rates can have an appreciable impact on our financial expense in respect of our floating rate borrowings. The interest rates applicable to our borrowings are indexed to EURIBOR.

All of our long-term debt is currently denominated in euro, and we expect that this situation will continue after the offering. In addition, the vast majority of our purchases and expenditures are made in euro. Consequently, we are not exposed to material currency exchange risk. It is not currently our policy to enter into any financial derivative transactions, either to hedge our floating rate obligations, or on a speculative basis.

Significant Accounting Policies

Our significant accounting policies are fully described in the accompanying notes to our financial statements starting on page F-1. See also "Basis of Presentation of Financial Information".

Related Party Transactions

In addition to the transactions arising from the spin-offs of our natural gas supply and real estate rental businesses and the transactions reflected in our pro forma financial statements for the years ended December 31, 1999 and 2000, other asset disposals and acquisitions required to complete separation of regulated activities took place during the periods in question between Enagás and other members of the Gas Natural Group. The main transactions are summarized below:

We purchased natural gas transport assets from Gas Natural in 2000 for €18.39 million and in 2001 for €13.78 million;

We sold:

- additional natural gas inventories to Gas Natural in 2001 for €152.60 million;

- distribution pipelines to Gas Natural for €64.04 million in 2000, and for €2.94 million in 2001;

- fiber optic cable to Desarrollo del Cable, S.A. for €14.33 million in 2000 and for €6.14 million in 2001; and

- to Gas Natural an LNG satellite plant for €1.4 million on February 4, 2002.

Various arrangements currently exist between Enagás and other members of the Gas Natural Group and other affiliates. The principal arrangements are described in "Relationship with the Selling Shareholder and Affiliates". In addition, the accompanying notes to our financial statements describe the main transactions with group companies during the periods under discussion.

Subsequent Events

Dividends

On April 26, 2002, our shareholders approved the payment of a final dividend to Gas Natural for 2001 in the amount of €16,044,656.13, which we paid on June 3, 2002. Together with the interim dividend of €101,600,000 declared by our board of directors on December 10, 2001, total dividends of €117,644,656.13 were therefore distributed in respect of net profit for 2001. Approval of the €16.04 million final dividend has resulted in a net decrease in our shareholders' equity.

Transactions affecting our share capital

At a general meeting of our shareholders held on May 3, 2002, the following transactions relating to our share capital were approved:

- a €604,059.98 reduction in share capital against reserves by means of a reduction in the nominal value of each of our ordinary shares from €30.050605 to €30. Our share capital is €358,101,390 following this reduction;
- a 20:1 share split, resulting in a reduction in the nominal value of each of our ordinary shares from €30 to €1.5. As a result of this share split, we have 238,734,260 ordinary shares outstanding; and
- our shares were converted to book-only form in preparation for their admission to listing and the application for their admission to listing was approved.

Agreements with the Gas Natural Group

- Gas Natural has recently announced its intention to terminate the agreement under which we provide the Gas Natural Group with pipeline maintenance services. We earned revenues of €7.45 million from the maintenance of pipelines and sealines in 2001. Although termination of the pipeline maintenance agreement is due to take place during 2002, such termination will not have effect until 2003.
- In May 2002, we sold natural gas calibrators to Gas Natural for €0.76 million.

See "Relationship with the Selling Shareholder and Affiliates".

Recent Developments

Since March 31, 2002, the main trends influencing our financial condition and results of operations have been the following:

- the ongoing migration of customers from the tariff-based market to the liberalized market has resulted in a continuing and growing decrease in gas sales to distributors for the tariff-based market;
- operating profit and net profit have declined in the period since March 31, 2002 compared to the corresponding period in 2001, reflecting (i) the implementation of the new regulatory remuneration structure; (ii) the commencement of fixed asset depreciation in respect of new investments at our Cartagena regasification plant, which became operational in April 2002, without receipt of the corresponding remuneration, which is not payable under the new remuneration structure until 2003; and (iii) the severance payment to our former chairman paid in May 2002. As a result of the implementation of the new regulatory remuneration structure, however, our results of operations for 2002 and subsequent financial years are not comparable with our results of operations for 2001 and previous financial years;
- our outstanding borrowings under the inter-company credit agreement with Gas Natural increased to €848 million at June 20, 2002. We intend to repay these borrowings in full by drawing down an equivalent amount of funds under the short-term credit facility agreement we entered into on June 20, 2002;
- the payment of the €16.04 million final dividend to Gas Natural on June 3, 2002 resulted in a net decrease in our shareholders' equity.

INDUSTRY OVERVIEW

Historical Overview

The relatively recent introduction of natural gas into the Spanish energy market results from the scarce levels of natural gas production in Spain, the historical lack of natural gas transportation infrastructure and Spain's geographic distance from the European natural gas reserves of the North Sea and Russia. These three factors have meant that Spain has had to import almost all of its natural gas from foreign sources and that LNG importation has played a particularly significant role in the development of the Spanish natural gas market.

Spain started to develop its natural gas infrastructure in the late 1960s when the first regasification plant was built in Barcelona to process LNG imports from Libya and Algeria. In June 1998, LNG regasification plants in Huelva and Cartagena became operational.

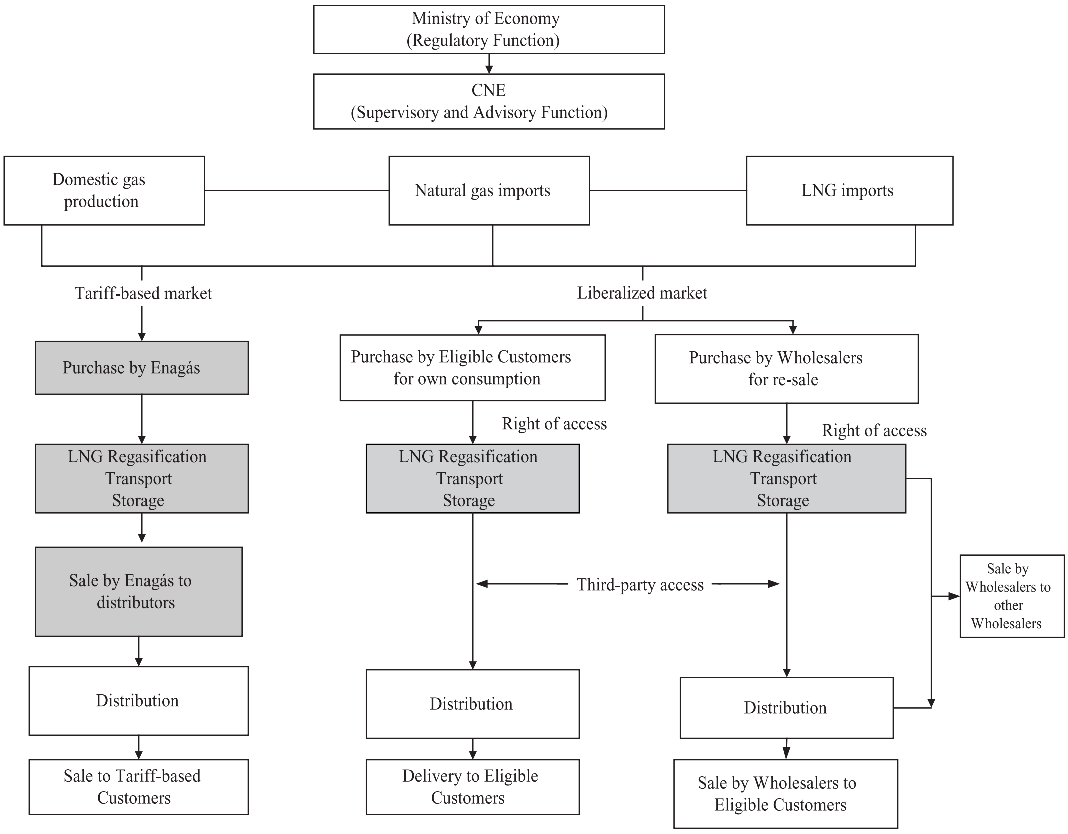
In 1993, a pipeline was constructed to connect the Spanish pipeline network with the French pipeline network at Lacq, France, thus enabling the importation of natural gas from Norway via France. The construction of the Calahorra-Lacq pipeline was followed by the completion of a second pipeline in late 1996 which connects the Algerian natural gas reserves in the Maghreb with the Iberian peninsula, running through Morocco and under the Strait of Gibraltar (the "Maghreb pipeline"). These pipeline connections were developed primarily to minimize the high costs associated with LNG importation and to overcome the limits on regasification capacity. As of the date of this offering circular, almost half of Spain's natural gas supply arrives via pipelines, with the remainder imported via LNG carriers.

Two international pipeline connections between Spain and Portugal, operated under our joint venture with Transgas, became operational in 1996 and 1997, respectively. These pipelines connect Portugal to the Maghreb pipeline and interconnect the Spanish and Portuguese pipeline networks.

Industry Structure

The market for natural gas in Spain is highly regulated. Following the enactment of the Gas Directive, the Hydrocarbons Sector Law and implementing legislation, the Spanish natural gas industry has undergone a regulatory overhaul that provides for the gradual opening up of the market to competition, the regulation of transportation and distribution activities and the introduction of natural gas wholesaling. For a detailed description of the new regulatory framework, see "Legal and Economic Regulation".

The following chart shows the structure of the natural gas market in Spain in terms of its principal segments. The shaded segments show the areas in which we carry on our activities.



As shown in the chart above, the principal activities and parties constituting the natural gas industry in Spain are the following:

Domestic gas production

Producers explore, research and exploit Spain's natural gas reserves. They sell natural gas to transportation companies, wholesalers and eligible customers. In 2001, natural gas produced domestically represented approximately 2.81% of the total demand for natural gas in Spain.

Natural gas imports and LNG imports

Because domestic natural gas reserves are extremely scarce, most of Spain's natural gas supply must be imported from foreign gas-producing countries. Spain imports natural gas either through international pipelines or by LNG carriers.

The parties that are authorized to acquire natural gas from foreign producers or importers for subsequent consumption in Spain are:

- transportation companies, for sale to other transportation companies and distributors who are connected to the natural gas transportation network;
- wholesalers, for sale to eligible customers and other wholesalers; and
- eligible customers.

In line with market practice, the importation of natural gas into Spain has historically been carried on pursuant to long-term (usually 20 years) agreements containing "take-or-pay" clauses, which require the purchaser to pay the contracted amount regardless of whether it actually takes the natural gas. These agreements also include provisions to adjust the price of the natural gas to market conditions. In the past few years, however, short-term LNG supply contracts usually with terms shorter than two years have been used with greater frequency.

Transportation activities

Transportation activities are comprised of regasification, transport and storage:

- *Regasification.* LNG must be regasified before it is introduced into the transport pipeline network. Transportation companies may provide these regasification services. LNG is delivered to regasification plants by LNG carriers, put into storage tanks, vaporized through regasification installations consisting of cryogenic pumps and submerged combustion vaporizers and injected in gaseous form into the transport pipeline network.

  Currently, we are the only provider of regasification services for the transportation network in Spain. A number of third parties have initiated projects for the construction of regasification plants. For more information on these projects see "Business—Competition".

- *Transport.* Once imported or produced and, if necessary, regasified, natural gas is input into the primary pipeline network, which consists mainly of high-pressure pipelines and compressor stations. This network of high-pressure pipelines runs through most regions of Spain and brings natural gas to large end-users, such as power plants and industrial customers that are directly linked to the transport pipeline network, and local distributors.

  Apart from Enagás, the other main transporter of natural gas in Spain is Gas de Euskadi, which operates in the Basque region in Northern Spain. We owned 20.5% of the shares of this company until April 27, 2001, when they were transferred to Gas Natural as part of the separation of regulated activities undertaken to comply with Spanish regulations. Each of Endesa (acting through Distribuidora Regional de Gas, S.A.), Gas Aragón, S.A. and Gas Natural also transports natural gas in Spain.

- *Storage.* Storage of natural gas is required to modulate seasonal fluctuations in natural gas demand in Spain and to fulfill the strategic reserve requirements imposed by the Hydrocarbons Sector Law, which requires natural gas transportation companies to maintain reserves sufficient for at least 35 days of consumption.

  In the liberalized market, transportation companies are legally required to allow eligible customers, wholesalers and other transportation companies access to their storage facilities in consideration of regulated tolls and fees.

Distribution

The distribution market is split between the tariff-based market and the liberalized market:

- *Tariff-based market.* Distribution companies are responsible for supplying natural gas to the tariff-based market, composed of residential and commercial end-users, and to small and medium-sized industrial end-users. Distribution companies operate local low-pressure pipeline networks, mostly covering urban areas. They buy natural gas from transportation companies at regulated prices and sell it to tariff-based customers at regulated tariffs.

- *Liberalized market.* In the liberalized market, distributors are legally required to grant access to their network to eligible customers and wholesalers in exchange for regulated tolls and fees. They are also required to construct, maintain and operate the facilities required to deliver natural gas to the points of consumption.

  There are 28 local and regional distribution companies currently operating in the Spanish natural gas market. Gas Natural owns or has a controlling stake in most of the local and regional distribution companies. The other main distribution companies currently operating in Spain are Gas Figueres, S.A., members of the Endesa group, the Unión Fenosa group, the Hidroeléctrica del Cantábrico group and companies belonging to the Ente Vasco de la Energía.

Wholesalers

Wholesalers acquire natural gas from producers, suppliers of origin or other wholesalers and sell it to other wholesalers or to eligible customers in the liberalized market.

Gas Natural Comercializadora has the largest share of the wholesale market, followed by BP Gas España, S.A., Shell España, S.A., Cepsa Gas Comercializadora, S.A., Unión Fenosa Gas Comercializadora, S.A., Iberdrola Gas, S.A. (Sociedad Unipersonal), Endesa Energía, S.A. (Sociedad Unipersonal) ("Endesa Energía"), Hidrocantábrico Energía, S.A. (Sociedad Unipersonal) ("Hidrocantábrico Energía") and Edison Gas España, S.A. ("Edison"). Wholesalers are increasingly facing competition from new entrants in the liberalized market.

Tariff-based customers

Tariff-based customers purchase natural gas for their own consumption from distributors on the basis of regulated tariffs. Although from January 1, 2003, all customers will be entitled to be categorized as "eligible" (see below), they may, however, choose to remain in the tariff-based market. In addition, any customer that has exercised its rights as an eligible customer may switch back to the tariff-based market at any time in the three years following such exercise. Accordingly, there is no fixed date on which the tariff-based market will disappear and we will continue to be under an obligation to supply natural gas intended for the tariff-based market.

Interruptible customers

In addition to interruption due to a force majeure event, interruptible customers agree with their suppliers that the supply of natural gas may be interrupted with prior notice in other pre-determined circumstances. It is common for interruptible customers to have an alternative source of energy available for use in such circumstances. Accordingly, this group of customers is primarily composed of companies using natural gas to produce steam, which can be produced using a variety of fuel sources.

Eligible customers

Eligible customers purchase natural gas for their own consumption on terms and conditions negotiated individually with producers, suppliers of origin or wholesalers. Eligible customers have access to the transportation and distribution networks in accordance with the applicable regulations. For a detailed description of third-party access rights and obligations, see "Legal and Economic Regulation".

As from January 1, 2002, eligible customers are those whose annual consumption by installation is equal to or greater than 1,000,000 $m^3(n)$. Electricity generation plants and co-generation plants automatically qualify as eligible customers. From January 1, 2003, all customers, irrespective of their level of consumption, will be eligible customers. During the three years following the date on which a customer first exercises its rights as an eligible customer, such customer will have the option to purchase natural gas from the wholesaler on agreed terms or to acquire it from distributors within the tariff-based market.

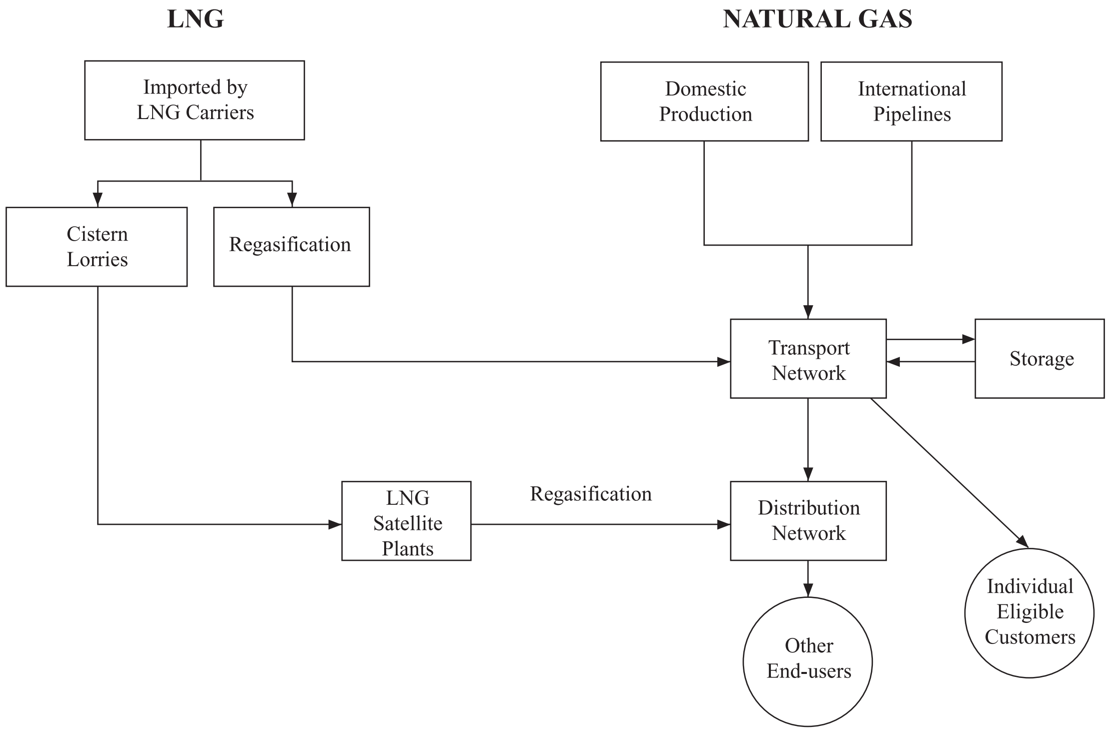
System Technical Manager

We own the majority of the basic natural gas network in Spain. Consequently, Royal Decree-Law 6/2000 designated us as System Technical Manager. For a description of our role and responsibilities in this capacity, see "Business—System Technical Manager".

Regulators

The Ministry of Economy regulates the Spanish natural gas industry, with the CNE acting in a supervisory and advisory capacity. See "Legal and Economic Regulation" for a more detailed description of their respective roles.

The following diagram shows the physical flow of natural gas from the points of entry to the end-users.



Spanish Natural Gas Infrastructure

The Spanish natural gas infrastructure consists of: three operating regasification plants (located at Barcelona, Cartagena and Huelva) plus one which is under construction (near Bilbao); 6,269 km of transport pipelines; 31,550 km of distribution pipelines (5,982 km of which operate between 4 and 16 bar, 18,896 km operate between 4 and 0.05 bar and the remaining 6,852 km operate at a pressure below 0.05 bar); two underground storage facilities; three natural gas fields; four international connections; and other ancillary installations such as compressor stations, LNG satellite plants or modulating and measurement stations.

The Spanish and Portuguese natural gas networks are highly integrated. All natural gas consumed in Portugal is currently channeled through the Spanish network and natural gas can be supplied to the Spanish region of Galicia via the Portuguese network.

Market Overview

Since Spain joined the E.U. in 1986, its natural gas market has grown. Salient features of the Spanish natural gas market are its relatively recent development within the Spanish energy market, its growth rate during the last few years and the fact that demand for natural gas in Spain is growing faster than the demand for any other energy source.

Growth in the Spanish market

From 1990 to 2000, the Spanish natural gas market grew by 11.6%, the second largest increase in the E.U. behind Greece.

The table below shows the Ministry of Economy statistics for the use of natural gas as primary energy source in Spain from 1993 to 2001:

Year	Natural gas as % of primary energy source in Spain
1993	6.2
1994	6.7
1995	7.4
1996	8.3
1997	10.3
1998	10.3
1999	11.3
2000	12.2
2001	12.8

Source: Ministry of Economy.

In the same period, the transportation and distribution pipeline networks grew from 11,859 km to 37,819 km.

In 2000, Spain was the sixth-largest natural gas market in terms of volume consumed in the E.U. The following chart shows that, according to Sedigas data, the consumption of natural gas as primary energy source in Spain is still lower than in many other countries and that Spain is below the E.U. average.

Country	% of primary energy source in 2000
United Kingdom	38.1
Italy	34.6
Canada	30.2
United States	25.8
World average	24.7
E.U. average	23.7
OECD average	23.0
Germany	21.6
Australia	18.0
France	13.8
Japan	13.4
Spain	**12.1**

Source: Sedigas.

Supply to the Spanish market

Due to its scarce levels of natural gas production, Spain currently imports the vast majority of its natural gas supply from foreign gas-producing countries. According to CNE information, Spain currently imports more than 97% of its natural gas resources. The Hydrocarbons Sector Law requires transportation companies introducing natural gas into the Spanish market and all wholesalers to diversify their sources of supply if, at any time, more than 60% of the total natural gas supply to Spain originates from one country.

Due to the direct link between the contracted price for natural gas in international supply agreements, the quoted price of oil and its derivatives on the global markets and U.S. dollar exchange rates, there is considerable volatility in the final price of natural gas. This could affect the competitiveness of natural gas in comparison with other energy sources.

The following table details the relative importance of each of the countries of origin of natural gas imported into Spain in 2001.

Country	% of natural gas supply (and means of supply) in 2001
Algeria	29.74 (via pipelines)
	27.05 (via LNG carriers)
	56.79
Norway	12.82 (via pipelines)
Nigeria	9.24 (via LNG carriers)
Qatar and the United Arab Emirates	8.46 (via LNG carriers)
Libya	4.41 (via LNG carriers)
Trinidad and Tobago	1.77 (via LNG carriers)
Others	3.71 (via LNG carriers)
Domestic gas production	2.81 (via pipelines)

Source: CNE and Enagás.

Half of the total natural gas supply to Spain arrives in liquefied form on LNG carriers at our regasification plants in Barcelona, Cartagena and Huelva. There are numerous areas of the world (e.g. Africa, the Middle East and the Caribbean) that are within a reasonable distance from Spain that have the appropriate infrastructure and reserves to serve as sources of LNG to the Spanish market.

The remaining natural gas is imported to Spain via two international connections, the Lacq-Calahorra pipeline and the Maghreb pipeline.

Algeria. Spain's geographic distance from the European natural gas reserves of the North Sea and Russia and the existence of a single pipeline connecting Spain to European producers makes natural gas importation from Europe expensive relative to current E.U. prices. In addition, Spain's geographic proximity to Algeria and the relatively economic price of Algerian natural gas has meant that approximately 60% of total natural gas imports into Spain have historically been purchased from Algerian sources.

On June 8, 1992, we entered into the Algerian pipeline gas agreement with Sonatrach. This agreement was subsequently assigned to our then wholly-owned subsidiary, Sagane, on June 20, 1994. The natural gas supplied under the Algerian pipeline gas agreement is delivered through the Maghreb pipeline. In accordance with the Hydrocarbons Sector Law, 75% of the natural gas supplied to Sagane under the Algerian pipeline gas agreement has been allocated to Enagás for sale to the tariff-based market, while the remaining 25% has been allocated until December 31, 2003 to six wholesalers pursuant to the Ministerial Order of June 28, 2001. From January 1, 2004, all the natural gas supplied to Sagane under the Algerian pipeline gas agreement must be used, on a preferential basis, to supply the tariff-based market.

In 2000, the Gas Natural Group started to deal in the LNG spot market. In that year, BP, Cepsa and Shell contracted in the LNG spot market to supply 4,975 GWh, representing 2.5% of the total supplies to the Spanish natural gas market.

Demand in the Spanish market

The following chart shows the growth in total demand in the Spanish natural gas sector over the past three years:

Year	Total demand (GWh)	% growth versus previous year
1999	174,975	—
2000	196,258	12
2001	212,318	8

Source: Sedigas.

End-users in the Spanish natural gas market can be divided into three distinct categories: residential and commercial; industrial; and power plants. Due to their respective characteristics, these individual segments are affected by different factors and, recent trends therefore vary between the segments.

Segments	Total demand						% Growth	
	1999		2000		2001			
	GWh	%	GWh	%	GWh	%	99/00	00/01
Residential and commercial	31,979	18.3	34,253	17.5	40,185	19.0	7	17
Industrial	128,825	73.8	144,993	74.1	152,934	72.2	13	5
Power plants	7,674	4.4	10,378	5.3	12,731	6.0	35	23
Others	6,103	3.5	6,131	3.1	6,088	2.8	0	-1

Source: Sedigas.

Residential and commercial.

Characteristics. The residential and commercial segment is characterized by:

- the use of natural gas primarily for heating purposes;
- the seasonality of demand. Natural gas usage is linked to temperature, with increased levels of consumption during the winter months and decreased levels in August, the traditional holiday month in Spain;
- a relatively large number of customers. There were approximately 4.6 million residential and commercial end-users in 2001;
- relatively low levels of consumption per consumer. In 2001, the average consumption for a residential and commercial end-user was approximately 9,200 KWh/year; and
- supply agreements guaranteeing an uninterrupted supply of natural gas.

Factors affecting demand. The evolution of demand in the residential and commercial segment is affected by two principal factors: climatic temperature and the rate of growth in the total number of clients. In recent years, there has been a commercial drive to attract new clients to the existing network and a large investment in the network, expanding its reach into new geographic areas.

Growth. The following table shows the growth in demand in the residential and commercial segment of the Spanish natural gas sector over the past three years:

	1999	2000	2001	1999-2001 % Growth
Total demand (GWh)	31,979	34,253	40,185	26
Total number of customers	3,842,000	4,199,000	4,601,000	20
Average consumption per customer (KWh)	8,578	8,365	9,219	7
Number of towns and cities with a natural gas supply	876	948	1,016	16

Source: CNE and Sedigas.

Industrial.

Characteristics. The industrial segment is characterized by:

- the use of natural gas for production processes;
- the stability of demand. Demand is relatively stable throughout the year, except for weekends and holiday periods, such as Christmas, Easter and the month of August, when many Spanish companies close;
- a small number of customers. There were approximately 5,178 industrial end-users in 2001;
- relatively high levels of consumption per consumer. In 2001, the average consumption for an industrial end-user was approximately 31,000 GWh/year;
- the interrelationship between this segment and the electricity sector via the use of natural gas in co-generation plants;
- the majority of supply agreements with industrial end-users are for a guaranteed uninterrupted supply ("agreements for reliable supply"). Approximately 89% of industrial end-users have agreements for reliable supply, while approximately 11% have interruptible agreements under which natural gas is supplied at lower prices because the agreements permit the interruption of service under pre-agreed conditions. Such agreements are generally used by customers with other available sources of energy; and
- end-users who need natural gas as a raw material for the production of ammonia. This sub-market is regulated separately from the Spanish natural gas market.

Factors affecting demand. The evolution of demand in the industrial segment is principally affected by the price of natural gas and its competitiveness relative to other sources of energy, the general economic situation, the expansion rate of the network and the use of co-generation plants for the production of electricity.

Growth. The following table shows the growth in demand in the industrial segment of the Spanish natural gas sector over the past three years:

	Total annual consumption (GWh)			% Growth	
Segments	**1999**	**2000**	**2001**	**1999-2000**	**2000-2001**
Uninterruptible supply	108,359	121,009	135,866	12	12
Interruptible supply	20,466	23,984	17,068	17	(29)
Industrial total	128,825	144,993	152,934	13	5
Ammonia	6,105	6,077	6,088	0	0

Source: CNE and Sedigas.

Uninterruptible supply. Approximately 62% of the demand in this segment corresponds to pure industrial uses. The remaining 38% is related to the co-generation market. According to the method of supply, 6% corresponds to end-users served through satellite regasification plants.

Within this segment, supply to the co-generation market has represented a significant proportion of the total supply. The demand for natural gas for the co-generation market is dependent on the relationship between natural gas prices and the remuneration to co-generators for installed capacity and electricity supplied to the network.

The demand for natural gas through satellite regasification plants has grown by 35% between 1999 and 2000. We believe, however, that with the expansion of the natural gas transportation network the demand for satellite regasification plants may decrease.

Interruptible supply. The advantages of interruptible supply are that it enables the customer to choose the source of primary energy used and facilitates the management of the national and local supply by the operator as it can interrupt supply to the customer if required.

Power plants.

Characteristics. The power plant segment is characterized by:

- the use of natural gas for production of electricity in conventional power plants that can use either natural gas or other fossil fuels;

• uneven consumption throughout the year depending on the price of natural gas relative to other fossil fuels and the demand of the electricity market; and

• the expectation that the future demand of natural gas for electricity generation is likely to move from conventional power plants to combined cycle power plants.

Factors affecting demand. The evolution of demand in the power-plant segment is principally affected by the price of natural gas and other fuels, the amount of electricity generated using other energy sources and demand for electricity.

Growth. The following chart shows the growth in demand in the power plant segment of the Spanish natural gas sector over the past three years. The decline in the interruptible supply consumption in 2001 was due to the lower gas consumption by conventional power generation.

Year	Total annual consumption (GWh)	% Growth
1999	7,674	—
2000	10,376	35
2001	12,731	23

Source: Sedigas.

Combined cycle power plants. It is expected that electricity generation in Spain will shift from conventional to combined cycle power generation. Combined cycle power plants have a number of advantages over conventional power generation, including:

• greater efficiency;

• lower investment costs (due, in part, to the plant's shorter construction schedules and smaller size);

• the possibility of constructing plants closer to customers, with reduced energy losses and transportation costs;

• the possibility of utilizing different fuel sources; and

• a lower level of emissions relative to other fuels.

In March 2002, the Gas Natural Group commenced operations at the first combined cycle power plant in Spain, with 400MW of power at San Roque, near Cádiz. According to information published by Red Eléctrica de España, S.A., the Spanish electricity transmission company, it is expected that further combined cycle power plants will commence operations during 2002, bringing the total power output of these facilities to 2800MW by the end of the year.

Because combined cycle power generation is currently the most important alternative to conventional methods of electricity generation, combined cycle power generation is expected to be a significant source of growth in natural gas demand in Spain in the coming years.

The volatility of the price of natural gas could, however, have a negative impact on the demand for natural gas by combined cycle power plants as the nature of these operations means that alternative sources of energy can be used in the power generation process. In addition, due to the lengthy authorization process required for all power plants (i.e., conventional and combined cycle), which can last up to three years, there is a certain amount of uncertainty surrounding the number of combined cycle power plants that will come into operation over the next few years. Taking into account the public announcements of proposed construction, applications for administrative authorizations and requests for third-party access, Red Eléctrica de España, S.A. has forecast the following growth in the combined cycle power generation segment:

	2002	2003	2004	2005
Number of 400MW power generation units	7	12	26	32
Total MW generated	2,800	4,800	10,400	12,800
Consumption of natural gas (GWh)	24,423	62,167	102,344	168,635

Source: Red Eléctrica de España, S.A.

Market Outlook

Given the Spanish natural gas market's relative youth, growth in recent years and the increasing importance of natural gas in the electricity generation industry, we believe that there will be further growth in the Spanish natural gas market. Consistent with the following data provided by the Ministry of Economy, it is expected that natural gas demand in Spain will grow at rates higher than both the demand for energy as a whole in Spain and the demand for natural gas as a primary energy source within the E.U.

Year	Total natural gas consumption in Spain (billion m^3)
2001	18.2
2002	21.1
2003	26.8
2004	28.9
2005	30.8
2006	32.8
2007	35.1
2008	37.6
2009	39.7
2010	41.7

Source: Ministry of Economy.

According to the most recent forecasts of natural gas demand published by the Ministry of Economy, the increase in demand will be largely influenced by the growth of combined cycle power plants, which are expected to account for approximately 27% of Spanish natural gas consumption by 2006. According to the Ministry of Economy forecasts, residential and commercial and industrial consumption are expected to grow at rates of around 8.7% per annum and 5.3% per annum, between 2001 and 2006.

These rates of growth assume the continuing economic growth in Spain, the expansion of the natural gas transportation and distribution network to new areas of Spain, and the trend to substitute natural gas for oil to operate heating systems will continue. We believe that consumers favor natural gas as a source of energy due to its environmental and calorific value characteristics.

The foregoing expectations on the increase of demand for natural gas may prove to be incorrect due to a number of factors, including developments in the electricity market, an adverse change in the price of natural gas compared to other fuels, slow economic growth in Spain generally, climate fluctuations, the availability of natural gas imports and capacity on international pipelines, changes in environmental laws and other factors that are beyond our control or cannot be foreseen.

BUSINESS

You should read the following description of our business together with the Glossary.

Overview

We are the leading provider of natural gas transport services in Spain and the only provider of related regasification and natural gas storage services in Spain. Currently, Gas Natural owns, directly and indirectly, all of our share capital but is required by law to reduce its shareholding to a maximum of 35%.

Transport

We transport natural gas through a network of transport pipelines. At the date of this offering circular, we operate a high-pressure transport pipeline network of approximately 6,123 km out of a total of 6,269 km of high-pressure pipeline in Spain. We also operate four pipelines with international connections to Algeria, France and Portugal. Through joint ventures with Transgas, a Portuguese natural gas transportation company, we have capacity rights over the pipelines connecting Spain and Portugal, which represent approximately 8% of our total pipeline capacity. For more detail, see "—Transportation Activities—Transport" below.

Regasification

We carry out regasification services at three regasification plants that we operate. Each of these plants is located in a Spanish port and has docking facilities to take deliveries of LNG supplies from LNG carriers and to load cistern lorries for delivery to satellite regasification plants. At the date of this offering circular, we have a total regasification capacity of approximately 2.1 million m^3(n)/h. Our regasification plants also have a combined storage capacity for LNG reserves of approximately 560,000 m^3. We use this storage capacity to comply with our regulatory obligations regarding natural gas reserves and to modulate seasonal fluctuations in demand for natural gas. For more detail, see "—Transportation Activities—Regasification" below.

Storage

Of the two underground natural gas storage facilities in Spain in operation at the date of this offering circular, we operate the Serrablo facility and have usage rights over the Gaviota facility. Together, these facilities have a total utilizable capacity of 2,122 million m^3(n). We use this storage capacity principally to modulate the seasonal fluctuations in demand and to comply with our regulatory obligations regarding strategic reserves of natural gas. We also lease spare capacity in these storage facilities to our customers. See —"Transportation Activities—Storage—Underground Storage Facilities" for more detail.

Other regulated activities

The Spanish natural gas market is heavily regulated and has recently undergone a regulatory overhaul as a result of the implementation of the Gas Directive in Spain. Under the new regulatory framework, we are responsible for ensuring a continuous and reliable supply of natural gas to the tariff-based market. We achieve this by purchasing gas from natural gas producers, transporting it through our transport pipeline network and selling it to distributors for distribution to their customers. In addition to the permitted margin for sales of natural gas intended for the tariff-based market, we are remunerated for handling the purchase and sale of natural gas intended for the tariff-based market. Our only supplier of natural gas for these purposes is the Gas Natural Group. See "Relationship with the Selling Shareholder and Affiliates".

Under this new regulatory framework, we have also been appointed System Technical Manager. For a description of our role and responsibilities in this capacity, see "—System Technical Manager" below.

Non-regulated activities

We also carry out the construction for third parties and members of the Gas Natural Group of auxiliary pipelines connecting customers to the Spanish pipeline network. In addition, we provide pipeline, sealine and fiber optic maintenance services for members of the Gas Natural Group. Gas Natural has announced its intention to terminate the pipeline maintenance agreements on June 30, 2002.

2001 operating results

Our revenues in 2001 were approximately €2,414 million comprising €2,239 million of natural gas sales to distribution companies and €174.85 million of transportation services rendered in the liberalized market. Our cost of natural gas intended for the tariff-based market and other raw and consumable materials required for its transportation (for example, odorization gases) was €2,026 million. Our operating profit in 2001 was approximately €138.11 million.

In February 2002, implementing legislation was introduced to determine our remuneration for all our regulated activities. The new remuneration structure changes the basis on which our revenues are calculated. Under the new framework, our main source of revenues is the regulated remuneration for natural gas transportation activities. We are also remunerated separately for the services we perform as System Technical Manager and for our handling of the purchase and sale of natural gas intended for the tariff-based market. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting Results of Operations—Factors affecting revenues", "Legal and Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002 for a more detailed description of the remuneration structure.

The remuneration for regulated activities derives from the payment of tariffs by customers in the tariff-based market and the payment of tolls and fees by operators and customers in the liberalized market. See "Legal and Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month period ended March 31, 2002.

Strategy

As described in "Industry Overview", the Spanish natural gas market has been characterized by strong growth in recent years. Demand for natural gas in Spain is expected to continue to grow faster than demand for other primary energy sources. The growth in our own pipeline network from 3,525 km in 1996 to 6,123 km at the date of this offering circular reflects this growth in demand. In the same period, our pipeline network per employee increased from 4.6 km to 7.2 km and total volumes of gas transported by Enagás per employee increased from 12.2 million m^3 to 21.3 million m^3.

With the modifications introduced by the new regulatory framework, the nature of our business has changed substantially. Whereas we were previously a license holder for the national gas pipeline network and the sole entity responsible for the supply of natural gas to the Spanish natural gas market, we are now, in accordance with the new framework, one of a number of authorized transportation companies. Our main corporate purposes are the construction and use of infrastructures in the transportation network.

We believe that the capacity provided by the Spanish natural gas transportation network is still insufficient to meet the growth in demand we expect in the coming years, and our investment plan envisions investment of approximately €2.6 billion in the expansion of our transportation network during the period 2002 through 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditure" and "Business—Transportation Activities" for further information relating to our investment plan.

Our medium-term strategy is to continue to lead the development of the liberalized natural gas market in Spain through the expansion of our natural gas transportation activities. We aim to implement our strategy by enhancing our financial performance through:

Implementation of our investment plan in order to benefit from the expected growth opportunities in the Spanish natural gas market

We believe that we can enhance the value of our investments in our transportation network and capitalize on the benefits provided by the new remuneration structure by:

- seeking to optimize our effective investment cost. One of the components used to determine our remuneration under the new regulatory framework is a standard recognized value for the construction cost of new investments authorized by the direct authorization procedure. We expect a similar standard cost component to be recognized for investments authorized under the public tender process. Our aim is to create value by optimizing our efficiency in carrying out investment projects in order to outperform this recognized construction cost component, thus increasing our profitability. We believe that our extensive experience in project development and management provides us with the means to achieve this strategic goal; and

- operating our assets beyond their respective depreciation periods. The regulations provide for continued remuneration of a fully-amortized asset still in operation, on the basis of 50% of the annual recognized return on the investment value of that asset plus 100% of the recognized operating costs corresponding to that asset.

The Hydrocarbons Sector Law currently provides that any investments affecting the regasification capacity of the system, or involving the construction of pipelines over 60 bar pressure or strategic reserve storage facilities, will be subject to a mandatory strategic plan (*planificación obligatoria*) currently in preparation by the Spanish government for the hydrocarbons sector. Any such investments must be authorized by the Ministry of Economy via a public tender process. Until the mandatory strategic plan is approved, the Ministry of Economy may directly authorize the construction and operation of new transportation network investments.

Our investment plan is focused mainly on large infrastructure development projects. All of the major investments envisioned in our investment plan, which are scheduled to come into operation before 2006, except for the construction of the pipeline from central Spain to the east coast of Spain, have been recommended as urgent by the CNE. Accordingly, we currently expect most of our investments during the period 2002 through 2006 to be subject to the direct authorization procedure.

Enhancement of our operating efficiency

Under the new regulations, a further component of our remuneration will be determined by reference to standard recognized values representing operating expenses. We believe that in recent years we have made significant improvements in our operating efficiency, demonstrated, for example, by the increases in our pipeline network and volumes of natural gas transported by us per employee. We aim, however, to improve our operating efficiency further by:

- benefiting from economies of scale made possible by the characteristics of our business and the nature of new investments, some of which are upgrades of existing assets. We expect these upgrades to result in lower operating expenses relating to the asset in question; and
- continuing to capitalize on the experience and know-how of our management team and personnel and our technology.

Improvement of our capital structure

We require financial flexibility to implement our current investment plan effectively in the future. Subsequent to the refinancing of our short-term credit facility entered into on June 20, 2002, we intend to increase our financial debt to total assets ratio from its current level of approximately 40% to approximately 55% to 60%, which we believe is in line with comparable operators in the E.U. natural gas market. Our objective is to reduce our cost of capital by funding our future investment from free cash flow and financial debt while maintaining a solid risk profile.

History, Ownership and Organization of Enagás

History

Enagás was incorporated in 1972 as a *sociedad anónima* by the Spanish National Industry Institute, a public body, to operate the incipient natural gas network in Spain. In 1981, Enagás was integrated into the Spanish National Hydrocarbons Institute, a public body active in the oil and gas industry.

In 1994, Gas Natural acquired 91% of the shares of Enagás. In 1995, Enagás entered into joint ventures with Transgas in respect of four pipelines connecting Spain and Portugal. In 1998, Gas Natural acquired the remaining 9% of Enagás. Gas Natural is currently, directly or indirectly, the sole owner of Enagás. For a description of our relationship with Gas Natural and the core shareholders in Gas Natural, and how those relationships will change after the Offering, see "Relationship with the Selling Shareholder and Affiliates".

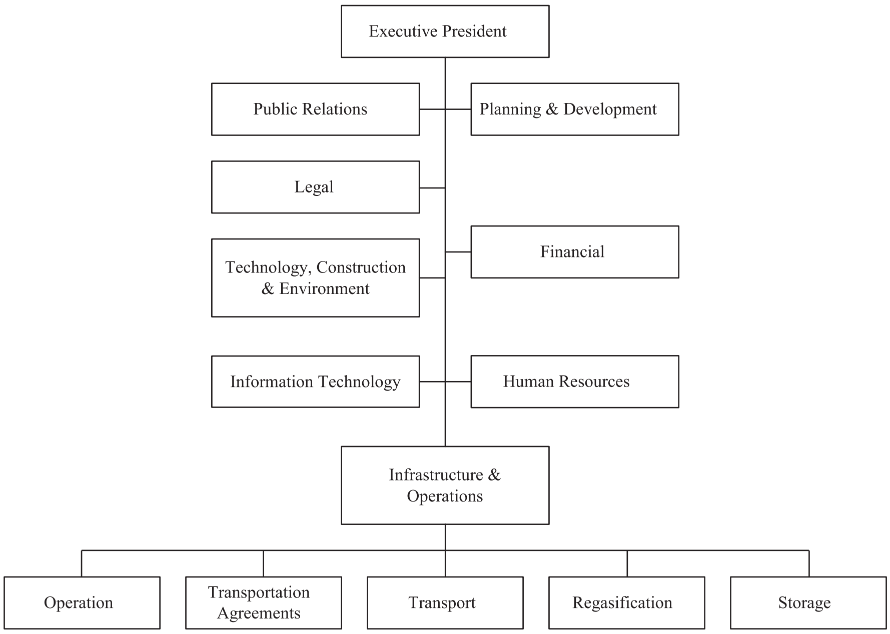
On June 22, 1998, the European Parliament and the European Council approved the Gas Directive, containing common rules for the supply, transport, storage and distribution of natural gas. The Gas Directive allows E.U. member states to regulate their domestic markets independently, provided that such regulation satisfies the fundamental principles articulated in the Gas Directive.

The Hydrocarbons Sector Law implemented the Gas Directive in Spain. The Hydrocarbons Sector Law specifies that the regulated activities indicated therein, including natural gas transportation activities, must be provided as distinct services and cannot be bundled with other activities. Consequently, between 1998 and 2000, our natural gas distribution, real estate and import activities were spun-off to Gas Natural. On June 23, 2000, Royal Decree-Law 6/2000 was enacted, under which we were appointed as System Technical Manager of the Spanish basic natural gas network. That Royal Decree-Law 6/2000 also requires Gas Natural to reduce its shareholding in Enagás to a maximum of 35%. On December 27, 2001, Royal Decree 949/2001 was enacted, with the aim of regulating third-party access to, and establishing an integrated economic system in, the natural gas market. This was followed in February 2002 by the publication of Ministerial Order ECO/301/2002 setting out the new remuneration framework for our transportation activities. For more detail on legal and economic regulation of our activities, see "Legal and Economic Regulation".

Organization

Our main business is to conduct natural gas transportation activities, consisting of regasification, transport and storage services in Spain. The following chart shows our management structure:

MANAGEMENT STRUCTURE



Transportation Activities

Regasification

We are currently the only transportation company operating LNG regasification plants connected with the natural gas transportation network in Spain. Owing to the scarcity of natural gas resources in Spain, combined with the fact that Spain is geographically distant from natural gas reserves in Northern Europe, a significant proportion of Spain's natural gas supply is imported in the form of LNG. LNG accounted for approximately 55% of natural gas imports in Spain in 2001. The dependence of the Spanish natural gas market on LNG imports is uncharacteristic in Europe. The main importer of LNG into Spain is Gas Natural. See "Relationship with the Selling Shareholder and Affiliates".

We currently operate three regasification plants located in Spanish coastal ports: Barcelona (north east coast), Cartagena (east coast) and Huelva (south west coast). At these plants, LNG delivered by LNG carriers is first put into storage tanks, then vaporized through regasification installations, consisting of cryogenic pumps and submerged combustion vaporizers, and finally injected in gaseous form into the transport pipeline network.

As at the date of this offering circular, the total regasification capacity of our regasification plants was 2.1 million $m^3(n)/h$. In addition, at that date the plants had storage tanks with a total operating storage capacity of 560,000m^3 of LNG.

The following table gives capacity data for each of our three regasification plants at March 31, 2002:

Plant	LNG storage capacity (m³)[3]	Maximum regasification capacity (m³(n)/h)	Autonomy (days)[1]	LNG docking capacity (m³)[2]	Daily cistern/lorry loading capacity
Barcelona	240,000	600,000 (at 72 bar)	4.5	80,000	45
		600,000 (at 45 bar)			
Huelva	160,000	400,000 (at 72 bar)	8	140,000	45
		50,000 (at 16 bar)			
Cartagena	160,000	450,000 (at 72 bar)	8	140,000	45
TOTAL	560,000	2,100,000	(average) 6	—	135

(1) The number of days it would take a plant to exhaust its total LNG storage capacity assuming it operates at the maximum hourly rate, disregarding 10% of that total LNG storage capacity (which constitutes the minimum permanent gas reserve pool).

(2) The LNG docking capacity indicates the size of the LNG carriers (measured in m^3) that can unload at each regasification plant. A low docking capacity can restrict the supply of LNG to a plant.

(3) The storage capacity at each plant is primarily used to satisfy the operating reserve requirement (see—"Operating reserve").

Detailed operating information about each of our regasification plants is summarized below:

Barcelona. This is our oldest plant, which has been operational since 1969 and occupies a surface area of approximately 155,000 m^2. The plant has regasification capacity of 600,000 m^3(n)/h operating at 35 or 45 bar pressure and 600,000 m^3 (n)/h operating at 72 bar pressure. The plant also has LNG storage capacity of 240,000 m^3. The docking facilities can accommodate LNG carriers with a capacity of up to 80,000 m^3. In addition, the plant has a loading bay for LNG cistern lorries with three loading points that can process a total of 45 cisterns per day.

We adjust the output at our Barcelona plant to regulate gas supply to meet daily fluctuations in the demand for natural gas in eastern Spain. See "—Transportation Activities—Operation" for more detail.

The table below shows operating data for our Barcelona plant for the years indicated:

	1998	1999	2000	2001
Number of LNG carriers unloaded	145	210	188	207
Annual production (GWh)	49,441	58,203	59,531	60,857
Utilization factor	43%	51%	52%	53%
Number of cisterns loaded	4,644	7,569	8,765	7,825

Huelva. This plant has been operational since 1988 and occupies a surface area of approximately 141,000 m^2. The plant has regasification capacity of 50,000 m^3(n)/hour operating at 16 bar pressure and 400,000 m^3(n)/hour operating at 72 bar pressure. The plant also has LNG storage capacity of 160,000 m^3. The docking facilities can accommodate LNG carriers with a capacity of up to 140,000 m^3. In addition, the plant has a loading bay for LNG cistern lorries with one loading point that can process 45 cisterns per day.

The table below shows operating data for our Huelva plant for the years indicated:

	1998	1999	2000	2001
Number of LNG carriers unloaded	7	43	100	94
Annual production (GWh)	2,193	6,720	24,359	31,253
Utilization factor	5%	15%	53%	68%
Number of cisterns loaded	4,303	6,640	7,597	6,583

Cartagena. This plant has been operational since 1988 and occupies a surface area of approximately 100,000 m^2. The plant has regasification capacity of 450,000 m^3(n)/hour operating at 72 bar pressure under normal conditions and up to 600,000 m^3(n)/hour at 72 bar pressure at times of high output. In addition, the plant has LNG storage capacity of 160,000 m^3. The docking facilities can accommodate LNG carriers with a capacity of up to 140,000 m^3. There is a loading bay for LNG cistern lorries with three loading points that can process a total of 45 cisterns per day.

The table below shows operating data for our Cartagena plant for the years indicated:

	1998	1999	2000	2001
Number of LNG carriers unloaded	77	92	105	89
Annual production (GWh)	16,250	16,848	19,778	24,874
Utilization factor	100%	100%	100%	81%
Number of cisterns loaded	2,425	3,994	7,585	9,028

Our LNG regasification plants can supply natural gas at different pressures depending on the pressure level of the pipeline to which they are connected. The maximum pressure is 72 bar, but they may be connected to a secondary transport network operating at 45 bar pressure or directly to a distribution network operating at 16 bar pressure.

Currently, and until our plans for new facilities are completed, large LNG carriers (which are usually necessary to secure long-term supplies) cannot unload at our Barcelona plant. The LNG storage tanks at this plant were designed to meet the storage requirements at the time it was built. The older tanks were built to cater to LNG carriers with a much smaller capacity (25,000 to 38,000 m^3) than modern LNG carriers. Large LNG carriers, however, can unload at our Cartagena and Huelva plants. See "—Development projects" below.

Operating reserve. Under the new regulations, in order to promote the continuity and reliability of the natural gas supply, we are required to provide LNG storage capacity for an operating reserve of 10 days to each operator contracting our regasification services. As a transitional measure, until January 2004 the period has been reduced to five days.

In order to fulfill the 10-day operating reserve requirement in 2004, we will need to increase the storage capacity in all our plants, without taking into account any increase in demand in the intervening period that would require a further increase in LNG storage capacity.

Satellite regasification plants. These plants are provisionally being used to enable the distribution network to supply natural gas to areas of Spain in which the transport pipeline network has not yet been developed or is being developed. These small-scale regasification plants receive and regasify LNG from cistern lorries loaded at our principal regasification plants and supply the natural gas directly to the local distribution network to which they are connected. We do not own or operate any of these satellite regasification plants.

Development projects. Our main proposed development projects relating to our regasification activities are:

- **Barcelona:** an increase in the regasification capacity up to 1.35 million m^3(n)/h by 2003 and the addition of a new docking station for LNG carriers with a capacity of up to 140,000 m^3 LNG;
- **Huelva:** an increase in the regasification capacity up to 900,000 m^3(n)/h; and
- **Cartagena:** the addition of a new storage tank with a storage capacity of up to 105,000 m^3 and successive increases of regasification capacity up to 600,000 m^3(n)/h and 750,000 m^3(n)/h.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditure".

Transport

Once produced or imported and, if necessary, regasified, natural gas is injected into our system of high pressure pipelines that runs across the Spanish territory. This network delivers natural gas to end-users, such as power plants and industrial customers that are directly linked to these pipelines, and local distribution companies.

At the date of this offering circular, the Spanish natural gas transport system comprises 6,269 km of pipeline network, of which we own and operate 6,123 km. Of this total, 6,106.5 km operate at a pressure equal to or greater than 60 bar and the remaining 16.5 km operate at a pressure of between 16 and 60 bar (defined by Article 59 of the Hydrocarbons Sector Law as the "primary transport network" and "secondary transport network", respectively).

International connections. As part of our pipeline network, we operate four international connections:

- the **Larrau** pipeline, which connects the French and Spanish pipeline networks. This international pipeline, which began operations in 1993, links the northeast region of Spain with the French pipeline network at Lacq (France) and, with the Norwegian gas fields;

- the **Maghreb pipeline,** which connects the natural gas facilities of Hassi R' Mell (Algeria) with Córdoba (Spain), across the Strait of Gibraltar. This pipeline, which began operations in late 1996, has four basic segments, each operated by different entities. We operate the 270 km segment that spans from the Spanish side of the Strait of Gibraltar to the connection point with the national pipeline network in Córdoba; and
- the **Portuguese pipelines,** which connect the Spanish and Portuguese pipeline networks. The Campo Maior-Leiria-Braga pipeline, which has been operational since the end of 1996, connects the Maghreb pipeline with Portugal. In Leiria (Portugal), this pipeline connects with the Braga-Tuy pipeline, in service since 1998. Together, they form the principal gas pipeline in Portugal, traversing the country from the border with Extremadura, Spain, to Galicia, in the northwest of Spain.

National network. Our national pipeline network consists of three branches:

- the **Eastern branch,** which runs from Barcelona to Cartagena. It is supplied through the regasification plants at Barcelona and Cartagena and linked to the Ebro branch by the Tivissa compressor station;
- the **Ebro branch,** which runs between the two compressor stations located in Tivissa and Haro and links the Eastern and Western branches. The Ebro branch also connects our pipeline network with the French pipeline network at Larrau and with the underground storage facilities at Serrablo and Gaviota; and
- the **Western branch,** which consists of all the pipelines to the west of the Haro compressor station and includes the Al Andalus and Extremadura pipelines and the interconnections with the Portuguese pipeline network.

Pipeline characteristics. Our pipelines vary in diameter between 6 inches and 48 inches and are designed to operate at maximum pressures of 72 bar to 80 bar or, in the case of the sealines that cross the Strait of Gibraltar, 155 bar. The natural gas transported through these pipelines is delivered to customers at certain exit points throughout the pipeline network.

The international connections with Morocco and France each supply pipelines operating at 80 bar. The regasification plants in Barcelona, Huelva and Cartagena, the Guadalquivir Valley gas fields and the underground storage facilities at Serrablo and Gaviota each supply pipelines operating at 72 bar.

Pipeline	Diameter(s) (inches)
Larrau-Calahorra pipeline	26
Maghreb pipeline	(Strait of Gibraltar) 22
	(Tarifa and Córdoba) 36 and 48
	(Córdoba to Portugal) 28 and 32
Córdoba-Jaen-Granada pipeline	10, 12 and 16
Tuy-Villalba-Llanera pipeline	20
Ruta de la Plata pipeline	(Almendralejo-Salamanca-Zamora) 26
	(Zamora-Benavente-León) 20
	(León-Oviedo) 20
Villamañán-Ponferrada pipeline	16
Granada-Motril pipeline	16
Barcelona-Bilbao-Valencia (Paterna) pipeline	(Bermeo-Lemona) 16
	(Calahorra-Pamplona) 8
	(Remaining pipeline) 24, 26 and 30
Serrablo-Zaragoza pipeline	20 and 26
	(Huesca-Barbastro-Monzón) 6
	(Monzón-Alfarrás) 12
Haro-Burgos-Madrid pipeline	16, 20 and 26
	(Lerma-Palencia-Valladolid) 12
	(Aranda-Valladolid-Zamora) 20
	(Aranda-Soria-Almazán) 6, 10 and 12
Burgos-Santander-Asturias	12 and 16
Huelva-Sevilla pipeline	20
	(Almonte-Marismas) 8
Sevilla-Madrid pipeline	26
	(Ramal-Talavera) 8
Valencia-Alicante (Paterna-Onteniente) pipeline	20 and 24
Onteniente-Orinela-Planta Cartagena pipeline	12 and 30

The table below shows the length of the pipeline network for the transport of natural gas operated by Enagás in the last five years.

Year	Transport pipeline (Km)	Increase (/decrease) per annum (km)
1997	3,911	—
1998	4,927	1,016
1999	5,853	926
2000	5,583	(270)(1)
2001	6,123	540

(1) The reduction in 2000 resulted from the spin-off of the secondary transport network to Gas Natural.

Our Joint Ventures with Transgas. In 1995, we entered into joint ventures with Transgas, the Portuguese natural gas transportation company belonging to the Galp Energia SGPS group, to build and operate four natural gas pipelines connecting the Spanish and Portuguese natural gas transportation systems.

Enagás and Transgas are the sole shareholders in four companies that lease the usage rights to the pipelines connecting Spain and Portugal, as described below. We have access to these pipelines through transportation agreements and are invoiced by the company leasing the usage rights in accordance with the terms of these agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

- **Gasoducto Al Andalus, S.A.** We have leased the usage rights to the 277 km Al Andalus pipeline, which connects Tarifa and Córdoba to Gasoducto Al Andalus. We own 66.96% of the shares of this company and Transgas owns the remaining 33.04%. Through transport agreements with Gasoducto Al Andalus, we share the transport capacity of the pipeline with Transgas in proportion to our shareholdings in Gasoducto Al Andalus.
- **Gasoducto Extremadura, S.A.** We have leased the usage rights to the 250 km Extremadura pipeline, which connects Córdoba and Campo Maior (Portugal) to Gasoducto Extremadura. We own 51% of the shares of this company and Transgas owns the remaining 49%. Through transport agreements with Gasoducto Extremadura, we have access to 41.16% of the transport capacity of the pipeline and Transgas has access to 58.84%.
- **Gasoducto Campo Maior-Leiria-Braga, S.A.** We own 12% of the shares of Gasoducto Campo Maior-Leiria-Braga, S.A. and Transgas owns the remaining 88%. Gasoducto Campo Maior-Leiria-Braga leases from Transgas the usage rights to the Campo Maior-Leiria-Braga pipeline, which runs through the center of Portugal. Through transport agreements with Gasoducto Campo Maior-Leiria-Braga we share the transport capacity of the pipeline with Transgas in proportion to our shareholdings in Gasoducto Campo Maior-Leiria-Braga.
- **Gasoducto Braga-Tuy, S.A.** We own 49% of the shares of Gasoducto Braga-Tuy, S.A. and Transgas owns the remaining 51%. Gasoducto Braga-Tuy leases from Transgas the usage rights to the Braga-Tuy pipeline which crosses the north of Portugal and connects with the Spanish pipeline network in Galicia. Through transport agreements with Gasoducto Braga-Tuy we have access to 90% of the transport capacity of the pipeline and Transgas has access to the remaining 10%.

Operation. We operate and control the transport pipeline network using, among other things, an integrated system of compressor stations, modulating and measurement stations and demand-prediction tools.

Compressor stations. These stations are strategically situated throughout the transport pipeline network and are used to increase the gas pressure to provide a continuous and reliable supply of natural gas throughout the transport pipeline network and also to increase our transport capacity. This is necessary because natural gas loses pressure during transport and the pipelines within the transport network have different maximum pressure levels.

We have nine compressor stations situated in the regions of Badajoz, Ciudad Real, La Rioja, Madrid, Sevilla, Tarragona, Valencia and Zamora. Our compressor stations have gas turbines coupled with centrifugal compressors. The station at Paterna (Valencia) came into service on July 27, 2001. It increased the capacity of the Murcia-Tivissa section of the transport pipeline network, allowing it to carry the gas output of the Cartagena regasification plant.

Modulating and measurement stations. These stations measure and regulate the pressure and regulate the flow of natural gas through the transport pipeline network, mix natural gas into the network and enable interconnections to take place between pipelines operating at different pressure levels. Our transport pipeline network includes 242 modulating and measurement stations.

Control centers. Our Planning and Control Center (*Centro de Planificación y Control*) in Madrid exercises general supervision over, and control of, the transport pipeline network. The main control center is complemented by the Emergency Response and Control Center (*Centro de Control y Atención de Urgencias*) in Barcelona and the Distribution and Control Center (*Centro de Control y Distribución*) in Madrid, which are owned and operated by the Gas Natural Group. These two additional centers control the distribution network and ensure the provision of a high quality and reliable supply. Together, these control systems monitor the functioning of the entire Spanish natural gas network in real time and anticipate problems with the supply line.

Maintenance. There are a total of 39 maintenance centers of varying size. These centers monitor the operations of the network and perform maintenance, security, inspection and control services. The Soria and Ponferrada centers were brought into service in 2001. We have implemented a prevention policy and risk prevention management system in order to comply with all the legal requirements regarding industrial safety and occupational hazards. This policy and system are based on the UNE 81900 rules and the OHSAS 18001 International rules and are currently subject to statutory external audit.

Development projects. Our main proposed development projects relating to the transport of natural gas are:

- the construction of the Huelva-Madrid pipeline, which will be approximately 650 km long;
- the enlargement of eight of our nine compressor stations; and
- the construction of five new compressor stations.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more detailed information concerning these development projects.

Storage

Natural gas storage must meet legal requirements regarding strategic reserves and is necessary to modulate seasonal fluctuations in natural gas demand. More specifically, the Hydrocarbons Sector Law requires natural gas transportation companies to store a quantity of natural gas equivalent to 35 days' worth of sales to distributors in the tariff-based market (the "strategic reserve"). The purpose of the strategic reserve is to guarantee the continuity and reliability of natural gas supply by minimizing the risk of shortages that could otherwise result from accidents or interruptions to supply. Wholesalers must also store a quantity of natural gas equivalent to 35 days of their sales. Finally, eligible customers that are not being supplied by wholesalers must store a quantity of natural gas equal to 35 days' of their consumption.

Our lease of natural gas for seasonal modulation and strategic reserves from Gas Natural is currently governed by an agreement dated April 1, 2002. This agreement has an initial term of one year, which is automatically renewable and may be terminated upon three months' notice by either party. Under the terms of this agreement, Gas Natural is required to place at our disposal the natural gas requested by us and to allow us the use of such natural gas if we are required to use our strategic reserves. In consideration of the lease of the natural gas reserves, we pay Gas Natural a percentage of the raw material cost of natural gas established by the regulations.

Natural gas supplies must be modulated to cover seasonal surpluses or shortages in the supply and demand of natural gas. Gas is introduced into the storage facilities in the summer and extracted in the winter, as needed.

Due to the volume of natural gas under normal conditions, only underground storage facilities can feasibly store the gas needed to satisfy strategic and seasonal requirements.

We lease excess storage capacity to other natural gas transportation companies, which may want to store their natural gas reserves, either to fulfill their own strategic reserve requirements or for other reasons.

Underground Storage Facilities. The two underground natural gas storage facilities we use consist of two depleted natural gas fields, Serrablo and Gaviota. The Serrablo site is located in Sabiñánigo (Huesca). The Gaviota storage facilities are located under an offshore platform, approximately 8 kilometers from Bermeo (Vizcaya), which is connected by a sealine with the onshore treatment plant located in the cape of Machichaco, near Bermeo. The Serrablo facilities are operated by Enagás.

The Gaviota underground storage facility is owned by a consortium (the "Grupo Gaviota "), in which Repsol-YPF has an indirect interest of 82%. Under an agreement dated October 29, 1993, between Enagás and the members of the Grupo Gaviota, which is due to expire on September 30, 2018, we lease usage rights over the storage capacity of the Gaviota facilities. We use this capacity for our own reserve requirements and, if applicable, the provision of third-party access. The maintenance and operation of this facility are the sole responsibility of the Grupo Gaviota and, in 2001, we paid € 25.69 million for the lease of the storage capacity and the provision of maintenance and operational services.

The storage injection and withdrawal process for natural gas requires a minimum quantity of natural gas to remain in the storage facility. This cushion gas can only be withdrawn when the operations of a storage facility are discontinued. The cushion gas accordingly reduces the working capacity of a storage facility, because not all of the natural gas in the storage facility can be used. The available gas is therefore the natural gas that is stored on top of the cushion gas. The following table summarizes technical information of both underground storage facilities:

Natural Gas Underground Storage Facilities

	Storage Capacity Million $m^3(n)$			Injection/withdrawal Million $m^3(n)$/day	
	Cushion gas[1]	**Working capacity**	**Total**	**Injection**	**Withdrawal**
Serrablo [2]	280	775	1,055	3.9	4.6
Gaviota	1,135	1,347	2,482	4.5	5.7
TOTAL	1,415	2,122	3,537	8.4	10.3

(1) Capacity of injection and withdrawal available after June 2002.

(2) Figures for Serrablo include data from the Aurin and Jaca installations.

The table below shows certain operating data for both underground storage facilities:

	2000		2001	
Working Capacity	**GWh**	**%**	**GWh**	**%**
Maximum capacity used	27,148	100	24,477	97
Minimum capacity used	16,152	64	14,889	59

Operating Storage Facilities. We have supplementary storage capacity of 560,000 m^3 in the multiple cryogenic tanks at our regasification plants. For more information on the storage capacity within our regasification plants, see "—Regasification" above. We also have additional capacity in the pipelines themselves. The primary purpose of the supplementary storage capacity is to accommodate operational requirements rather than satisfy the strategic reserve requirement or to modulate seasonal fluctuations in demand.

Development Projects. Our main current development project is the construction of a 1,000 million m^3 underground storage facility at Santa Bárbara expected to be completed in 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditure".

System Technical Manager

The Hydrocarbons Sector Law (as amended by Royal Decree-Law 6/2000) provides that the transportation company owning the majority of the basic natural gas network will be responsible for the technical management of the natural gas system in Spain and appointed Enagás as System Technical Manager. We carry out this function through our planning and development department.

We receive regulated remuneration for acting as System Technical Manager. See "Legal and Economic Regulation—Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002.

Responsibilities of the System Technical Manager

Our basic responsibilities as System Technical Manager under the Hydrocarbons Sector Law are:

- to ensure a continuous and reliable supply of natural gas to the Spanish market; and
- to ensure proper coordination of the introduction of natural gas into the Spanish natural gas system and the storage, transportation and distribution of this natural gas.

In carrying out our obligations as System Technical Manager, we are required to coordinate with the various operators in the Spanish natural gas markets or the users of the Spanish natural gas network on the basis of general principles of transparency, objectivity, independence and non-discrimination.

Our functions as System Technical Manager

The Hydrocarbons Sector Law assigns a series of functions to the System Technical Manager in implementing the basic responsibilities described above. These functions may be summarized as follows:

- *Functions regarding the level of natural gas necessary to ensure a continuous and reliable supply.* These include: determining and controlling levels of natural gas injected into the Spanish natural gas system in the short and medium-term; making short and medium-term forecasts as to the level of utilization of the Spanish natural gas infrastructure and the level of natural gas reserves, in accordance with demand for natural gas; issuing instructions to operators to modulate the level of natural gas injected into the system to reflect demand; and calculating the daily utilization of the Spanish natural gas system by each operator and the operational and strategic reserves held by each operator;
- *Functions regarding operation and maintenance of the natural gas system in Spain.* These include: issuing operational instructions regarding the transport pipeline network, including international connections; supervising the utilization of the transportation network by each operator and issuing instructions for its proper operation; overseeing and, if necessary, modifying the maintenance plans of each operator of the natural gas infrastructure to ensure proper functioning and availability of the natural gas supply; requiring operators to implement operational measures to ensure reliability of supply; managing the natural gas entry points into the Spanish pipeline network and the introduction of domestic natural gas production into regasification and storage plants; and managing the storage facilities; and
- *Functions regarding strategic planning of the Spanish natural gas system.* These include: establishing, implementing and coordinating measures designed to ensure reliability of supply, as well as action plans to be followed in the event of a general supply failure; proposing to the Ministry of Economy and updating annually detailed emergency plans, including information on the level, location and time required for restocking of available reserves; proposing measures to the Ministry of Economy for the development of the basic network and the expansion of storage facilities. Our most significant planning function is to assist the Ministry of Economy in formulating and implementing the strategic plan for development of the natural gas infrastructure. See "Legal and Economic Regulation—Legal Regulation—Spanish law—Hydrocarbons Sector Law".

The Hydrocarbons Sector Law also provides that the System Technical Manager is required to carry on any other activities desirable for the proper functioning of the Spanish natural gas system or prescribed by any other decision adopted by the Spanish government or any other measures introduced by implementing legislation.

Obligations of the System Technical Manager regarding third-party access in the liberalized market

Royal Decree 949/2001 develops the general functions of the System Technical Manager summarized above by specifying a series of obligations to be fulfilled by the System Technical Manager in relation to third-party access in the liberalized market.

These obligations overlap to some extent with the functions prescribed by the Hydrocarbons Sector Law but include more detailed requirements regarding measures to be applied in ensuring the supply of natural gas and ensuring proper utilization and maintenance of the Spanish natural gas system. They also include detailed requirements regarding the collection and collation of information by the System Technical Manager from operators in the Spanish natural gas market.

We are required by Royal Decree 949/2001 to keep confidential the information we receive in our capacity as System Technical Manager. In order to ensure compliance with this confidentiality obligation, we have established internal procedures to prevent the unlawful disclosure of information received by our planning department and other departments.

Royal Decree 949/2001 also specifies certain rights of the System Technical Manager, designed to enable us to perform our functions in this capacity. These rights include: the right to regulated remuneration; the right to require operational and programming information from other operators and third parties with access to the network; the right to supervise the activities and operations of all agents within the Spanish natural gas market; and the right to require strict compliance with instructions we issue in our capacity as System Technical Manager.

Detailed system technical management regulations

The Hydrocarbons Sector Law provides for the introduction of implementing legislation to establish a further set of detailed technical regulations, intended to serve as a technical guideline for the System Technical Manager and all operators in the Spanish natural gas market.

Royal Decree 949/2001 provides that these technical regulations will cover the following matters: detailed operational programming, requiring operators to provide their individual plans for utilization of the Spanish natural gas system; detailed records of utilization by each operator; information regarding imbalances in the system; records of gas losses and own consumption by each operator; measurement of the natural gas in the system; establishment of communication channels between operators and the System Technical Manager; and determination of capacity of each installation.

A draft of these technical regulations has been prepared by Enagás, in its capacity as the System Technical Manager, but a final version has not yet been issued by the Ministry of Economy.

Planning

We use advanced technology to enable us to carry out our forecasts and planning obligations as System Technical Manager. For example, we currently use three demand-prediction software programs to make hourly or daily estimates of natural gas demand with forecast horizons varying between one day and 18 months. These demand-prediction software programs can incorporate data concerning long-term climatic trends and real-time demand information to assist us in drawing up strategic plans, annual programming and operations planning.

Quality control

The quality of the natural gas is controlled by cromatographs strategically located throughout our pipelines, international connections, regasification plants and underground storage facilities. The number of cromatographs in operation as of December 31, 2001 was 48.

We are also responsible for natural gas odorisation. We carry out odorisation in accordance with Sedigas recommendation RS-T-01.91 at entry and exit points.

Supply of Natural Gas for Sale to the Tariff-based Market

Until 1998, we had sole responsibility for supplying natural gas to the Spanish natural gas market and negotiating natural gas supply agreements with producer countries and supplier companies. The Hydrocarbons Sector Law introduced a new supply system, which caused the number of participants in the natural gas supply market to increase. For a more detailed description of this new regulatory framework, see "Legal and Economic Regulation". As of the date of this offering circular, we are legally required to supply natural gas for sale to the tariff-based market. To fulfill this role, we purchase natural gas and sell it to distribution companies that are connected to our transport pipeline network and these distribution companies sell the gas to tariff-based customers.

Sales of natural gas in 2001, all of which were sales to the tariff-based market, were €2,239 million. Our purchase cost of supply of natural gas for supply to the tariff-based market and other raw and consumable materials required for its transportation (for example, odorization gases) was €2,026 million.

We are currently the only transportation company in Spain that buys natural gas at the points of entry for subsequent sale to the tariff-based market. We currently purchase all of our natural gas requirements for supply to this market from Sagane and Gas Natural Aprovisionamientos, under an agreement dated August 1, 2001 (the "Supply Agreement"). Under the Supply Agreement we are entitled to purchase the full amount of our natural gas requirements to supply natural gas for sale to the tariff-based market, but we are not required to take any additional gas over and above those requirements. Under the new regulations, we sell the natural gas we have purchased for supply to the tariff-based market at a regulated price, representing our average cost of raw materials plus a margin reflecting transportation costs incurred by us in the supply of natural gas to the tariff-based market. We do not, therefore, have significant exposure to the fluctuation of natural gas purchase and selling prices. The Supply Agreement will remain in force as long as we are legally required to handle the purchase and sale of natural gas intended for the tariff-based market. We are remunerated for handling the purchase and sale of natural gas intended for the tariff-based market.

From January 2003, all customers will be eligible to choose their natural gas supplier and current tariff-based users are expected to migrate gradually to the liberalized market. As the tariff-based market declines in importance, so will our natural gas sales to tariff-based customers, resulting in a proportionate decrease in our remuneration for handling the supply of natural gas under the new regulations.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations", "—Suppliers and Customers—Suppliers" and note 2(m) to our unaudited consolidated historical financial statements as of and for the three-month periods ended March 31, 2001 and 2002.

Property

Regasification plants

Except for certain property in Huelva, which we own, our regasification plants are built on state-owned property that we occupy under administrative concessions. The relevant port authority grants these administrative concessions for a determined period of time (varying from 30 to 75 years) after which, if the administrative concession is not renewed, the land reverts to the relevant administration.

None of our material administrative concessions is due to expire before 2010.

Pipelines

Once administrative authorization has been granted to Enagás to build a pipeline, we have the right by law to temporarily expropriate the land through which the pipeline will be built. Once the pipeline has been built, we benefit from a permanent right of way and access as well as from a right to temporarily occupy the land over the pipeline in order to carry out monitoring, maintenance and repair of the pipeline and related installations. The owners of land under which our pipelines pass are required by law to protect the pipeline from damage.

Compressor stations

We own all of the compressor stations forming part of our transport pipeline network in Spain.

Underground storage facilities

We occupy and use the underground storage facilities at Serrablo by virtue of an administrative concession granted on September 6, 1995, for a period of 30 years. We have a right of usage of the Gaviota facilities under an agreement dated October 29, 1993 between Enagás and the Grupo Gaviota. The Gaviota facilities are operated by a member of the Repsol-YPF Group.

See "Relationship with the Selling Shareholder and Affiliates" for further information relating to the Serrablo and Gaviota facilities.

Competition

Regasification

Currently, we are the only provider of regasification services for the transportation network in Spain. Third-party operators are, however, free to enter the market subject to authorization by the Ministry of

Economy. We anticipate that competition in the area of regasification will come from new plants being planned or under construction by competitors. The following projects have been announced by our competitors:

- *Bilbao.* BP-Amoco, Repsol-YPF, Iberdrola and Ente Vasco de Energia are building a LNG terminal in Bilbao, a city in northern Spain, to import LNG from Trinidad and Tobago. This plant will have an initial regasification capacity of 2.7 billion m^3 per year, with the possibility of increasing this capacity to 6 billion m^3. The plant is expected to become operational at the end of 2003;
- *El Ferrol.* In July 2000, a consortium called Reganosa, formed by Sonatrach, Unión Fenosa, Endesa, Caixa Galicia, the industrial group Tojeiro and the Galician regional government entered into an agreement for the construction of a regasification plant in El Ferrol, a city in northwest Spain. This plant will have an initial regasification capacity of 2.5 billion m^3 per year, with the possibility of doubling this capacity in the future. This plant is expected to become operational in the first quarter of 2004; and
- *Sagunto.* A group of companies led by Unión Fenosa, S.A. intends to construct a regasification plant in Sagunto, a region in eastern Spain. This plant will have a regasification capacity of approximately 5.5 billion m^3 per year and is expected to be supplied primarily by LNG imported from Egypt for use in nearby combined cycle generation plants.

If completed, these new plants will compete with our existing regasification plants. However, these plants will be subject to the obligation to provide third-party access.

Transport

Our main current competitor in the area of high-pressure transport of natural gas is Gas de Euskadi, which operates in the Basque region. The Endesa group, acting through Distribuidora Regional del Gas, S.A., Gas Aragón S.A. and Gas Natural also transport natural gas in Spain. Although there are no regulatory limitations on entering the natural gas transport market in Spain, the construction of a competing pipeline system would require substantial capital investment and the approval of the Ministry of Economy.

Other operators may be able to compete with Enagás to obtain approval from the Ministry of Economy for construction of the new pipeline network developments required to meet the growth in natural gas demand in Spain. There are currently no pending public tender processes for the construction of transport networks.

Storage

Although operators are free to enter the natural gas market in Spain, competition in the storage business is likely to be limited because the exploration required to find adequate storage structures is significant and the probabilities of success are small. We benefit from historic exploration and development expertise which other operators may lack.

Suppliers and Customers

Suppliers

Suppliers of natural gas. We currently purchase all of our natural gas requirements for supply to the tariff-based market under the Supply Agreement.

Sagane supplies us with Algerian-sourced natural gas purchased under a supply agreement originally entered into between Enagás and Sonatrach on June 8, 1992 and subsequently assigned to Sagane on June 20, 1994 (the “Algerian pipeline gas agreement”). At the time of that assignment, Sagane was a wholly-owned subsidiary of Enagás and we remain as guarantor of Sagane’s obligations under the Algerian pipeline gas agreement. The natural gas supplied under the Algerian pipeline gas agreement is delivered through the Maghreb pipeline. In accordance with The Hydrocarbons Sector Law, 75% of the natural gas supplied to Sagane under the Algerian pipeline gas agreement has been allocated to us for supply to the tariff-based market, while the remaining 25% has been allocated to six wholesalers until December 31, 2003. From January 1, 2004, all the natural gas supplied to Sagane under the Algerian pipeline gas agreement will be allocated, on a preferential basis, for supply to the tariff-based market.

Furthermore, under the Supply Agreement, Gas Natural Aprovisionamientos has undertaken to supply any additional gas requirements we may have. Gas Natural acts as guarantor of its subsidiaries’ supply obligations under the Supply Agreement.

Under the Supply Agreement we are entitled to purchase the full amount of our natural gas requirements to supply natural gas for sale to the tariff-based market, but we are not required to take any additional gas over and above those requirements. The Supply Agreement will remain in force as long as we are legally required to supply natural gas for sale to the tariff-based market. In addition, we are remunerated for handling the purchase and sale of natural gas intended for the tariff-based market.

Before the spin-off of our natural gas supply business to Gas Natural, we received our supplies under agreements that we entered into directly with foreign natural gas producers (except for the Algerian pipeline gas agreement, which we had assigned to Sagane). As a result of the spin-off of our natural gas supply business, all of our assets relating to that business (including our agreements with foreign natural gas producers) were assigned to the Gas Natural Group and our shares in Sagane were also transferred to Gas Natural. Certain counterparties to the supply agreements, including the Algerian pipeline gas agreement, have not expressly accepted such assignment, while others have made their acceptance conditional upon Enagás remaining as guarantor of the obligations of the assignee. Accordingly, we may still be subject to obligations under the supply agreements with foreign natural gas producers, including under so-called "take-or-pay" obligations, which impose an obligation to pay for a specific volume of natural gas or LNG even if the full contracted volume is not taken.

Gas Natural has agreed to indemnify us for certain liabilities that may be incurred by us under the supply agreements (which are listed in the counter-indemnity agreement) in respect of which we may remain liable. See "Relationship with the Selling Shareholder and Affiliates" for more information.

Customers

Our customer base can be divided into two principal groups: distribution companies operating in the tariff-based market and customers operating in the liberalized market.

- *Tariff-based market.* Our main customers are the distribution companies which are members of the Gas Natural Group, accounting for 87.4% of our revenues from the tariff-based market in 2001. The remaining 13.9% was derived from sales to Dicogexsa, Distribuidora Regional de Gas, Gas Alicante, Gas Aragón, Gas Asturias, Gas Directo, Gas de Euskadi, Gas Figueras, Gasnalsa and Meridional de Gas.

  Our agreements with distribution companies are regulated by Spanish law and generally have a term of five years. The payments are set in accordance with the published tariffs, invoiced fortnightly and payable within twenty days. We can suspend supply of natural gas to a distribution company for non-payment of an invoice by such company if the payment is not received within two months of the payment date. In the case of public bodies, the period prior to suspension is four months. Under no circumstances can we suspend services that have been declared essential.

- *Liberalized market.* Our customers in the liberalized market are wholesalers and eligible customers. Our main customer is Gas Natural Comercializadora a natural gas wholesale company of the Gas Natural Group, which accounted for 76.1% of our revenues from transportation services rendered in the liberalized market in 2001. Our other customers include: wholesalers, such as Unión Fenosa Gas Comercializadora, Iberdrola Gas, Shell España, BP Gas España, Edison Gas España, Endesa Energía, Cepsa Gas Comercializadora and Hidrocantábrico Energía; and eligible customers, including among others, Iberdrola Generación, Bahía de Bizkaia Electricidad, Nueva Generadora del Sur and Repsol-YPF.

  Our agreements with customers in the liberalized market are also regulated by Spanish law and generally have terms of either two years or less, for short-term agreements, or between 15 and 20 years, for long-term agreements. The payments are set in accordance with the published tolls and fees, although we may agree upon discounts to those tolls and fees with customers in the liberalized market. These payments are invoiced monthly and will be paid in accordance with the settlement procedure to be established by the Ministry of Economy. See "Legal and Economic Regulation—Economic Regulation". We can suspend supply of natural gas for non-payment of an invoice by a wholesaler or eligible customer, as the case may be, if the payment is not received within two months of the payment date.

  Royal Decree 949/2001 currently prevents us from reserving more than 75% of our current or future system capacity to long-term agreements. As at December 31, 2001, with respect to the period from 2002 to 2005, we had reserved between 55.6% and 73.7% of our future system capacity to long-term agreements. The restriction does not affect existing agreements with customers in the liberalized market and, therefore, these agreements are still enforceable during their contractual term.

Research and Development

We currently undertake the following research and development programs:

- we operate a Center of Technological Innovation in Zaragoza, Spain, where our research and development team is based. The team focuses on optimizing technologies used in the storage and supply of natural gas, reducing the cost of new infrastructure, minimizing operating costs and improving security in respect of storage and transport of natural gas; and
- we are pursuing technical support activities such as operating calibration laboratories (e.g., dealing with meters, pressure standards, temperature and gas technology) and experimental laboratories (e.g., gas analysis, materials and gas techniques) and conducting various studies and technological training.

We invested €1.4 million in research and development in 2001 and have a total of 15 people assigned to the Research and Development team.

Environment

Together with our competitors, we are subject to numerous E.U., national, regional and local environmental laws and regulations concerning our natural gas transportation activities. This includes legislation that implements international conventions and protocols.

These laws and regulations impose criminal and administrative penalties and civil liabilities for pollution resulting from natural gas operations. They also place restrictions on emissions into the atmosphere and water from our transportation activities. Our operations are also subject to laws and regulations governing the generation, production and disposal of waste materials as well as laws and regulations relating to the health and safety of our employees.

Among the principal laws and regulations applicable to our regulated activities are:

- ***Criminal offenses related to environmental damage***. the Spanish Criminal Code establishes offenses for lack of security measures with respect to dangerous activities, waste disposal and environmental damage.
- ***Environmental impact evaluation***. Spanish Law 1302/1986 and 6/2001, which implements the European Directive 85/377 CEE and Spanish Regulation 2414/1961, which establishes the obligation to allow governmental environment evaluation studies. In addition, our regasification facilities must comply with the applicable regional laws and regulations according to their respective location. These regional laws and regulations include: Murcia Law 1/1995, Catalonia Law 3/1998 and Andalusia Law 7/1994.
- ***Air pollution***. Spanish Law 38/1972 and Regulations 833/1975, 717/1987 and 646/1991, which implement EC Directives 80/779, 82/884, 84/360, 85/203 and 88/609.
- ***Waste production and waste disposal***. Spanish Laws 10/1998 and 20/8196 and Regulations 833/88 and 952/1997, which implement EC Directive 75/442 CEE, as amended by EC Directive 91/156 CEE.
- ***Potential water and sea pollution***. Spanish Law 29/1985, which implements EC Directives 91/676 and 91/271; Spanish Regulation 484/1995; Spanish Law 22/1988; and Regulations 258/1989 and 1471/1989 on waste disposal in the sea.
- ***Regulation of pipeline networks***. Ministerial Orders of November 18, 1974, October 26, 1983, July 6, 1984 and March 9, 1994.
- ***Prevention of risks at work***. companies and employers have duties to minimize potential risks in the work place. These duties range from the evaluation, reduction, avoidance and prevention of risks to the training of workers. Spanish Law 31/1995 and implementing legislation, as well as collective bargaining agreements, govern workplace risk prevention.

In an effort to comply with all applicable laws and regulations, we have implemented ISO 14001 and obtained the applicable quality standard certificates for all of the facilities we operate ourselves, including our three regasification plants, our pipeline network and the Serrablo underground storage facility.

We believe that we are substantially in compliance with applicable environmental laws and regulations.

Litigation

We are subject to claims and proceedings in the ordinary course of our business, for example, with respect to expropriation proceedings and disputes regarding third-party access. Currently, we are not involved in any material legal or arbitration proceedings nor, to our knowledge, are any such material proceedings threatened against us.

Insurance

All of the insurance coverage relating to our business operations is currently provided under an umbrella policy arranged by Repsol-YPF to cover all of its subsidiaries and affiliates. Under this arrangement, we pay the insurer, Musini, for that proportion of the coverage related to our business. This coverage expires on June 30, 2002.

We are currently in negotiations with Musini to replace our existing coverage with a new policy specifically tailored to the risks and liabilities of our business and those of our subsidiaries. We believe that the premiums payable will increase significantly, due to general market conditions.

We will use all necessary efforts to subscribe the new policy before expiration of our existing policy. Musini has undertaken to provide us with a coverage similar to the current one upon expiration of the current policy, on the terms and conditions to be agreed.

The cost of our insurance coverage was €1,942,614 in 1999, €1,910,774 in 2000, €1,749,315 in 2001 and €493,526 in the three-month period ended March 31, 2002.

Employees

During 2001, we had an average of 853 permanent employees and 18 part-time employees. See notes captioned "Personnel costs" in our consolidated financial statements for further information relating to the average number of group employees for the periods indicated. The following table shows the total number of our employees broken down by activity at December 31, 1999, 2000 and 2001:

Activity	Employees in 1999	Employees in 2000	Employees in 2001
Transport	330	332	335
Regasification	207	215	212
Storage	24	24	26
System Technical Manager	31	33	35
Central corporate support	228	214	205
Others	48	54	44
Total	868	872	857

The employment conditions of 693 of our employees (out of the total of 857), including rates of pay, are governed by a company-wide collective bargaining agreement. The XII Enagás Collective Bargaining Agreement expired in 2001 and the XIII Enagás Collective Bargaining Agreement is currently being negotiated. To the best of our knowledge, our employees belong to five labor unions, including the two largest Spanish labor unions: Unión General de Trabajadores (*UGT*) and Comisiones Obreras (*CCOO*). Management believes that relations with the Company's employees are generally good. Although there have been four strikes threatened since 1996, in the last five years there has been no halt in production or industrial action that has had a negative effect on our operative results. A one-day general strike took place in Spain on June 20, 2002.

We provide those of our employees with at least two years' seniority the opportunity to participate in a pension plan. Enagás, in its capacity as sponsor of the pension plan, contributed an aggregate amount of approximately €1.79 million to the plan in 2001. For further information, see Note 2(j) to our consolidated financial statements for the year ended December 31, 2001.

In addition to the benefits provided by the collective bargaining agreement (such as a system of loans and advances, insurance, temporary unemployment benefits and student assistance), we provide medical insurance for our employees, their spouses and their children, as well as a training plan for all the employees of Enagás.

LEGAL AND ECONOMIC REGULATION

Legal Regulation

Legal background

Enagás is incorporated in Spain as a company with limited liability and, as such, we are subject to general principles of Spanish corporate law. In addition, as a company operating in the regulated Spanish natural gas market, we are also subject to a significant body of specific regulatory measures.

At a national level, the Spanish government regulates the gas industry in Spain through the Ministry of Economy, which is responsible for establishing strategic guidelines for the natural gas market and for setting the economic remuneration for the regulated activities. The applicable legislation and regulation originates from E.U. law and pursues the harmonization of the E.U.-wide natural gas market.

E.U. law

For the purpose of creating a common natural gas market through the liberalization and opening of European national markets, on June 22, 1998, the European Council and the European Parliament approved the Gas Directive containing common rules for the supply, regasification, transport, storage and distribution of natural gas to be implemented by all E.U. member states.

E.U. Gas Directive. The Gas Directive introduced certain fundamental principles, such as:

- ***Third-Party Access.*** Owners of transportation and distribution networks are required to make their networks accessible to eligible third-party users on equal terms.
- ***Eligibility.*** The base categories of persons identified by the Gas Directive, including importers, wholesalers and certain large end-users, are permitted to access directly the transportation and distribution networks.
- ***Unbundling.*** Integrated natural gas operators must create separate companies or separate accounting functions for the import, regasification, transport, storage and distribution of gas.
- ***Reciprocity.*** Any member state that has implemented at least the minimum requirements of the Gas Directive regarding market access may refuse access to its natural gas market to companies resident in another member state that has not attained the prescribed minimum levels of market access.

Spanish law

The Gas Directive was implemented in Spain by the Hydrocarbons Sector Law, which has subsequently been supplemented and amended by further legislation and regulation.

Spanish legislation regulating the natural gas market includes:

- Hydrocarbons Sector Law 34/1998 of October 7 (*Ley 34/1998 del Sector de Hidrocarburos*); described in more detail below;
- Royal Decree-Law 6/1999 of June 23, introducing urgent measures for liberalization (Chapter III);
- Royal Decree 1339/1999 of July 31, approving the rules governing the functions of the CNE;
- Royal Decree-Law 15/1999 of October 1, approving measures for liberalization, structural reform and enhanced competition in the fossil fuel market;
- Royal Decree-Law 6/2000 of June 23, introducing urgent measures for the intensification of competition in the goods and services markets (Title 1, Chapter II, Article 34), also described in more detail below;
- Royal Decree 3487/2000 of December 29, amending the rules governing the functions of the CNE;
- Royal Decree 949/2001 of August 3, regulating third-party access and establishing an integrated economic system in the natural gas market;
- Law 24/2001 of December 27, introducing tax, administrative and social measures (Articles 19 and 26);
- Ministerial Order ECO/301/2002 of February 15, establishing the methods for determining remuneration for regulated activities in the natural gas market;

- Ministerial Order ECO/302/2002 of February 15, establishing tariffs for natural and manufactured gas; and
- Ministerial Order ECO/303/2002 of February 15, establishing the tolls and fees associated with third-party access to natural gas facilities.

This new legal framework aims at integrating and liberalizing the Spanish natural gas market through the introduction of enhanced competition. Although the new regulatory framework attempts to create a liberalized natural gas market in Spain, the uninterrupted supply of gas is nevertheless considered to be of general economic interest. Accordingly, the regulatory framework attempts to guarantee a reliable and continuous supply of natural gas in a manner that is compatible with the liberalization of the market and reduced intervention by the Spanish government.

Hydrocarbons Sector Law

The Hydrocarbons Sector Law implemented the Gas Directive in Spain, thereby introducing substantial changes to the previous natural gas regulatory framework in Spain.

In accordance with the principles set out in the Gas Directive, the core measures introduced by the Hydrocarbons Sector Law are third-party access, eligibility and legal and financial unbundling. In addition, the Hydrocarbons Sector Law provides for:

- the establishment of the CNE ;
- the introduction of natural gas wholesalers, which sell natural gas to eligible customers in the liberalized market;
- the right for eligible customers to acquire natural gas on freely agreed terms;
- the additional right for eligible customers to acquire natural gas from the wholesaler of their choice;
- the limitation of gas imports from any single country to 60% of the total quantity of gas imported by Spain applicable to wholesalers and transportation companies; and
- the introduction and development of an integrated tariff system for non-eligible customers.

The Hydrocarbons Sector Law defines the segments of the natural gas market as production, transportation (which includes regasification, transport and storage), distribution and wholesaling. See "Industry Overview—Industry structure" for a description of the operators in each segment.

The Hydrocarbons Sector Law also created the CNE, which supervises the natural gas market and advises the Ministry of Economy. Its responsibilities (as set out in the Hydrocarbons Sector Law, as amended by Royal Decree-Law 6/2000, Law 24/2001, Royal Decree 1339/1999 and Royal Decree 3487/2000) are, among other things, supervising the natural gas market and ensuring effective competition in the market and objectivity and transparency of the system. The CNE also acts as an advisory body to the Spanish government and as an arbiter in conflicts involving operators of the natural gas market (in particular, on matters regarding third-party access).

In addition, the Hydrocarbons Sector Law provides that the Ministry of Economy will approve rules for the technical management of the system (the "Rules"), following a report from the CNE. In accordance with the regulations, Enagás, in its capacity as the System Technical Manager, has prepared a draft of the Rules which is currently pending approval by the Ministry of Economy.

The purpose of the Rules is to promote the correct technical functioning of the natural gas system and ensure the continuity, quality and reliability of the supply of natural gas by coordinating the activity of all the natural gas transportation companies in Spain.

The Hydrocarbons Sector Law currently provides that any investments affecting the regasification capacity of the system, or involving the construction of pipelines operating at a pressure of over 60 bar or strategic reserve storage facilities, will be subject to the mandatory strategic plan (*planificación obligatoria*) currently in preparation by the Spanish government for the hydrocarbons market. Any such investments will, in general, be offered to public tender and must be authorized by the Ministry of Economy.

Until the mandatory strategic plan is approved, the Ministry of Economy may directly authorize the construction and operation of new transportation network investments. The methods of determining the remuneration payable for transportation facilities are dependent on whether the facility was authorized directly or by public tender. For further information on the new remuneration structure, see "—Economic Regulation" and note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002.

Royal Decree-Law 6/2000. As mentioned above, Royal Decree 6/2000 developed the regulatory framework established by the Hydrocarbons Sector Law. The principal provisions and amendments to the Hydrocarbons Sector Law are summarized below:

- ***System Technical Manager***. The System Technical Manager is responsible for the management of the transportation networks, for the purpose of ensuring the continuity, quality and reliability of the natural gas supply and the proper functioning and coordination of the system.
- ***Ownership of Enagás***. No shareholder may, directly or indirectly, own more than 35% of the entire issued share capital of, or voting rights in, Enagás. See "— Our position in the new natural gas market—Ownership of Enagás".
- ***Algerian pipeline gas agreement***. Wholesalers have been assigned 25% of the natural gas supplied under the Algerian pipeline gas agreement. This gas was auctioned and sold to six wholesalers who, in aggregate, obtained 1.4 billion m^3/year of Algerian gas until December 31, 2003. The remaining 75% was assigned to Enagás for sale to distributors in the tariff-based market. From January 1, 2004, all the natural gas purchased under the Algerian pipeline gas agreement will be allocated, on a preferential basis, for distribution to the tariff-based market.
- ***Accelerated timetable***. The timetable for the opening of the Spanish gas market to competition as set out in the Hydrocarbons Sector Law envisioned full market access by 2013. However, in June 2000, this Royal Decree-Law brought forward to 2003 the timetable for liberalization. Accordingly, as from January 1, 2002, any customers whose annual consumption by installation is equal to or exceeding 1 million m^3(n) may elect to become eligible customers. From January 1, 2003, all customers, regardless of their level of consumption, may be categorized as eligible customers.
- ***Market share.*** From January 1, 2003, no company or group of companies can import more than 70% of the total amount of natural gas supplied for consumption in the Spanish market. For the purpose of calculating this percentage, amounts of natural gas consumed by suppliers are not included ("own consumption").

Alongside these changes to encourage competition, the Spanish government has also passed measures to facilitate the transition from a quasi-monopolistic market to a competitive environment. Although the calendar for eligibility has been brought forward, during the three years following the date on which a customer first elects to become an eligible customer, such customer will have the option to purchase natural gas from a wholesaler on agreed terms or from a distributor in the tariff-based market.

Our position in the new natural gas market

The Enagás business. With the modifications introduced by the new regulatory framework, the nature of our business has changed substantially.

Whereas we were previously a license holder for the national gas pipeline network and the sole entity responsible for the supply of gas to the Spanish natural gas market, we are now, in accordance with the new framework, one of a number of authorized transportation companies. Our corporate purposes are the construction and use of infrastructures in the transportation network (e.g., regasification plants, high and medium pressure transport pipelines and gas storage facilities).

We are also responsible for ensuring a continuous and reliable supply of natural gas to the tariff-based market. Under the new regulatory framework, we can only sell gas to transportation or distribution companies that are connected to our network for the purpose of delivering natural gas to the tariff-based market.

Additionally, Royal Decree-Law 6/2000 provides that the owner of the majority of the basic natural gas network will be designated as System Technical Manager. We are currently the owner of the majority of this basic natural gas network and, therefore, the same Royal Decree-Law appointed us as System Technical Manager.

Ownership of Enagás. Under Royal Decree-Law 6/2000, no shareholder may, directly or indirectly, own more than 35% of the entire issued share capital of, or voting rights in, Enagás. The consequences of exceeding this 35% limit are: (i) the automatic suspension of voting rights in excess of 35%; and (ii) a fine of up to €3 million, the sanction for an infringement classed as "very serious" under the Hydrocarbons Sector Law. For the purpose of calculating this threshold, a person or company is deemed to own and/or control shares and voting rights in Enagás that are held by:

- companies that are members of the same corporate group (as defined in Article 4 of the Spanish Securities Market Act of 1988);
- third parties who are acting in concert or in unity with that person or company; and
- partners who, together with that person or company, control another company within its corporate group (as defined above).

Separation of activities.

Corporate unbundling. The Hydrocarbons Sector Law provides that any company that undertakes one or more of the regulated activities in the gas industry (that is, transportation—comprising regasification, transport and storage—and distribution) must carry out those activities only and must not carry out wholesaling activities. Similarly, wholesalers may not carry out any of these regulated activities.

However, the Hydrocarbons Sector Law also provides that any company that owns facilities forming part of the primary pipeline network can also own pipelines in the secondary pipeline network. We are currently the sole owner of facilities comprising the primary pipeline network.

Finally, a group of companies may undertake more than one regulated activity, provided that each activity is performed by a separate corporate entity.

Financial unbundling. Financial unbundling requires companies undertaking transportation activities (including Enagás) to separate the accounting treatment of regasification, transport and storage services. In addition, transportation companies must keep separate accounts in respect of their natural gas sale and purchase transactions.

Companies performing regulated activities that have a stake in economic markets other than the Spanish natural gas market must keep separate accounts for all the above activities. However, where a company operating in the Spanish natural gas market proposes to acquire activities in other economic markets, it must first seek authorization from the CNE.

Furthermore, the System Technical Manager must keep separate accounts for the services performed in that capacity.

Development of regulated activities. The operation of regulated activities in each segment is liberalized, subject to the provisions of Spanish law. Any operator proposing to carry on regulated activities must, however, obtain an administrative authorization from, and register with, the Ministry of Economy. In order to be granted this administrative authorization, applicants must demonstrate the necessary technical, legal and economic capacity. The grant of any authorization is subject to other obligations concerning, in particular, tax, urban planning, environment and consumer protection.

Imports, exports and other exchanges of natural gas within the E.U. are liberalized and must be carried out free from restrictions other than those arising from E.U. law and regulation. Legal persons resident outside the E.U. may also freely invest in the natural gas market provided they satisfy the regulations regarding foreign investment.

Restriction on state-owned companies. The 27th Additional Provision of Law 55/1999 of December 29 (the "Provision"), introducing tax, administrative and social measures, limits all state-owned companies or state agencies from exercising their voting rights in companies with national influence (*sociedades de ámbito estatal*) in any of the Spanish energy markets (i.e., electricity, gas and oil).

The Provision is applicable to any entity or company in which a state or state agency holds the majority of the shares or exercises control in any form whatsoever. The Provision prevents state-owned companies from exercising their voting rights in the event of: (i) the direct or indirect acquisition of control in a company with national influence in any of the Spanish energy markets; or (ii) the acquisition of a significant shareholding (3% or more of the share capital or voting capital of such company). Although not specifically stated in the Provision, the suspension of voting rights has been applied on various occasions to all shares held by an affected shareholder in a Spanish energy company.

However, the Provision allows the acquirer to notify the Ministry of Economy of the acquisition after the event. Notification would cause proceedings to be instituted during which the CNE must issue a non-binding report. The decision ultimately rests with the Spanish government, which may authorize the exercise of the relevant voting rights or impose conditions restricting their exercise. The decision of the government should take into consideration the principles of objectivity, reciprocity, transparency and the proper functioning of the energy markets and systems. A response must be given within three months of the notification and, in the absence of such a response, the request is deemed to have been rejected.

Limits on cross-shareholdings. The rule limiting cross-shareholdings prevents the exercise of voting rights or the appointment of directors in "significant operators" in the natural gas market in given circumstances. Any company occupying a top-five position in any segment of the natural gas market (i.e., production, transportation and distribution) is deemed to be a significant operator.

The cross-shareholding rule applies to all direct or indirect shareholdings equal to or greater than 3% of the share capital of a significant operator or 3% or more of the voting rights in such operator (each, a "relevant interest") where:

(a) any shareholder has a relevant interest in two or more significant operators; or

(b) a significant operator has a relevant interest in any other significant operator.

The effects of the rule are that: (i) a shareholder with a relevant interest in two or more significant operators must contact the CNE, within one month of the acquisition of the relevant interest, indicating the company in respect of which the voting rights are to be exercised or the director is to be appointed; and (ii) no significant operator can exercise voting rights in, or appoint a director for, any other significant operator.

Nevertheless, the CNE may, at the request of any party, grant a derogation from the abovementioned prohibitions, provided these derogations would not promote the exchange of strategic information or create a risk of coordination between the respective companies' strategic behavior in the market.

The above restrictions do not apply to cross-shareholdings between two companies belonging to the same corporate group operating in the natural gas market or in any of the abovementioned segments within this market that have separated their accounting treatment of each activity in accordance with the financial unbundling provisions.

As stated above, Royal Decree 6/2000 prohibits any shareholder from holding more than 35% of the share capital in Enagás. In light of this, the CNE has stated in its report on the criteria for enforcement of the cross-shareholding rule that, in its opinion, the 3% threshold would not apply to any significant operator acquiring a relevant interest in Enagás.

Acquisitions. The CNE must authorize all acquisitions of shareholdings in companies operating in other markets by a company carrying on regulated activities in the energy market.

Functioning of the natural gas market

General information. The principal supply line of natural gas to Spain and, in particular, the tariff-based markets, is the Maghreb Pipeline which transports the natural gas of Algerian origin to Spain pursuant to an arrangement between Spain, Algeria and Morocco.

Sagane, a member of the Gas Natural Group, supplies us with Algerian-sourced natural gas purchased under the Algerian pipeline gas agreement. See "Business—Suppliers and Customers—Suppliers". The natural gas supplied under the Algerian pipeline gas agreement is delivered through the Maghreb pipeline. In accordance with the Hydrocarbons Sector Law, 75% of the natural gas supplied to Sagane under the Algerian pipeline gas agreement has been allocated to us for supply to the tariff-based market, while the remaining 25% has been allocated to six wholesalers until December 31, 2003. From January 1, 2004, all the natural gas supplied to Sagane under the Algerian pipeline gas agreement will be sold, on a preferential basis, for supply to the tariff-based market.

The natural gas transported through the Maghreb pipeline reaches the South of Spain at Tarifa and is then channelled through the national gas pipeline network to the distribution points. The distribution companies must meet their supply obligations to the tariff-based customers provided that there is enough capacity to meet the demand for natural gas. In order to meet their supply obligations to the tariff-based customers, the distributors must purchase gas in sufficient quantity from transportation companies with transportation networks connected to the relevant distribution networks. This purchase and sale of natural gas is based on the regulated tariffs. From the connection points with the transportation network, the natural gas passes through the distribution networks to the points of consumption, the tariff-based customers.

The eligible customers also receive their gas supply through the natural gas pipeline network. However, eligible customers are supplied by wholesalers or importers and not distributors. In turn, wholesalers acquire their gas supply directly from producers or other wholesalers and, in order to supply eligible customers and other wholesalers, they are entitled to access the transportation network and the distribution networks of third parties (see "—Third-Party Access" below) upon payment of the applicable tolls. In accordance with the Hydrocarbons Sector Law, this wholesaling activity should be developed in coordination with the System Technical Manager, the transportation companies and the distribution companies.

Eligible customers are the only regulated participants that may opt not to follow the regulated tariffs. Accordingly, they are free to agree upon the terms of their gas supply with wholesalers or importers.

Notwithstanding liberalization of the Spanish natural gas market, one of the general principles established by the Hydrocarbons Sector Law is to ensure a reliable and continuous supply of natural gas. Certain technical regulations impose obligations on the various participants in the natural gas market (for example, with respect to natural gas facilities and minimum safety levels).

Third-party access. Spain has opted for a regulated third-party access system and the Ministry of Economy has introduced implementing regulations outlining the framework for third-party access to the natural gas transportation and distribution networks.

This framework encompasses the general technical functioning of the system, the remuneration of regulated activities, tolls and fees payable for third-party access, the system of tariffs in the tariff-based market and the economic settlement framework.

Royal Decree 949/2001 sets out the conditions for third-party access to the natural gas network. It also details the rights and obligations of the owners of natural gas facilities and the persons benefiting from third-party access to such facilities. In addition, it stipulates the minimum content of the third-party access agreements and sets outs the principles for the remuneration of the regulated activities. The actual tariffs, tolls and fees are set forth in a series of Orders issued by the Ministry of Economy. See "—Economic Regulation".

Eligible customers benefiting from third-party access will have access to LNG terminals, natural gas transport pipelines, underground and LNG storage and distribution facilities. Access is currently granted on a "first-come, first-serve" basis.

Under this system, the following participants in the natural gas market are entitled to third-party access to regasification, transport and storage facilities:

- ***eligible customers,*** for their own consumption;
- ***wholesalers,*** for sale to eligible customers and other wholesalers; and
- ***transportation companies,*** for sale to other transportation companies or to distributors for supply to the tariff-based market.

Tolls and fees paid by third parties are based on costs, with an incentive to improve productivity, and are set as ceilings. This allows for price negotiation with transportation companies and distributors, but if the tolls agreed are lower than the published tolls, the agreed tolls must be made public to other parties seeking access. To this end, any discounts have to be reported to the CNE.

Where third-party access is desired, a formal request for a reservation of capacity (a "capacity booking") made on standard forms must be sent to the owner of the relevant natural gas facility.

Operators who have received a capacity booking have a maximum period of 24 days from the initial request to provide a response to the interested party. In the event that access is denied, notification should be made to the soliciting party, the Ministry of Economy and the CNE. Should the soliciting party wish to dispute the decision, it may do so with the CNE. The CNE must reach a decision within two months of receipt of the relevant documentation. Decisions of the CNE can be appealed to the Minister of Economy.

After the capacity booking has been accepted, the interested party may contract for the services of regasification, transport, storage and distribution. Disagreements on the terms and conditions of third-party access agreements may be addressed to the CNE.

Access to the natural gas infrastructure may be denied in the following cases:

- ***Lack of capacity***. If there is a lack of capacity during the period proposed by the applicant, access may be refused. Priority should be given to capacity bookings submitted by suppliers to the tariff-based market. Furthermore, it is not possible to refuse access to a customer that is, at the time of the capacity booking, consuming an amount of gas equal to the amount reserved. Finally, capacity in the Spanish natural gas network as a whole does not necessarily give rise to an automatic right to third-party access. The grant of access in each case depends on the available capacity at the local gas facility to which access is requested.
- ***Lack of reciprocity.*** With the prior consent of the CNE, the owner of a gas facility may refuse access to its facility on grounds that the applicant is based in an E.U. member state that is not granting reciprocal arrangements.
- ***Serious financial or economic difficulties.*** If there are serious financial or economic difficulties arising from the execution of agreements containing "take-or-pay" clauses, access may be denied.

Owners of natural gas transportation facilities must grant third-party access to eligible customers, wholesalers and other transportation companies on the basis of the principles of objectivity, independence, transparency and non-discrimination.

To introduce more flexibility and short-term wholesaling, the total capacity of the system will be allocated as follows: (a) 75% of the total capacity of regasification, transport, storage and distribution facilities will be allocated to agreements with a minimum duration of two years; and (b) the remaining 25% will be allocated to agreements with a duration of less than two years, with no wholesaler being allocated more than 50% of this capacity. These thresholds may be reviewed from time to time by the Ministry of Economy in light of future developments in the Spanish natural gas market.

The following installations are accessible to third parties under the new regulations:

- plants for the reception, storage and regasification of LNG, which supply the gas system;
- natural gas storage facilities, which serve the gas system;
- natural gas transport pipelines and related facilities;
- natural gas distribution pipelines and related facilities, including satellite regasification plants that supply various consumers;
- international connection pipelines located in Spain, which connect the national network with other countries' pipelines, storage facilities or natural gas fields;
- pipelines connecting the system to domestic natural gas fields and to strategic and operating storage facilities; and
- any other installation necessary for the supply of natural gas to users with third-party access rights.

Pipelines used for supply to a single consumer, are expressly excluded from the third-party access framework.

Economic Regulation

Introduction

Royal Decree-Law 6/2000 of June 23, introduced the general principles under which the new integrated economic framework is to operate. These general principles were expounded in Royal Decree 949/2001, which states the criteria for determining the following economic variables:

- the remuneration payable to market participants for each of the regulated activities;
- the applicable tolls and fees payable for third-party access; and
- the tariffs for natural gas sold in the tariff-based market.

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

- to ensure that any investment made by owners of the relevant natural gas facility is recovered during the useful life of such facility;
- to allow for a reasonable return on capital invested; and
- to determine a system for the remuneration of operating costs that provides incentives for efficient management and enhanced productivity, the benefit 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 earlier than January 1, 2003 and no later than January 1, 2005.

The precise method of calculating the remuneration payable for regulated activities is set out principally in Ministerial Order ECO/301/2002. The remuneration payable to companies carrying out regulated activities for the period until the entry into force of this Ministerial Order was subject to the former regulatory framework.

This new regulatory framework is centered on a settlement system managed by the CNE and the Ministry of Economy. The purpose of this settlement system is to collect the tariffs, tolls and fees and use those funds to remunerate market participants for the use of their natural gas infrastructure and the performance of other regulated activities.

In accordance with the applicable regulations, Enagás will invoice tariffs, tolls and fees from each of its customers (wholesalers, distributors, eligible customers and other transportation companies), and these amounts will be subject to the settlement procedure to be set forth in specific legislation currently pending approval. After settlement, the CNE and the Ministry of Economy will determine, in accordance with the provisions of the applicable regulations, the remuneration payable to each of the market participants for use of their natural gas facilities and performance of other regulated activities.

Remuneration of the regulated activities

Regasification, transport and storage. The remuneration model set out in the Ministerial Order ECO/301/2002 is based on the recognition of standard recognized costs, which are updated annually. This remuneration system distinguishes between three different types of facilities:

- facilities that were operational as at December 31, 2001;
- new investments constructed pursuant to the direct authorization of the Ministry of Economy; and
- new investments constructed pursuant to an award under a public tender process.

Existing facilities operative as at December 31, 2001. With respect to facilities that were operational as of December 31, 2001, the remuneration model establishes a fixed remuneration component for each of the regasification, transport and storage facilities, together with a variable remuneration component for regasification only.

The fixed component is updated using an inflation index calculated annually as an average of the forecast retail and industrial price indices in Spain for that year (defined as "IPH"). The IPH is multiplied by an efficiency factor ("f"), which is also set annually in order to calculate the amount of remuneration payable. For 2002, this efficiency factor is set at 0.85.

The variable component is updated using the IPH multiplied by the abovementioned efficiency factor and by the volume of LNG regasified, expressed in terms of its energy content in kWh, for each regasification plant.

New facilities. The remuneration payable for any new facility is calculated as of the date from which the Ministry of Economy authorizes such facility to be included in the remuneration system.

(i) *Direct authorization*. With respect to new regasification, transport and storage investments, the remuneration model recognizes two distinct types of standard recognized costs: annual investment costs ("CIT") and annual operating costs ("CET"). The remuneration payable is the sum of these two cost elements.

CIT is the sum of: (i) a depreciation factor that is calculated by reference to the annual updated value of the facility and its useful life; and (ii) a financial return, which is calculated in accordance with Annex II of the Ministerial Order ECO/301/2002. This financial return is equal to the average return on ten-year Spanish government bonds plus 150 basis points.

CET includes the operating and maintenance costs of the natural gas installations, structural costs and any other costs necessary for the performance of transportation services.

With respect to regasification facilities, these annual costs are treated as part variable and part fixed.

These annual investment and operating costs are standard and will be calculated using the formulae and fixed values set out in Annex IV of the Ministerial Order ECO/301/2002. See note 2(m) to our unaudited consolidated historical financial statements for the three-month period ended March 31, 2002 for further information relating to the applicable components and values for the year 2002.

(ii) *Public tender*. The total cost accredited to regasification, transport and storage facilities is calculated following the terms and conditions set out in the decision of the public body awarding the tender.

In summary, the total remuneration payable for regasification, transport and storage facilities is the sum of standard recognized fixed costs for each type of investment (that is, existing, direct authorization and public tender facilities). These standard recognized costs are adjusted annually for inflation and, for regasification facilities only, includes the standard recognized variable costs.

Handling of the purchase and sale of natural gas intended for the tariff-based market. The remuneration for the handling of the purchase and sale of natural gas for the tariff-based market is calculated on the basis of a value representing the recognized costs incurred by transportation companies in the performance of this service. These costs are updated annually.

Three different types of cost are recognized:

- costs arising from the handling of the purchase and sale of natural gas (i.e. the cost of the raw material and transactional costs);
- costs arising from the loss of natural gas during the transportation process; and
- costs arising from the financing of natural gas reserves.

These costs are calculated on the basis of: (i) the forecast average costs of the raw material intended for the tariff-based market; and (ii) the forecast natural gas demand in the tariff-based market. Accordingly, the value of these recognized costs will be linked directly to fluctuations in the cost of the raw materials and demand for natural gas in each year.

Costs arising from handling of the purchase and sale of natural gas are excluded from the settlement system, described in "—Settlement" below.

For further information relating to the precise method of calculation, see note 2(m) to our unaudited consolidated historical financial statements for the three-month periods ended March 31, 2001 and 2002.

Remuneration for the System Technical Manager. Our remuneration for performing our obligations as System Technical Manager in each year is determined annually by the Ministry of Economy prior to January 31 of that year. To assist the Ministry in its annual assessment of this remuneration, we must provide information regarding our operating, communication, monitoring and other costs on or before December 1 of the preceding year.

See note 2(m) to our unaudited financial statements as of and for the three-month periods ended March 31, 2001 and 2002 for further information on how our remuneration for acting as System Technical Manager is determined.

Tolls and fees

General principles. The general objectives governing the application of tolls and fees are:

- to remunerate the regulated activities;
- to assign on an equal basis the costs attributable to each type of supply. These costs are dependent on pressure, consumption levels and a volume coefficient (*factor de carga*);
- to promote the efficient consumption of natural gas; and
- to avoid distortions between the tariff-based and the liberalized natural gas markets.

The tolls and fees will be applied uniformly across the entire Spanish territory with regard only to volume, pressure and method of consumption (the so-called "postage stamp system"). In other words, the distance between the point of entry and the point of delivery of the natural gas supplied is irrelevant. These tolls and fees are expressed as ceilings and the market participants are, therefore, entitled to agree upon tolls and fees below these regulated ceilings. However, any agreed discounts must be reported to the CNE and any company awarding a discount is nevertheless required to credit the full regulated amount for settlement purposes and bear the cost of the discount. See "—Settlement" below.

The criteria for determining the amount of tolls and fees will be updated annually or at any other time as the Ministry of Economy considers appropriate.

The precise amounts of these tolls and fees are detailed in Ministerial Order ECO/303/2002.

Application of the tolls and fees to Enagás. The tolls and fees received and paid by Enagás vary between the three transportation activities: regasification, transport and storage.

Regasification. Payment of the regasification toll entitles the payer to use the necessary facilities for unloading the LNG carriers, depositing and storing the LNG for 10 days (reduced to five days as a transitional measure until January 1, 2004) in operating storage tanks and accessing the regasification facilities. The regasification toll is collected by the owner of the relevant facilities (currently, only Enagás) and comprises a fixed element, applicable to the daily flow of LNG measured by its energy content expressed in kWh, and a variable element, based on the energy content, expressed in kWh, of the LNG regasified or loaded into the operating storage tanks.

Transport. Payment of the transport toll entitles the payer to use the necessary facilities for the transport of natural gas from the natural gas transportation network points of entry to the points of delivery to the eligible customers. In addition, the payment of the toll entitles the payer to five days' storage of the contracted volume of natural gas in operating storage facilities. The toll payable for transport comprises two elements: a capacity reservation element and a transport element. The latter is determined by reference to the pressure level of the supply and the volume of consumption.

Storage. With regard to the amounts payable for storage, a distinction must be drawn between (i) the fee payable for underground storage; and (ii) the fee payable for LNG storage.

Underground storage fee. This fee is collected by the owner of the underground storage facility and comprises a fixed element, applicable to the contracted storage capacity, and a variable element, based on the volume of natural gas entering and exiting the storage facility every month.

LNG storage fee. This fee is collected by the owner of the LNG storage facility and comprises only a variable element, which is based on the volume of LNG stored in excess of the amount held in the operating storage tanks, calculated on a monthly basis.

Details of tolls and fees. The prices payable in respect of regasification, transport and underground and LNG storage are set out in the Annex to the Ministerial Order ECO/303/2002.

Levies. In addition to all of the above, the owners of the transportation facilities must collect levies to be paid to the CNE and the System Technical Manager respectively. These levies amount to 0.166% and 0.63%, respectively, of all tolls and fees received.

Price of natural gas in the tariff-based market

General principles. The general principles applicable to tolls and fees (explained above) also apply to the determination of the price of natural gas in the tariff-based market, as set by the Spanish government. In this regard, the Spanish government will closely monitor the prices paid by eligible customers for natural gas in the liberalized market in order to avoid any distortion between both markets.

The applicable tariffs are determined annually by the Ministry of Economy. There is also a tariff payable by distributors to transportation companies for the provision of natural gas for supply to the tariff-based market. The structure, determination and value of tariffs are set out in Royal Decree 949/2001, as supplemented by Ministerial Order ECO/302/2002.

Levies. In addition to the above, distributors charging the applicable tariff must also collect levies to be paid to the CNE and the System Technical Manager. These levies amount to 0.61% and 0.30%, respectively, on all tariffs collected by such distributor.

Settlement

Royal Decree 949/2001 sets out the methods and criteria for determining the regulatory remuneration payable for services provided in the Spanish natural gas market. As part of the regulatory framework, this Royal Decree anticipates a centralized system of settlement. Accordingly, such Royal Decree identifies the regulated activities in the natural gas market that are subject to the settlement process, which are:

- regasification activities;
- transport;
- storage of LNG and natural gas; and
- distribution.

In addition, the Royal Decree details the settlement procedure for tolls and fees received from third parties seeking access to the natural gas transportation and distribution network. Finally, the Royal Decree states that there will also be a tariff payable by distributors to transportation companies for the provision of natural gas for sale to the tariff-based market. This tariff is also included in the settlement procedures. However, remuneration received by transportation companies for the handling of the purchase and sale of natural gas intended for the tariff-based market is expressly excluded from the settlement procedures.

The proposed settlement procedures in the Spanish natural gas market are based on a draft Ministerial Order, which has not yet been approved. Accordingly, as at the date of this offering circular, we are not able to provide definitive information on the settlement procedure for tariffs, tolls and fees and remuneration for the regulated activities. We are currently collecting and retaining these tariffs, tolls and fees pending approval of the draft Ministerial Order. However, we are, on a monthly basis, paying the CNE an amount corresponding to the regulated levy established by Law 24/2001 of December 27, on tax, administrative and social measures. In the current draft of the Ministerial Order dealing with settlement procedures, we bear the risk of non-payment by our customers of tolls and fees.

MANAGEMENT

Board of Directors

Under Spanish corporate law, the board of directors is responsible for the management and administration of, and representation in, all matters concerning our business, subject to the provisions of the by-laws (*estatutos sociales*), resolutions adopted at general shareholders' meetings and the Spanish Companies Act of December 22, 1989.

Under our by-laws, the board of directors must be composed of six to sixteen members. The precise number must be determined by a resolution passed at a general shareholders' meeting. As at the date of this offering circular, the board is composed of the twelve directors listed below. Directors are elected by shareholders to serve for a four-year term and a director may be re-elected to serve an unlimited number of terms. The by-laws do not establish limits on the eligibility of board members or the chairman.

The directors elect the chairman of the board from among their members and may also elect a vice-chairman. According to our by-laws, the chairman is authorized to: (i) represent the company individually; (ii) call and chair the meetings of the board and of the executive committee, as the case may be; (iii) conduct the deliberations of the company bodies chaired by him; (iv) ensure full compliance with the decisions passed by those bodies; (v) act as executive president; (vi) execute documents on behalf of the company; and (vii) do any other such thing as provided by law or in our by-laws.

According to the Spanish Companies Act, if a director does not serve out his or her entire term, the board of directors may fill the vacancy by appointing a shareholder as a replacement director to serve until the next general shareholders' meeting, when such appointment may be ratified or a new director is elected. A director may resign or be removed from office by the shareholders at the general shareholders' meeting. The Chairman of the board does not have a casting vote.

Our by-laws provide that the board should meet at least once every two months and a meeting may be called by either the chairman of the board or by a majority of the members of the board. The past practice of our board has been to hold a meeting every month. Also according to our by-laws, a majority of the members of the board (present in person or by an alternate director) constitute a quorum. Resolutions of the board of directors are passed by an absolute majority of the directors present or represented at the meeting.

Our directors may hold any other post in the Company, whether remunerated or not, unless such post is legally incompatible with his existing responsibilities or our board of directors deems it to be incompatible.

Currently, six of our twelve directors are representatives of Gas Natural ("Gas Natural directors"). However, depending on the resulting shareholding structure, Gas Natural may propose the resignation of up to three of these directors in order to allow the appointment of up to three new directors representing other significant shareholders. Any such resignation and appointments will take place at a meeting of our board of directors (subject to ratification by our shareholders) scheduled to take place before July 16, 2002. If no directors are appointed to represent significant shareholders, Gas Natural will propose the reorganization of the board to adapt it to the new shareholder structure.

In the light of demand for our shares in the global equity offering, Gas Natural has decided, in consultation with the joint global coordinators, to allocate significant shareholdings to certain investors, including a number of Spanish financial institutions and an international industrial company. We expect these investors to hold approximately 11% of our shares following the global equity offering. See "Risk Factors—Certain investors are expected to take significant shareholdings in Enagás and could influence the day-to-day management of our company".

During the general shareholders' meeting on May 3, 2002, the shareholders voted to give the board of directors authority to issue debentures with an aggregate value of up to €2 billion. These debentures may be convertible or non-convertible debentures. The shareholders also voted to give the board of directors authority to increase our share capital by an amount of up to €179 million through the issue of new shares. These shares may be voting or non-voting shares and be issued with or without a premium.

The members of the board of directors, senior management of the company or other persons holding senior positions are not party to any material transactions involving Enagás.

The current members of our board are as follows:

Name	Position	Date of First Board Appointment	Date of Last Election	Age
Antonio González-Adalid Garcia-Zozaya[(1)]	Chairman and director	Sept 29, 2000	April 22, 2002	53
Josep Manuel Basáñez Villaluena[(1)]	Representative of Gas Natural	Nov 7, 1994	April 26, 2002	59
Antonio Brufau Niubó[(1)]	Representative of Gas Natural	Sept 7, 1994	April 26, 2002	54
Isidro Fainé Casas[(1)]	Representative of Gas Natural	Sept 7,1994	July 29, 1999	59
José Luis López de Silanes Busto[(1)]	Representative of Gas Natural	July 29, 1999	July 29, 1999	55
Ramón Blanco Balín[(1)]	Representative of Gas Natural	July 29, 1999	July 29, 1999	50
Juan Badosa Pages[(2)]	Director	May 31, 2002	May 31, 2002	57
Rafael Villaseca Marco	Director	May 31, 2002	May 31, 2002	51
Robert Malpas	Director	May 31, 2002	May 31, 2002	74
Dionisio Martínez Martínez[(3)]	Director	May 31, 2002	May 31, 2002	61
José Riva Francos	Director	May 31, 2002	May 31, 2002	49
José Manuel Fernández Norniella[(4)]	Director	May 31, 2002	May 31, 2002	57

(1) Directors appointed by Gas Natural.
(2) Mr. Badosa has served as executive director of Repsol-YPF.
(3) Mr. Martínez serves also as director of InverCaixa.
(4) Mr. Fernández Norniella serves as director of Endesa.

The board of directors elects a secretary and a vice-secretary, who do not necessarily have to be directors of the company. At the date of this offering circular, Luis Pérez de Ayala Becerril is the secretary and Beatriz Martínez-Falero García is the vice-secretary of our board of directors.

Delegation of Powers and Internal Board Regulations

Our by-laws permit our board of directors to appoint:

- ***Executive Director***. an executive director, delegating such powers to him as it deems appropriate. At the date of this offering circular, our board of directors has not appointed an executive director;
- ***Executive Committee***. an executive committee from among its members, specifying the responsibilities corresponding to each of the committee members. The Chairman or the majority of our board of directors may call meetings of the executive committee. At the date of this offering circular, the board of directors has not appointed an executive committee;
- ***Appointment and remuneration committee***. an appointment and remuneration committee from among its members. This committee shall be responsible for proposing directors and executive officers for appointment and for periodically reviewing their remuneration. At the date of this offering circular, this committee has not yet been established, although it is the intention of our board of directors to establish an appointment and remuneration committee after the offering, in accordance with the recommendations set out in the Spanish Code of Good Corporate Governance (*Código Olivencia*); and
- ***Audit and compliance committee***. an audit and compliance committee from among its members. As at the date of this offering, this committee has not yet been established, although it is the intention of our board of directors to incorporate it after the offering in accordance with the recommendations set out in the Spanish Code of Good Corporate Governance.

Internal board regulations

On May 22, 2002, the board approved internal board regulations (*Reglamento del Consejo de Administración*), in accordance with the Spanish Code of Good Corporate Governance. Enagás believes that its internal board regulations substantially reflect the recommendations for such internal regulations set out in the Spanish Code of Good Corporate Governance.

The main provisions of our internal board regulations, which became effective on May 22, 2002, are as follows:

Board of directors. The board will perform any tasks required for the fulfillment of the company's corporate purpose as provided in the by-laws, with the principal aim of creating shareholder value.

The following powers of the board, among others, may not be delegated: (i) the presentation of the annual accounts and the management report both for Enagás and the Enagás Group to the general shareholders' meeting; (ii) the approval of the Group's Strategic Plan and Annual Budgets; (iii) the approval of any transaction involving the sale of assets material to the Company and significant corporate transactions; (iv) the issuance of bonds or similar securities; (v) the granting of guarantees; and (vi) the assignment of rights concerning intellectual property.

Directors. Directors should comply with the legal requirements in regard to the positions they hold, be of recognized prestige and possess the knowledge and personal experience necessary to exercise their functions. The internal board regulations describe the rights and obligations of the directors.

The internal board regulations establish three categories of directors: executive, with executive and senior management powers (a maximum of three executive directors is permitted); directors representing significant shareholders; and independent directors. All of the directors share the same rights, duties and obligations.

Independent directors must not be connected with the management team or the controlling or core shareholders. As at the date of this offering circular, there are six independent directors on our board. One of these, Mr. Juan Badosa Pages, served as vice-president of Repsol-YPF until March 2002.

Committees. The internal board regulations include the following provisions regarding the executive, audit and compliance and appointment and remuneration committees:

- the executive committee, composed of a maximum of five directors, from any of the above categories;
- the audit and compliance committee, composed of a maximum of four directors and responsible for, among other things, supervising corporate accounting and auditing, appointing our independent auditor, subject to approval by a general shareholders' meeting, and verifying our compliance with the Internal Regulations of Conduct in the Securities Markets; and
- the appointment and remuneration committee, composed of a maximum of four directors and responsible for, among other things, nominating directors and executive officers and for periodically reviewing the remuneration of directors and executive officers.

Gas Natural has undertaken to use its best efforts to make the following amendments to the internal board regulations in a meeting of our board of directors, to be held before July 16, 2002 to introduce the following requirements:

(i) a majority of the members of the Appointment and Remuneration Committee shall be independent directors;

(ii) no executive director will be appointed to the Audit and Compliance Committee;

(iii) our board of directors must reflect in the Annual Report information about transactions with significant shareholders (including the amount and nature of the principal transactions); and

(iv) the board must ensure equality of information between shareholders.

At the same board meeting, our board will designate the members of the Appointment and Remuneration and Audit and Compliance Committees. In addition, our board will study the possibility of amending the by-laws with respect to possible conflicts of interest and mitigating measures.

Internal code of conduct

On May 22, 2002, the board approved an internal code of conduct (*Reglamento Interno de Conducta*) in accordance with Royal Decree 629/1993, which establishes rules regarding conduct in the stock market. The new code of conduct contains internal rules of conduct regarding our stocks, confidentiality, how the company may hold its own shares and the communication of significant events.

We have deposited copies of the internal board regulations and the code of conduct with the Spanish securities commission (*Comisión Nacional de Mercado de Valores*), and they will become effective on the date our shares are admitted to listing.

The internal code of conduct will apply to:

- members of the board of directors;
- members of the senior management team;
- general managers and the members of any board of directors and of the senior management of subsidiaries or affiliates where we control the management of such companies; and
- in general, all those persons having access to privileged or confidential information of the Company.

Senior Management

Our senior management is composed of the following:

Antonio González-Adalid — Chairman. Age 53. Mr. González-Adalid was appointed in April 2002 as our Chairman. Prior to this appointment, Mr. González-Adalid was Executive Vice-Chairman of the Gas and Electricity unit of Repsol-YPF, as well as Chairman of the Chemistry and Exploration units. From 1982 until 1987 he served as our CFO and, immediately after that, from 1987 until 1989, as CFO of Repsol-YPF. He was serving as CFO of Repsol-YPF at the time of its initial public offering. Mr. González-Adalid holds a degree in naval engineering from the Universidad Politécnica of Madrid and an MBA from the IESE business school.

Francisco Javier Alcaide — Director of Planning and Development. Age 50. Mr. Alcaide has served in various capacities in Enagás and in other companies of the Gas Natural Group since 1988. His responsibilities have included planning, international development, distribution and corporate development. He holds business and chemical engineering degrees.

Luis Juan Calderón — Director of Public Relations. Age 44. Mr. Calderón joined Enagás in 2001. Prior to that, he was responsible for public relations of Uno First Group and of BBV Brazil, two subsidiaries of BBVA. He holds a law degree and a master's degree in business law.

Javier González Juliá — Director of Infrastructure and Operations. Age 55. Mr. González Juliá joined Enagás in 1996 and has overall responsibility for production and transport activities. Prior to joining Enagás, he worked for the Repsol-YPF Group providing technical maritime services. He holds a degree in naval engineering and an MBA from the IESE business school.

Erundino Neira Quintas — Director of Human Resources. Age 52. Mr. Neira Quintas was recently appointed as Director of Human Resources of Enagás and served in a similar capacity for a Brazilian affiliate of Gas Natural since 1998. Prior to that, he was responsible for labor relations, operations and safety and maritime services for companies of the Repsol-YPF Group. He completed post-graduate studies in human resources at Deusto University.

Luis Pérez de Ayala — Legal Director. Age 38. Mr. Pérez de Ayala has served as Legal Director for companies of the Gas Natural Group since 1997. He is a state attorney and holds a law degree from ICADE.

Diego de Reina Lovera — Financial Director. Age 51. Recently appointed as Financial Director of Enagás, Mr. de Reina has served in a similar capacity in other companies of the Gas Natural Group since 1990. Prior to that, he had auditing and accounting responsibilities with Campsa. He holds degrees in computer engineering and business studies.

José Antonio Velasco San Pedro — Director of Technology, Construction and Environment. Age 57. Mr. Velasco has served in various capacities in Enagás and other companies of the Gas Natural Group since 1975. His responsibilities have included planning, supply, transport, engineering, technology, environment and construction. He holds a degree in engineering from the Escuela Técnica Superior de Ingeniería de Minas of Oviedo.

Juan Ignacio Carbonell Porras — Director of Information Technology. Age 55. Prior to joining Enagás, Mr. Carbonell served in a similar capacity at Gas Natural, Repsol-YPF and CLH. He holds degrees in engineering and computer sciences.

The members of our senior management team do not carry on any significant activities outside of Enagás.

Interests of Directors, Senior Managers and Other Employees in the Company

None of the members of the board of directors of Enagás, nor any senior managers or other persons participating in the management of Enagás, hold any shares in Enagás.

Remuneration of Directors and Senior Management

The directors are entitled to the payment of attendance fees and travel expenses in respect of attendance at meetings of the board of directors. In addition, directors are entitled to share an amount equal to 4% of profits of the Company, after deduction of any amounts required to be transferred to reserves by law and after declaration of a dividend of at least 4%.

Subject to shareholders' approval, we intend to pay additional remuneration to the directors in the form of shares, share plans, convertible bonds or stock options. The implementation of such remuneration schemes may require the issue of shares or convertible bonds, with the exclusion of preemption rights. We do not intend to establish any such plans until 2003.

Furthermore, the internal board regulations specify that the directors are entitled to remuneration agreed upon by the board of directors on the basis of the provisions of the by-laws and the report of the Appointment and Remuneration Committee.

The directors' remuneration will be reflected in the annual accounts. The notes to the accounts will contain any and all information on the directors' remuneration, as deemed appropriate.

Amount of the Remuneration of the Board

	For the year ended December 31,		For the three months ended March 31,
	2000	2001	2002
	(in euro)		
Salaries	172,000	601,012	127,715
Attendance and travel fees	262,000	288,500	78,678
Remuneration in kind	430	3,770	2,568
Life insurance premium paid to former chairman	—	30,646	—
Total	434,430	923,928	214,054

The directors of Enagás are not members of the board of directors of any other company of the Enagás Group.

In addition and in respect of the members of the board of directors, Enagás has contributed, or will contribute, €6,617 and €6,610 in 2001 and 2002, respectively, to the pension plan.

Our contributions to the life insurance policies of the directors amounted to €30,646 in 2001 and €11,346 during the first quarter of 2002.

The former chairman of the board of directors received a severance payment in the amount of €3,081,000 in May 2002.

Amount of the Remuneration of the Senior Management Team

The senior management team was created in 2001. Accordingly, we can only provide the details of the remuneration of the senior management team for 2001 and for the first quarter of 2002.

	For the year ended December 31, 2001	For the three months ended March 31, 2002
	(in euro)	(in euro)
Salaries	1,011,314	226,522
Remuneration in kind	17,920	9,506
Total	1,029,234	236,028

Some of the members of the senior management team are members of the board of directors of other companies of the Enagás Group. However, they do not receive any remuneration for this activity.

Additionally, we remunerate the members of our senior management team (including any directors) to reward length of service and loyalty. The following table sets forth total contributions and the cumulative value of the units of the mutual fund through which this remuneration is made as of December 31, 2001 and March 31, 2002:

	As of December 31, 2001		As of March 31, 2002	
	(in euro)		(in euro)	
Contributions	Directors	81,738	Directors	20,434
	Senior managers	87,752	Senior managers	21,938
Value of the units	Directors	580,842	Directors	570,307
	Senior managers	531,245	Senior managers	521,610

The units, or an equivalent amount, pass to the senior management team members upon retirement at the age of 65 years, completion of 30 years with the Company, wrongful dismissal or abandonment by the Company of the mutual fund.

In addition and in respect of the members of the senior management team, Enagás has contributed, or will contribute €45,440 and €26,839 in 2001 and during the first quarter of 2002, respectively, to the pension plan.

Our contributions to the life insurance policies of members of the senior management team amounted to €14,738 during 2001 and €7,662 during the first quarter of 2002, respectively.

We intend to establish a remuneration scheme for the members of the senior management team linked to the value of the shares of the company. The date on which this scheme is to be established has not yet been determined, although it will not be before 2003.

Some of our employees, including several senior managers, have the right to return to Gas Natural should their labor relationship with us be terminated.

Loans Granted by Us to Members of Our Board and Senior Management Team

As of December 31, 2001, the aggregate outstanding principal amount of loans granted by us to members of our board of directors was €122,000. As of March 31, 2002, the aggregate outstanding principal amount of such loans was €119,443. The interest rate applied to these loans is equal to 70% of the legal interest rate published in the Annual Budget Law from time to time. For 2002, the legal interest rate is 4.25%. The loans expire on December 31, 2009.

As of December 31, 2001, the aggregate outstanding principal amount of loans granted by us to members of our senior management team (excluding any directors) was €75,013. As at March 31, 2002, the aggregate outstanding principal amount of such loans was €52,263.

Main Activities of the Directors and Members of Our Senior Management Team Performed Outside Enagás

Name	Positions in other listed or relevant companies
Antonio González-Adalid García-Zozaya	• Executive Director of Gas Natural until April 2002
José Manuel Basañez Villaluenga	• President of Caprabo • President of Meff Aiaf Senaf Holding de Mercados Financieros • Director of Gas Natural, Inmobiliaria Colonial and Saba Aparcamientos
Antonio Brufau Niubó	• President of Gas Natural • Managing Director of la Caixa Group • Director of Repsol, Aguas de Barcelona, Acesa, Inmobiliaria Colonial and Caixaholding
Isidro Fainé Casas	• Managing Director of la Caixa Group • President of Acesa • Vice President of Telefónica and Aguas de Barcelona • Director of Gas Natural Sociedad de Aparcamientos de Barcelona, Inmobiliaria Colonial, Caixaholding, BPI-SGPS, Caixabank Andorra and Caixabank France
José Luis López de Silanes Busto	• Executive Director of Gas Natural • Director or President of several subsidiaries of the Gas Natural Group
Ramón Blanco Balin	• Vice President of the Repsol-YPF Group • Director of Gas Natural SDG, S.A., Ercros and NH Hoteles
Juan Badosa Pages	• Executive Director of Repsol Química and Corporate Vice president of Repsol-YPF until March 2002
Rafael Villaseca Marco	• Executive Director of the Panrico Group • Director of Amper, S.A. • Chairman of Túneles y Accesos de Barcelona SAC and Túnel de Cádiz SAC (an affiliate of la Caixa)
Robert Malpas	• President of Ferghana Partners Limited • Deputy Chairman of Industrial Trust • Director of Evolution plc and SpecialChem, S.A. (Paris)
Dionisio Martínez Martínez	• Chairman of Boysep Inves SIMCAU • Director of InverCaixa • Member of the Comisión General de Codificación • Secretary of the Patronato de la Fundación de Estudios de Economía Aplicada
José Riva Francos	• Vice President and Executive Director of the Vapores Suardiaz Group • Director of Aldeasa and Logista • Executive Director of Aero Transport, S.A.
José Manuel Fernández Norniella	• President of the Consejo Superior de Cámaras de Comercio e Industria • Chairman of the Ebro-Puleva Group • Director of Endesa • Member of the Advisory Counsel of Abengoa

SELLING SHAREHOLDER

Gas Natural is, directly and indirectly, our sole shareholder, holding or controlling 100% of the total issued share capital.

If all of the shares being offered in the global offering are sold, and assuming the underwriters' option is exercised in full, after the global equity offering Gas Natural will hold 35% of the issued share capital of Enagás, and the remainder will be held by the public.

If the underwriters' option is not exercised in full, Gas Natural will exceed the 35% threshold on ownership of shares of our capital stock. In such circumstances, Gas Natural will arrange to sell the excess shares after the lock-up period has expired. So long as Gas Natural's shareholding exceeds the 35% limit, it will not exercise the voting rights or any other non-economic rights relating to the excess shares.

Gas Natural is listed on all the Spanish stock exchanges. Its principal shareholders are la Caixa, holding, directly and indirectly, 26.37% of its share capital, and Repsol-YPF, directly or indirectly, with 24.04%. InverCaixa Valores, S.V., S.A., a wholly-owned subsidiary of la Caixa, is acting as one of the global coordinators of the offering. BBVA holds 2.86% of the shares in Gas Natural.

Repsol-YPF is listed on the Spanish stock exchanges, the New York Stock Exchange and the Buenos Aires Stock Exchange. BBVA, which is listed on the Spanish stock exchanges, the Frankfurt Stock Exchange, the Zurich Stock Exchange, the London Stock Exchange, the Milan Stock Exchange and the New York Stock Exchange, holds 8.03% of the shares of Repsol-YPF. BBVA Bolsa Sociedad de Valores, S.A., a wholly-owned subsidiary of BBVA, is also acting as one of the global coordinators of the offering.

RELATIONSHIP WITH THE SELLING SHAREHOLDER AND AFFILIATES

We summarize below the principal relationships between Enagás, the Gas Natural Group, the Repsol-YPF Group and other core shareholders of Gas Natural and Repsol-YPF, S.A. All these relationships have been entered into on an arm's length basis.

Purchases and Sales of Natural Gas and LNG for Supply to the Tariff-Based Market

Purchases of natural gas from the Gas Natural Group

We currently purchase all of our natural gas requirements for supply to the tariff-based market from Sagane and Gas Natural Aprovisionamientos, members of the Gas Natural Group, pursuant to the Supply Agreement.

Sagane supplies us with Algerian-sourced natural gas that it purchases under the Algerian pipeline gas agreement. For information on the Supply Agreement and the Algerian pipeline gas agreement see "Business—Suppliers and Customers—Suppliers". Furthermore, under the Supply Agreement, Gas Natural Aprovisionamientos, S.A. has undertaken to supply any additional volumes of natural gas that we may have to purchase for supply to the tariff-based market. Gas Natural acts as guarantor of its subsidiaries' obligations under the Supply Agreement.

Under the Supply Agreement we are entitled to purchase the full amount of the natural gas needed for sale to the tariff-based market, but we are not required to take any additional gas. Under the new regulations, the regulated natural gas sale price is equal to the average raw material cost plus a margin reflecting transportation costs incurred in the supply of natural gas to the tariff-based market. We therefore do not have significant exposure to the fluctuation of natural gas purchase and selling prices. The Supply Agreement will remain in force as long as we are legally required to supply natural gas for sale to the tariff-based market. In addition, we are remunerated for handling the purchase and sale of natural gas intended for the tariff-based market.

Before the spin-off of our natural gas supply business to Gas Natural, we purchased natural gas under agreements that we entered into directly with natural gas producers, except for the Algerian pipeline gas agreement that we assigned to Sagane, and we remain as guarantors of the obligations of Sagane under the Algerian pipeline gas agreement. As a result of several transactions related to the spin-off of our natural gas supply business which took place in 1999, however, all of our assets relating to that business (including our agreements with foreign natural gas producers) were assigned to the Gas Natural Group and the shares of Sagane were transferred to Gas Natural. However, certain of the counterparties to the supply agreements have not expressly accepted such assignment, while others have made their acceptance conditional upon Enagás remaining as guarantor of the obligations of the assignee. Accordingly, we may still be subject to obligations under the supply agreements, including under so-called "take-or-pay" obligations, which impose an obligation to pay for a specific volume of natural gas or LNG, even if we do not take the full contracted volume. We have the benefit of a counter-indemnity from Gas Natural, pursuant to which Gas Natural undertakes to indemnify us for certain liabilities incurred by us under the supply agreements under which we may remain liable.

In addition, we have an agreement with Gas Natural establishing the procedure under which Gas Natural will assume the defense of all third-party claims that may be brought against us following the spin-off of our natural gas distribution and supply business.

Sales of natural gas to distribution companies forming part of the Gas Natural Group

Once we have transported the natural gas intended for the tariff-based market, the main customers for these supplies of natural gas are distribution companies belonging to the Gas Natural Group. We also sell LNG to distribution companies in the Gas Natural Group for regasification in satellite regasification plants. In 2001, sales to distribution companies belonging to the Gas Natural Group were approximately 87.4% of our total sales to distributors for supply to the tariff-based market. Such sales are governed by agreements signed before the enactment of the Hydrocarbons Sector Law, but the main terms and conditions, (obligations to purchase and sell, amounts and price) are regulated.

Transportation Services Provided by Enagás to the Gas Natural Group

Our main customer in the liberalized market is Gas Natural Comercializadora, a wholesaler belonging to the Gas Natural Group, to which we provide the majority of our transportation services. In 2001, revenues from providing transportation services to Gas Natural Comercializadora, were approximately 75% of our total revenues for transportation services in the liberalized market. One of these agreements is used by us to regasify LNG supplied by the Gas Natural Group in connection with our obligation to supply the tariff-based market. We also provide similar services to members of the Repsol-YPF Group under long-term (15-20 years) agreements.

We supply our services to these companies on an arm's length basis and at market rates. The agreements under which we supply these services are based on standard forms produced by us and provided to the CNE and the Ministry of Economy for information purposes.

We also lease underground natural gas storage capacity to Gas Natural Comercializadora in Serrablo. In the year ended December 31, 2001, we received total rental payments of approximately €10.57 million under this lease agreement.

Lease of Natural Gas Reserves from Gas Natural

In 2001, we sold certain reserves of natural gas to Gas Natural as part of the separation of activities required by the new regulations. Under an agreement dated April 1, 2002, which took effect retroactively as of January 1, 2002, we lease our strategic natural gas reserves from Gas Natural. This agreement has an initial term of one year, which is automatically renewable, and may be terminated upon three months' notice by either party. Under the terms of this agreement, Gas Natural is required to place at our disposal the natural gas requested by us and to allow us to use it if we are required to use our strategic reserves. In consideration for the lease of natural gas reserves, we pay Gas Natural a percentage of the raw material cost of natural gas established by the regulations. In 2001, we made a total payment to Gas Natural of approximately €8.96 million for the lease of strategic natural gas reserves.

Usage Rights Over the Underground Storage Facilities at Gaviota

The Gaviota underground storage facility is owned by a consortium (the "Gaviota Group"), in which Repsol-YPF has an indirect interest of 82%. Under an agreement dated October 29, 1993, between Enagás and the members of the Gaviota Group, which is due to expire on September 30, 2018, we lease usage rights over the storage capacity of the Gaviota facilities. We use this capacity for our own reserve requirements and, if applicable, the provision of third-party access. The maintenance and operation of this facility are the sole responsibility of the Gaviota Group and, in 2001, we paid €25.69 million for the lease of the storage capacity and the provision of maintenance and operational services.

Financial Arrangements

Inter-company credit facility

On February 29, 2000, we entered into an inter-company credit facility agreement with Gas Natural for a maximum aggregate principal amount of 65,000 million Spanish pesetas (approximately €390 million) for the financing of our investment plan. On October 30, 2000, the maximum principal amount was increased to 160,000 million Spanish pesetas (approximately €962 million). At March 31, 2002, the outstanding principal amount was approximately €792 million.

We pay interest on all outstanding amounts at three-month EURIBOR plus a maximum 1% margin, calculated and paid quarterly in arrears. The current margin is 0.5%. The credit facility matures on February 28, 2005. Either party may request early repayment of the loan upon three months' written notice.

On June 20, 2002, we entered into a credit facility agreement with three financial institutions, affiliates of BBVA, la Caixa and Goldman Sachs International, who are acting as joint global coordinators of the global offering. The maximum aggregate principal amount of the credit facility is €1 billion, and it has a maximum term of 364 days. The interest rate payable on outstanding borrowings under this credit facility will be EURIBOR plus a margin, which will vary by reference to our future credit rating, to be obtained from two rating agencies. The terms of this credit facility, in respect of, among other things, interest rates, commissions and covenants, reflect prevailing market conditions. The lenders may further syndicate their participations in the credit facility. The lenders will be entitled to demand repayment if we have not received a credit rating from either Standard and Poor's or Moody's by November 30, 2002, or our credit rating when set is, or subsequently falls below, BBB- from Standard and Poor's or Baa3 from Moody's. In general terms, the economic conditions of this new credit agreement are more beneficial for us than the terms of our inter-company credit agreement with Gas Natural.

This new short-term credit facility will enable us to repay all our outstanding borrowings under our inter-company credit facility with Gas Natural, and we intend to make full repayment of such outstanding borrowings by drawing an equivalent amount of funds under this new short-term credit facility.

EIB credit facility

Under a credit facility agreement dated December 19, 1999, the EIB granted us a credit facility in a maximum aggregate principal amount of €133.62 million (Tranche A €84.15 million and Tranche B €49.48 million). At March 31, 2002, the outstanding principal amount was approximately €82 million for both tranches. Until June 20, 2002, Gas Natural guaranteed 40% of all principal and interest amounts outstanding under the loan in consideration of an annual commission of 0.20% of such guaranteed amount. The loan provides that, if Gas Natural's shareholding in Enagás falls below 51% or if the la Caixa and Repsol-YPF joint shareholding in Gas Natural falls below 51%, Gas Natural and Enagás must provide EIB with adequate financial and other information and, if EIB so requires, a substitute guarantee satisfactory to EIB.

In addition, until June 20, 2002, the EIF guaranteed approximately 14% of the outstanding principal and interest amounts.

Under an agreement dated June 20, 2002, la Caixa and BBVA have agreed with EIB to guarantee those of our obligations under our credit facility agreement with EIB that were previously guaranteed by Gas Natural and the EIF, totalling approximately 54% of our obligations under the credit facility.

On the same date:

- our credit facility agreement with EIB was amended to ensure that no event of default would occur as a result of our ceasing to be controlled by Gas Natural; and
- we granted a counter-indemnity to la Caixa and BBVA in respect of the obligations these two entities have assumed as guarantors of our obligations under our credit facility agreement with EIB.

A syndicate of banks also guarantees part of our obligations under the EIB loan, including the following approximate participations:

Bank	% of outstanding principal and interest
la Caixa	18%
Deutsche Bank	14%
J.P. Morgan Chase	14%

This syndicate of banks is entitled to request that we release them from these guarantees or provide additional cash or alternative collateral if Gas Natural's shareholding in Enagás falls below 51%. On June 20, 2002, this syndicate of banks entered into the necessary documents with EIB to ensure that the sale of 65% of our shares by Gas Natural in the global equity offering would not require us to provide substitute guarantees to EIB.

As a result of the transactions described above, our obligations under our credit facility agreement with EIB are guaranteed by the following entities: la Caixa and BBVA together: approximately 54%; and the syndicate of banks described above: approximately 46%.

La Caixa credit facility

Under a facility agreement dated July 13, 2001, la Caixa granted a credit facility to us in an aggregate principal amount of 3 billion Spanish pesetas (approximately €18 million). The interest applicable to the loan is one-month EURIBOR plus a 0.3% margin and is calculated and paid quarterly. This credit line will terminate on July 31, 2003.

We also have an agreement with la Caixa dated July 3, 2001, to provide commercial guarantees for us up to approximately €12 million.

BBVA credit facility

Under a facility agreement dated May 22, 2001, BBVA granted a credit facility to Enagás in an aggregate principal amount of 5 billion Spanish pesetas (approximately €30 million). On December 13, 2001, the maximum credit amount was increased to €50 million. The interest applicable to the loan is one-month EURIBOR plus a 0.3% margin and is calculated and paid quarterly. This credit line will terminate on May 21, 2003.

Other agreements with BBVA

Gestión de Previsión y Pensiones, S.A., a member of the BBVA group, is the manager of the Enagás pension fund. BBVA is also the depositary of the Enagás pension fund.

See the notes captioned "Transactions with Group companies" to our consolidated financial statements for further information on our transactions with the Gas Natural Group.

Tax Consolidation

We are currently a member of the consolidated tax group of Gas Natural. As a result of the sale by Gas Natural of 65% of its shareholding in Enagás under the global offering, we will cease to be a member of this tax group with effect from January 1, 2002. For 2002 and following years we will pay taxation on an individual basis. Following our departure from the Gas Natural tax group, Gas Natural will be primarily responsible for any tax liability arising in respect of Enagás for 2001 or any prior period remaining open to inspection. Enagás will have secondary liability for any such tax liability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations—Corporate taxation" and the notes captioned "Taxation" in our consolidated historical financial statements for the year ended December 31, 2001 and for the three-month periods ended March 31, 2001 and 2002.

Other Agreements with Members of the Gas Natural Group

Lease and maintenance of fiber optic network

The fiber optics necessary for controlling and monitoring the gas transportation network are owned by Desarrollo del Cable, S.A., a subsidiary of Gas Natural, which has leased the communication network to Enagás to meet its present and future requirements under an agreement dated January 4, 1999, which has an initial term of 30 years. In the year ended December 31, 2001, we made total rental payments of €14.5 million under this agreement.

We also provide maintenance services for a portion of the fiber optic network to Desarrollo del Cable, S.A. under an agreement dated March 1, 1999, which has an initial term of five years. In the year ended December 31, 2001, our revenues from this activity were approximately €2.08 million.

Maintenance of gas pipelines

From 1999 onwards, we have had agreements in place with Gas Natural relating to the joint maintenance of gas pipelines. Gas Natural has announced the termination of these agreements, to take place during 2002.

Maintenance of the Maghreb pipeline

We also provide maintenance services for certain sealine sections of the Maghreb pipeline.

Revenues from the maintenance of pipelines and sealines for the Gas Natural Group were approximately €7.45 million in the year ended December 31, 2001 and €2.21 million in the three-month period ended March 31, 2002.

Electricity supply

Gas Natural Comercializadora supplies electricity to two of our regasification plants.

Central services provided by the Gas Natural Group

- *Corporate services*. Under an agreement dated January 1, 1996, the Gas Natural Group provides us with central corporate services, relating to, among other things: planning and control; accounting, tax and internal audits; legal advice; marketing; and human resources. In the year ended December 31, 2001, total payments to Gas Natural under this agreement were approximately €14.32 million. This agreement will terminate on June 30, 2002. The amount payable for the six months ending June 30, 2002, is approximately €8.4 million.

- *IT maintenance*. Our IT maintenance services are currently provided by Gas Natural Informática, S.A., a wholly-owned subsidiary of Gas Natural, under an agreement dated January 1, 2001. The agreement has an initial term of two years, which is automatically renewable for annual periods unless terminated upon two months' notice by either party. We have given notice to terminate this agreement as of June 30, 2002. In the year ended December 31, 2001, we made total payments to Gas Natural Informática, S.A. of approximately €6.79 million. The amount payable for the six months ending June 30, 2002 is approximately €2.9 million.

- *Engineering center*. The development and project management of certain of our construction projects are carried out by an engineering center incorporated as an economic interest group (*Asociación de Interés Económico* or AIE), of which Repsol-YPF and Enagás are the only partners, each with an equal share. This AIE has not been affected by the recent reduction of the interest held by Repsol-YPF in Gas Natural. The AIE was established in May 1994 for renewable terms of five years, up to a maximum of 30 years. In 1999, the AIE was renewed for a further five years. However, either party may terminate the AIE if they can show just cause.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Party Transactions" for a description of certain additional transactions between Enagás and members of the Gas Natural Group.

MARKET INFORMATION

Prior to the global offering, there was no market for our shares. We intend to apply for the listing of our shares on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and for the quotation of our shares on the Automated Quotation System of the Spanish stock exchanges.

Securities Trading in Spain

The Spanish securities market for equity securities consists of the Automated Quotation System and the four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia. During 2001, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Automated Quotation System

The Automated Quotation System links the four Spanish stock exchanges mentioned above, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or cancelled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is quoted and regulated by *Sociedad de Bolsas, S.A.*, a corporation owned by the companies that manage the local stock exchanges. All orders on the Automated Quotation System must be placed through a member of a Spanish stock exchange; (i) brokerage firms, an official stockbroker or a dealer firm, (ii) Spanish credit entities, (iii) investment services entities authorized and credit entities of E.U. which fulfill the requirements set forth under Chapter V of the Spanish Securities Law and have been established in another E.U. member states; and (iv) investment services entities and credit entities of non-E.U. member states authorized by their relevant authorities and in compliance with the Spanish regulations are eligible to be a Spanish stock exchange member.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the *Comisión Nacional del Mercado de Valores* (the “CNMV”), the Spanish securities authority, the *Sociedad de Bolsas* may establish an opening price without regard to the reference price (the previous trading day’s closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called “static” range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called “dynamic” range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and ask orders for a security within the computerized system which exceed any of the above “static” and/or “dynamic” ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the “static” and “dynamic” ranges will apply over such reference price. The “static” and “dynamic” ranges applicable to each particular security are set up and reviewed periodically by the *Sociedad de Bolsas.*

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of the *Sociedad de Bolsas*, at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day, if, among other things, the trade accounts for more than €300,000 in value and more than 20% of the average daily trading volume of the stock during the preceding three months. At any time trades may take place (with the prior authorization of the *Sociedad de Bolsas*) at any price if:

- the trade accounts for more than €1.5 million in value and more than 40% of the average daily volume of the stock during the preceding three months;
- the transaction originates from a merger or spin-off process, or from the reorganization of a group of companies;
- the transaction is executed for the purposes of settling litigation or completing a complex group of agreements; or
- the *Sociedad de Bolsas* deems it otherwise appropriate.

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to the *Sociedad de Bolsas* by the end of the trading day and published in the *Boletín de Cotización* and in the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the Spanish stock exchanges are cleared and settled through the SCLV. Only members of the system are entitled to use it, and membership is restricted to authorized members of the Spanish Stock exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy, is reached with the SCLV) and, with the approval of the CNMV, other brokers not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems. The SCLV is owned by its members (excluding, if applicable, the Bank of Spain) and by the companies which manage the local exchanges. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book-entry form.

The SCLV, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities (each an *entidad adherida*) as well as the amount of such shares held on behalf of beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the member entity appearing in the records of the SCLV as holding the relevant shares in its own name; or
- the investor appearing in the records of the member entity as holding the shares.

The SCLV has approved regulations introducing the so-called “T+3 Settlement System” by which the settlement of any transactions must be made three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of an official Spanish stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner’s request the relevant member entity must issue a certificate of ownership. In the event the owner is a member entity, the SCLV is in charge of issuing the certificate with respect to the shares held in the member entity’s name.

Proposed Integration of the Spanish Official Organized Secondary Markets and Clearing and Settlement Systems into a Single Holding Company

On June 20, 2001, the Management Companies (*Sociedades Rectoras*) of the four Spanish stock exchanges of Madrid, Barcelona, Valencia and Bilbao, the AIAF Private Debt Wholesale Market, the MEFF and Citrics Futures and Options Markets, Senaf, A.V., S.A. and Iberclear (a company incorporated by the SCLV and the Bank of Spain, to act as manager of the settlement system of the Public Debt Market) entered into a protocol relating to their integration into a single holding company.

In furtherance of this protocol, on February 5 and 6, 2002, virtually all the shareholders of the different companies involved entered into a framework agreement (the "Agreement") whereby, subject to certain conditions, including obtaining the authorization of the Spanish government, as provided for in the 17th Additional Provision of the Spanish Securities Market Act 1988, as amended, the shareholders of the relevant companies which operate the different secondary markets and settlement systems agreed to the incorporation of a holding company, and to procure that such holding company launch an offer to all the shareholders of the relevant companies to exchange their shares in such companies for newly issued shares in the holding company.

In compliance with the Agreement, the holding company *Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.* was incorporated on February 15, 2001. The process for the determination of the relevant share exchange ratios and the contribution by the shareholders of the shares of the different companies involved into the holding company in exchange for newly issued shares in the holding company is under way and is expected to close prior to the end of 2002. Once completed, the holding company will become the sole shareholder, or the majority shareholder, as the case may be, of the companies which operate the different secondary markets and settlement systems.

Shares Deposited with Euroclear and Clearstream, Luxembourg

Shares deposited with depositaries for Euroclear and Clearstream, Luxembourg and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream, Luxembourg against payment to Euroclear or Clearstream, Luxembourg will be held in accordance with the terms and conditions governing use of Euroclear and Clearstream, Luxembourg, the operating procedures of the Euroclear System, as amended from time to time, and the management regulations of Clearstream, Luxembourg and the instructions to participants of Clearstream, Luxembourg, as amended from time to time, as applicable. Persons on whose behalf accounts have been credited ("investors") shall have the right to receive the number of shares so credited, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream, Luxembourg.

With respect to shares that are deposited with depositaries for Euroclear or Clearstream, Luxembourg, such shares will be initially recorded in the name of Euroclear, or one of its nominees, and in the name of Clearstream, Luxembourg, or one of its nominees. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees described below, if any, and obtaining the relevant recording in the book-entry registries kept by the members of the SCLV.

Under Spanish law, only the record holder of the shares according to the registry kept by the SCLV is entitled to receive dividends and other distributions and to exercise voting, preemptive and other rights in respect of such shares. Euroclear or its nominee and Clearstream, Luxembourg or its nominees will be sole record holders of the shares that are deposited with the depositaries for Euroclear and Clearstream, Luxembourg until such time as investors exercise their rights to withdraw such shares and cause them to obtain the recording of the investor's ownership of the shares in the book-entry registries kept by the members of the SCLV.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositaries for Euroclear and Clearstream, Luxembourg will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, Luxembourg as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream, Luxembourg. See "Taxation".

Each of Euroclear and Clearstream, Luxembourg will endeavor to inform investors of any significant events of which they have notice affecting the shares recorded in the name of Euroclear or its nominees and Clearstream, Luxembourg or its nominees and requiring action to be taken by Investors. Each of Euroclear and Clearstream, Luxembourg may, at its discretion, take such action as it shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include: (i) acceptance of instructions from investors to execute or to arrange for the execution of, proxies, powers of attorney or other similar certificates for delivery to us or our agent; or (ii) voting of such shares by Euroclear or its nominees and Clearstream, Luxembourg or its nominees in accordance with the instructions of investors.

If we offer or cause to be offered to Euroclear or its nominees and Clearstream, Luxembourg or its nominees, as the record holders of the shares with respect to the shares, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream, Luxembourg will endeavor to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of their regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream, Luxembourg.

Tender Offers

Pursuant to Royal Decree 1197/1991, subject to certain exceptions, any individual or corporation proposing to acquire shares (or other securities that may directly or indirectly give the right to subscription of such shares) in a company whose capital is admitted for trading on a Spanish stock exchange, thereby reaching a participation of 25% or more in the company's capital, may not do so without first launching a public tender offer to acquire an additional 10% of the share capital on the terms and conditions laid down in such Royal Decree. Similar obligations are imposed by the Royal Decree with respect to 25% holders who wish to increase their shareholdings by 6% or more within a twelve-month period and to holders who wish to obtain a holding of 50% or more (in which case the offer must be targeted so as to reach 75% of the share capital). The provisions of Royal Decree 1197/1991 apply not only to the offeror but also to members of the same group of companies of the offeror, to legal entities or to individuals acting in concert (connected persons) with the offeror, and to associates of the offeror.

DESCRIPTION OF THE SHARES

The following summary provides information concerning our shares and briefly describes all material provisions of our by-laws and the Spanish Corporation Law. The information set out below describes all material considerations concerning our shares and is qualified in its entirety by reference to our by-laws.

General

Our issued share capital at the date of this offering circular is €358,101,390 represented by 238,734,260 ordinary shares, with a nominal value per share of €1.50. Non-residents of Spain may hold and vote shares subject to the restrictions set out below.

Attendance and Voting at Shareholders' Meetings

Each share entitles the shareholder to one vote. Any share may be voted by written proxy, and proxies may be given to any individual. Proxies are valid for a single meeting.

Pursuant to our by-laws and the Spanish Corporation Law, general meetings of shareholders may be either ordinary or extraordinary. Ordinary general meetings must be convened within the first six months of each financial year on a date fixed by the board of directors. As a general rule, extraordinary general meetings may be called from time to time by our board of directors at its discretion or at the request of shareholders representing at least 5% of our voting share capital. Notices of all shareholders' meetings (except meetings at which 100% of the capital stock is present and all shareholders unanimously agree to hold a shareholders' meeting) must be published in the Commercial Registry Official Gazette (Boletín Oficial del Registro Mercantil) and in a local newspaper distributed in the province of Madrid at least 15 days prior to the date fixed for the meeting.

All holders of at least 100 shares, duly registered in the book-entry record maintained by the SCLV at least five days prior to the day on which a meeting is scheduled to be held, are entitled to attend shareholders' meetings.

At ordinary general meetings, shareholders are asked to approve the appointments to our board of directors and senior management, the financial statements for our previous financial year and the application of our net income or loss. All other matters may be addressed at extraordinary general meetings called for such purposes. Shareholders can vote on these matters at an ordinary general meeting only if such matters are included on the meeting's agenda.

Our by-laws provide that, on the first call of a general shareholders' meeting, a duly constituted general meeting of shareholders requires a quorum of at least one-quarter of our issued voting share capital. On the second call, there is no quorum requirement.

In order to discuss extraordinary matters, such as modification of our by-laws, changes in our share capital structure, change in the corporate form, mergers, spin-offs, issues of bonds, dissolution and liquidation, a quorum (in person or by proxy) of shareholders representing at least one half of our issued share capital is required on first call and the presence (in person or by proxy) of shareholders representing at least one quarter of our issued share capital on second call. If, after the second call, the shareholders present or represented constitute less than one half of our issued share capital, resolutions relating to extraordinary matters may be adopted only with the approval of two-thirds of the share capital present or represented at such meeting. A shareholders' meeting at which 100% of the capital is present or represented is validly constituted even if no notice of such meeting was given and, upon unanimous agreement, shareholders may consider any matter at such meeting.

A resolution validly passed in a general meeting of shareholders is binding on all shareholders, subject to Spanish law. In certain circumstances, such as change of corporate purpose or certain changes of corporate form, Spanish law allows dissenting or absent shareholders to exit the company. In addition, all shareholders have the right to contest resolutions contrary to the law.

Under Spanish Corporation Law, a shareholder (or any group of shareholders acting together) may, subject to availability of seats on the board, appoint a number of directors proportionate to the interest in the company of that shareholder (or group of shareholders). If the number of votes corresponding to the shares held by such shareholders (or group of shareholders) is equal to or greater than the result of dividing the total number of votes corresponding to the shares in the company by the number of directors, such shareholder (or group of shareholders) may appoint the proportionate number of directors. For example, a shareholder holding 20 voting shares out of a total of 100 voting shares in a company with five directors will be entitled to appoint one director. Under Spanish Corporation Law, shareholders who exercise this right may not vote on the appointment of other directors. They may, however, exercise their vote in the normal way in respect of the removal of any existing director.

Preemptive Rights

Pursuant to the Spanish Corporation Law, shareholders and holders of convertible bonds have preemptive rights to subscribe for any new shares issued by us, including ordinary shares and bonds convertible into ordinary shares. These preemptive rights may be abolished in certain circumstances if our shareholders pass a resolution at a shareholders' meeting in accordance with Article 159 of the Spanish Corporation Law.

Form and Transfer

Our ordinary shares are in book-entry form and are indivisible. Joint holders must appoint one person to exercise the shareholders' rights, though joint holders are jointly and severally liable for all obligations arising from their status as shareholders. The SCLV, which manages the clearance and settlement system of the Spanish stock exchanges, maintains the central registry of shares reflecting the number of shares held by each of its member entities *(entidades adheridas)* as well as the number of such shares held by beneficial owners. Each member entity in turn maintains a register of the owners of such shares.

Transfers of shares quoted on a Spanish stock exchange must be made through or with the participation of a member of a Spanish stock exchange that is an authorized broker or dealer by book-entry registry or delivery of evidence of title to the buyer. The transfer of shares may be subject to certain fees and expenses.

Dividends

Pursuant to the Spanish Corporation Law, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not or, as a result of such distribution, would not be, less than the value of our share capital.

Holders of ordinary shares are not entitled to a minimum dividend. Dividends on the shares will be paid net of applicable tax on the terms established for any particular dividend.

Upon our liquidation, you would be entitled to receive pro rata any assets remaining after the payment of our debts and taxes and expenses of the liquidation.

We will pay dividends through member entities of the SCLV. The rights of the holders of the shares to receive dividend payments will expire five years after the date the dividends are distributed.

Reporting Requirements

Because our shares will be listed on the Spanish stock exchanges, any agreements with respect to the acquisition or disposal of our ordinary shares and voting agreements must be reported within seven business days of the acquisition or disposal to us, the CNMV, the Spanish stock exchanges and, where the person or group effecting the transaction is a non-Spanish resident, the Spanish Registry of Foreign Investment, where:

- in the case of an acquisition, the acquisition results in that person or group holding 5% (or multiples thereof) of our share capital; or

- in the case of a disposal, the disposal reduces any existing holding of that person or group below 5% (or multiples thereof) of our share capital.

Furthermore, any member of our board of directors must similarly report any acquisition or disposal, regardless of size, of our ordinary shares and any voting agreement. Additional disclosure obligations apply to purchasers in jurisdictions designated as a tax haven or lacking adequate supervision.

Foreign Investment and Exchange Control Regulations

In 1991, Spain adopted the European Union standards for free movement of capital and services. As a result, exchange controls and restrictions on foreign investments have generally been abolished.

Pursuant to Spanish Law 18/1992 on Foreign Investments and Royal Decree 664/1999, foreign investors may freely invest in shares of Spanish companies, except in the case of certain strategic industries.

Shares in Spanish companies held by foreign investors must be reported to the Spanish Registry of Foreign Investments by the depositary bank or relevant SCLV member. When a foreign investor acquires shares that are subject to the reporting requirements of the CNMV, such foreign investor must give notice directly to the Spanish Registry of Foreign Investments in addition to the other notices that must be sent to the relevant company, the CNMV and the applicable stock exchanges pursuant to the law. This notice must be given through a bank or other financial institution and duly registered with the Bank of Spain and the CNMV or through bank accounts opened with any branch of such registered entities.

Investments by foreigners domiciled in tax haven jurisdictions (as indicated in Royal Decree 1080/1997) are subject to special reporting requirements.

TAXATION

The following discussion is a general summary under current law of certain Spanish and U.S. federal income tax considerations relating to an investment in our shares. The discussion does not address all possible tax consequences of an investment in our shares. It is not a substitute for tax advice. Prospective investors are urged to consult their tax advisors regarding the tax consequences in their particular circumstances of acquiring, holding and disposing of our shares and their eligibility for the benefits of any income tax treaty.

Spanish Taxation

General

As used in this particular section, the term "Holder" means a beneficial owner of shares:

- who is an individual or corporation resident of any country other than Spain; and
- whose ownership of shares is not effectively connected with a permanent establishment or fixed base in Spain.

Non-residents income tax—dividends

As a general rule, dividends paid by Spanish corporations to a Holder will be subject to Non–Residents Income Tax (NRIT) at a rate of 18% on the gross amount of the dividends.

However, residents of certain countries, who are entitled to the benefits of the relevant Double Taxation Convention ("DT"), will benefit from a reduced tax rate (15% or 10%, in most cases, depending on the particular DT and the participation held in the Spanish corporation) subject to the satisfaction of any conditions specified in the DT. Spain currently has DTs with Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Bulgaria, Canada, the Czech Republic (applicable also to the Republic of Slovakia), China, Cuba, Denmark, Ecuador, Finland, France, Germany, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Morocco, Norway, the Netherlands, the Philippines, Poland, Portugal, Romania, Sweden, Switzerland, Thailand, Tunisia, Russia (which may apply to the members of the Confederation of Independent States), the United Kingdom and the United States. Furthermore, dividends distributed by a Spanish resident subsidiary to its E.U.–resident parent company may be exempt from any Spanish taxation if all requirements to benefit from the EEC Directive 90/435 as implemented in the Spanish NRIT Act are met.

The procedure for withholding tax on the payment of dividends is regulated by the Order of April 13, 2000. According to this order, when the payment of dividends is made through depositary entities that are domiciled, resident or represented in Spain, the Spanish corporation must withhold the amount resulting from the application of the general withholding rate for Spanish tax residents (18%) on the date of the distribution of the dividends.

When the Holder is entitled to a DT–reduced rate of or to an exemption from withholding, the Spanish corporation will pay to the depositary entity any excess amount withheld once the Holder has delivered to the depositary entity, before the tenth day of the month following the date of distribution of the dividend, a certificate of residence issued by the tax authorities of the country where the Holder resides.

As a result of this procedure, the Holder will receive the net amount of the dividend in two tranches: (a) an initial amount resulting from applying the 18% withholding tax rate on the date of distribution of the dividend; and (b) any additional amount equal to the amount withheld in excess of the applicable reduced rate before the tenth day of the month following the date of distribution of the dividend.

Non-residents income tax—capital gains

Capital gains derived from shares issued by Spanish resident entities are considered to be Spanish source income and, therefore, are taxable in Spain at a general rate of 35%. Capital gains and losses will be calculated separately for each investment. It is not possible to offset capital gains with losses.

However, capital gains will be exempt from taxation in Spain in the following cases:

- capital gains derived from the transfer of shares on an official Spanish secondary stock market by Holders resident in a country that has entered into a DT with Spain that includes an "exchange of information" clause.

- capital gains obtained by Holders resident in another member state of the European Union, provided that:
  - (a) during the preceding 12 months the Holder did not hold a direct or indirect interest of 25% or more of the capital or equity of such entity;
  - (b) the assets of the Spanish resident company do not consist mainly of, directly or indirectly, Spanish real estate; and
  - (c) the gain is not obtained through a territory statutorily defined as tax haven.

Under most Spanish DTs, including the DT with the United States, Spain may not tax the capital gains of persons entitled to treaty benefits who are non-residents of Spain. However, most DTs entered into by Spain in recent years, including the DT with the United States, allow Spain to tax capital gains from equities if the holding is above a significant threshold (usually 25%).

The Holder must file the relevant tax returns. The Holder's tax representative in Spain, the payer of the income, and the depositary of the shares are also entitled to carry out such filing.

Spanish tax returns

As a general rule, we file with the Spanish tax authorities an official form (the "216 Form") prescribed by the Order of December 9, 1999, in respect of the income we pay to the Holders, and irrespective of whether or not such income is subject to withholding tax.

Where we are not required to declare the income obtained by Holders (such as capital gains), the Order of December 22, 1999 prescribes an official form (the "210 Form") to be filed by the Holder regarding the income obtained. Absent any other specific provision in the relevant DT, the Holder must file the form to claim any refund of withholding tax to which the Holder of shares may be entitled. The Holder's tax representative in Spain, we, and the depositary of the shares would also be entitled to carry out such filing.

The Holder will be not required to declare the income obtained on a 210 Form if such income was subject to withholding tax at the appropriate rate for that Holder or the income is exempt from Spanish taxation.

Distribution of stock rights

The allotment of shares and the allotment of preemptive rights with respect to shares are not subject to Spanish tax.

Under Spanish law, the tax treatment of the proceeds of a sale or other disposition of preemptive rights depends on whether the underlying shares to which such rights relate are listed on a Spanish stock exchange and on the relationship between the proceeds and the acquisition cost of such shares.

If the shares are listed on a Spanish stock exchange, the amounts received by Holders from the sale or subscription of preemptive rights reduce the tax basis of the shares, and, to that extent, are not taxable. Should the tax basis of the shares be reduced to zero, any further amounts received will be taxed as a capital gain in the period in which the disposal of the subscription rights takes place.

In any event, the exemptions set out in "—Non-residents income tax—Capital gains" are applicable to the gain obtained.

Spanish wealth tax

Notwithstanding the provisions of any applicable DT, Spanish Wealth Tax is levied on the net worth of an individual's assets located in Spain on the last day of any year at rates ranging between 0.2% and 2.5%. Therefore, non–resident individuals who hold shares on the last day of any year will be subject to such tax on the average market value of the shares during the last quarter of such year. In relation to this tax, the Ministry of Economy will publish the average market value of such shares for the fourth quarter of each year.

The individual Holder of the shares or the depositary of his shares in Spain must file the corresponding tax return usually between May 1 and June 30 of each year.

Spanish inheritance and gifts tax

Notwithstanding the provisions of any applicable DT, transfer of shares to individuals on death and by gift are subject to Spanish inheritance and gifts tax, respectively, if the transferee is a resident of Spain at the time of death or the gift, or if the shares are located or exercisable in Spain at the time of death or the gift, regardless of the country of residence of the beneficiary. Therefore, any non–resident individual who acquires shares on death or by gift will be subject to such tax at a rate, after applying all relevant factors, ranging between 0% and 81.6%. Spanish resident companies are not subject to inheritance and gifts taxes, and the income they obtain from that source will be subject to corporate tax at the rate of 35%.

Transfer of shares

Transfers of shares in Spanish companies will be exempt from Spanish Transfer Tax or Value Added Tax. Additionally, no Stamp Duty will be levied on such transfers.

United States Federal Taxation

The following discussion addresses only U.S. Holders that will hold shares as capital assets and use the dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, dealers, insurance companies, tax–exempt entities, holders of 10% or more of the Company's voting shares and persons holding shares as part of a hedge, straddle, conversion, integrated or constructive sale transaction. Enagás believes, and this discussion assumes, that it is not and will not become a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. As used herein, "U.S. Holder" means a beneficial owner of our shares that is (i) a U.S. citizen or resident, (ii) a corporation, partnership or other business entity organized under U.S. laws, (iii) a trust subject to the control of a U.S. person and the primary jurisdiction of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income tax regardless of its source.

Dividends

Dividends paid with respect to our shares (including the amount of Spanish taxes withheld) generally will be includible in the gross income of a U.S. Holder as ordinary income from foreign sources. The dividends will not be eligible for the dividends–received deduction otherwise available to corporations. Dividends paid in euro will be includible in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into dollars at that time. Any gain or loss recognized on a subsequent conversion of euro for a different currency will be U.S. source ordinary income or loss. Distributions to U.S. Holders of additional shares or rights to acquire additional shares that are made as part of a pro rata distribution to all shareholders of Enagás generally will not be subject to federal income tax.

A U.S. Holder generally should be entitled to claim a reduced rate of Spanish dividend withholding tax equal to 15% under the Spanish-U.S. income tax treaty if it complies with the procedures for obtaining that benefit. See "—Spanish Taxation—Non-residents income tax—dividends" above. Subject to generally applicable limitations, a U.S. Holder may claim a deduction or foreign tax credit for Spanish withholding tax imposed at the applicable treaty rate.

Capital gains

U.S. Holders will recognize capital gain or loss on the disposition of our shares in an amount equal to the difference between the holder's tax basis in the shares and the amount realized on the disposition. Any gain or loss generally will be treated as arising from U.S. sources.

When a U.S. Holder purchases our shares with euro it previously acquired, the holder generally will recognize ordinary income or loss in an amount equal to any difference between the holder's tax basis in the euro and the U.S. dollar value of the euro at the spot rate on the share purchase date. The U.S. Holder's basis in the shares generally will equal the U.S. dollar value of the euro used at the spot rate on the share purchase date. A U.S. Holder that receives euro on disposition of our shares will realize an amount equal to the U.S. dollar value of the euro on the disposition date (or, in the case of cash basis and electing accrual basis taxpayers, the settlement date). A U.S. Holder will have a tax basis in the euro received equal to the U.S. dollar amount realized. Any gain or loss on a subsequent conversion of the euro for a different currency generally will be ordinary income or loss from U.S. sources.

A U.S. Holder entitled under the Spanish-U.S. income tax treaty to an exemption from Spanish tax otherwise applicable to gain from our shares will not be able to claim a foreign tax credit in the United States for the Spanish tax that it could have avoided. See "—Spanish Taxation—Non-residents income tax—capital gains" above.

Information reporting and backup withholding

Dividends on our shares and proceeds from sale of our shares may be reported to the U.S. Internal Revenue Service, and backup withholding may apply to non-corporate U.S. Holders, unless they provide an accurate taxpayer identification number or otherwise establish a basis for exemption. A credit can be claimed against U.S. federal income tax liability for the amount of back-up withholding and any excess amount is refundable.

VALIDITY OF SHARES

The validity of the shares offered in this offering circular will be passed upon for us by Garrigues, Abogados y Asesores Tributarios, Madrid, Spain. We have been advised by Freshfields Bruckhaus Deringer, Madrid and London, on certain U.S. and English legal matters in connection with this offering.

The underwriters have been advised by Uría & Menéndez, Madrid, on certain Spanish legal matters and by Sullivan & Cromwell, London, on certain U.S. legal matters in connection with this offering.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements as of and for the year ended December 31, 2001 and the non-consolidated financial statements as of and for the years ended December 31, 1999 and 2000 included in this offering circular have been prepared in accordance with Spanish GAAP and have been audited by PricewaterhouseCoopers Auditores, S.L., independent accountants, as stated in their reports appearing therein.

The consolidated financial statements as of and for the three-month periods ended March 31, 2001 and 2002 included in this offering circular have been prepared in accordance with Spanish GAAP and have been reviewed by PricewaterhouseCoopers Auditores, S.L., independent accountants.

During the financial year ended December 31, 2001, 87.4% of the total fees paid by the Enagás Group to PricewaterhouseCoopers Auditores, S.L. was in respect of auditing services and the remaining 12.6% for other professional services.

UNDERWRITING

Enagás, the selling shareholder and the international underwriters named below entered into an international underwriting agreement on June 24, 2002 with respect to the shares being offered by this offering circular. Subject to certain conditions, each international underwriter has severally agreed to procure purchasers for, or absent such procurement, to purchase, the number of shares indicated in the following table. Goldman Sachs International and Schroder Salomon Smith Barney are the representatives of the international underwriters.

International underwriters	Number of shares
Goldman Sachs International	14,821,369
Salomon Brothers International Limited	14,821,369
BNP Paribas	2,736,253
Deutsche Bank AG London	2,736,253
J.P. Morgan Securities Ltd.	2,736,253
Banca IMI S.p.A.	1,368,126
Cazenove & Co. Ltd.	1,368,126
ING Bank N.V., London Branch	1,368,126
Société Générale	1,368,126
BBVA Bolsa Sociedad de Valores, S.A.	912,084
InverCaixa Valores, S.V., S.A.	912,084
Santander Central Hispano Investment, S.A.	456,043
Total	45,604,212

The international underwriters and the Spanish institutional underwriters have an option to purchase up to 14,085,321 additional shares from the selling shareholder under certain circumstances. The joint global coordinators may exercise that option on behalf of the underwriters for a period of 30 days after the closing date, which is expected to be on or about June 25, 2002. If any shares are purchased pursuant to this option, the international underwriters will purchase shares severally in approximately the same proportion as set forth in the table above.

The international underwriters propose to offer the shares at the offering price set forth on the cover page of this offering circular (the "offering price"). After the shares are released for sale, the international underwriters may change the offering price and other selling terms.

In consideration of the agreement by the international underwriters to procure purchasers for, or absent such procurement to purchase, the shares, and subject to the shares being sold as provided in the international underwriting agreement, the selling shareholder will pay to the international underwriters selling concessions and underwriting and management commissions of 1.4% of the offering price of the shares sold in the international offering. The underwriting commission, equal to 0.28% of the offering price, is not payable with respect to shares purchased upon exercise of the underwriters' option described above. In addition, the selling shareholder may pay to the international underwriters a discretionary incentive fee of up to 0.6% of the offering price of the shares sold in the international offering.

The international underwriting agreement provides that the obligations of the international underwriters are subject to certain conditions precedent and that the agreement may be terminated by the selling shareholder or the international underwriters in certain circumstances before 11:30 p.m. on the closing date. The closing date, which is expected to be on or about June 25, 2002, is the date on which purchasers will become entitled to receive delivery of and be obligated to pay for the shares under Spanish law. The shares will be delivered on the settlement date, which is expected to be on or about June 28, 2002.

Enagás and the selling shareholder have also entered into underwriting agreements with the Spanish institutional and retail underwriters for the sale of 42,578,255 shares to institutional investors in Spain and 52,909,481 shares to retail investors in Spain, an aggregate of 95,487,736 shares. BBVA Bolsa Sociedad de Valores, S.A., InverCaixa Valores, S.V., S.A. and Santander Central Hispano Investment, S.A. are the lead managers for the Spanish retail offering. BBVA Bolsa Sociedad de Valores, S.A., InverCaixa Valores, S.V., S.A. and Santander Central Hispano Investment, S.A. are the lead managers for the Spanish institutional offering. The offering price per share in the Spanish retail offering and in the Spanish institutional offering is €6.50. The closings of the international offering and the Spanish institutional and retail offerings are conditioned on each other.

The underwriters for each of the three offerings have agreed to restrictions on where and to whom they and any dealer purchasing from them may offer and sell shares as part of the distribution of the shares. The underwriters have also agreed that they may sell shares among each of the underwriting groups.

Buyers of shares sold by the international underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the share offering price.

Each of Enagás and the selling shareholder has agreed with the international underwriters that it will not, and will procure that its consolidated subsidiaries and consolidated investee companies will not, during the period ending on the date 180 days after the date on which the shares are admitted to listing on the Spanish stock exchanges, which is expected to be on or about June 26, 2002: (A) offer, sell, contract to sell or otherwise dispose of, except as provided under the international underwriting agreement and under the Spanish underwriting agreements, any securities of Enagás that are substantially similar to the shares which are the subject of this offering circular, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Enagás' shares or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of the underwriting agreement) or (B) purchase or sell any option or other guaranty or enter into any swap, hedge or other arrangement that transfers to any other entity, in whole or in part, any of the economic consequences of ownership of shares, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of shares or such other securities, in cash or otherwise, except with the prior written consent of the joint global coordinators.

Enagás and the selling shareholder have agreed to indemnify the international underwriters against certain liabilities, including certain liabilities under the Securities Act.

The shares have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

Enagás and the selling shareholder have been advised by the representatives, on behalf of the international underwriters, that (a) the international underwriters, through their respective selling agents, propose to resell the shares only to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act and (b) the international underwriters will offer and sell the shares outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Terms used above have the meanings given to them by Rule 144A and Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, any offer or sale of shares that is made within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Each international underwriter has acknowledged that:

- it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of

section 21 of FSMA) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) FSMA does not apply to the issuer; and

- it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In connection with the offering, BBVA Bolsa Sociedad de Valores, S.A., acting as stabilization agent, may purchase and sell the shares in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Short sales involve the sale by the international underwriters of a greater number of shares than they are required to purchase from the selling shareholder in the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

The international underwriters also may impose a penalty bid. This occurs when a particular international underwriter repays to the international underwriters a portion of the underwriting discount received by it because the international underwriters have repurchased shares sold by or for the account of such international underwriter in stabilizing or short covering transactions.

These activities may stabilize, maintain or otherwise affect the market price of the shares. As a result, the price of the shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the international underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

The offering price for the international offering and the Spanish institutional offering has been determined in negotiations between the selling shareholder and the joint global coordinators, on behalf of the international underwriters and the Spanish institutional underwriters, on the basis of a number of factors, including the following:

- the orders, in terms of price and quantity, received from potential investors;
- prevailing market conditions;
- estimates of Enagás' business potential and prospects; and
- the market valuation of publicly traded common stock of comparable companies.

Enagás has applied for the listing of the shares on the Spanish stock exchanges, but Enagás cannot assure investors that this listing will be obtained. If the shares are not admitted to listing and quotation by July 8, 2002, the selling shareholder will unwind the sale and the purchase price of the shares will be returned to investors, with interest accrued on it.

Certain of the international underwriters and the Spanish underwriters and their respective affiliates engage in transactions with, and perform services for, Enagás and the selling shareholder in the ordinary course of business and have provided, and may in the future from time to time provide, commercial and investment banking and general financing services to Enagás, the selling shareholder and their respective affiliates for which they have in the past received, and may in the future receive, customary compensation.

Schroder Salomon Smith Barney is acting as financial advisor to the selling shareholder in connection with this offering.

On June 20, 2002, Enagás entered into a short-term credit facility agreement with affiliates of BBVA Bolsa Sociedad de Valores, S.A., InverCaixa Valores, S.V., S.A. and Goldman Sachs International, three of the four joint global coordinators of the global equity offering. The offer is for a 364-day term credit facility on market terms, in a maximum principal amount of €1 billion. Affiliates of BBVA Bolsa Sociedad de Valores, S.A. and InverCaixa Valores, S.V., S.A. also guarantee part of Enagás' obligations under a credit facility agreement with EIB. See "Relationship with the Selling Shareholders and Affiliates" for further information about the short-term facility agreement, the guarantees to EIB and other financial arrangements between Enagás and the joint global coordinators or their affiliates.

Enagás has provided a guarantee of €8.89 million in relation to a loan agreement between Gasoducto Braga-Tuy and Banco Santander Central Hispano, S.A., an affiliate of Santander Central Hispano Investment, S.A., one of the joint global coordinators for the global equity offering.

La Caixa owns directly and indirectly 26.37% of the share capital of the selling shareholder and, together with Repsol-YPF, controls Gas Natural. Banco Bilbao Vizcaya Argentaria, S.A., an affiliate of BBVA Bolsa Sociedad de Valores, S.A. owns a 2.86% interest in the selling shareholder.

GLOSSARY

Algerian pipeline gas agreement	The agreement for the supply via the Maghreb pipeline of Algerian natural gas, dated June 8, 1992 between Enagás and Sonatrach and assigned to Sagane on June 20, 1994.
Asociación de Interés Económico (AIE)	A Spanish Economic Interest Grouping, regulated by Law 12/1991, of April 29.
Automated Quotation System	The Automated Quotation System of the Spanish stock exchanges operated and regulated by Sociedad de Bolsas, S.A.
Bar	A metric unit of atmospheric pressure.
Basic natural gas network	The natural gas network comprising: (i) the primary pipeline network; (ii) the regasification plants; (iii) the storage facilities; (iv) the connections between the basic natural gas network the gas fields or storage facilities; and (v) the international connections of the Spanish natural gas network with other foreign networks or gas fields.
BCM	Billion cubic meters. One billion m^3 of gas is equivalent to 35.31 billion cubic feet and to approximately 0.825 MTOE. A cubic meter of gas produces energy of 9,100 kcal (or 38,100 joules).
Clearstream, Luxembourg	A clearing and settlement organization for both domestic and international bonds, equities and investment funds incorporated in Luxembourg.
CNMV	The Spanish Comisión Nacional del Mercado de Valores, a public body created by the Securities Market Law to supervise the Spanish securities market.
Commercial Registry Official Gazette	The Boletín Oficial del Registro Mercantil.
Distribution network	The distribution network comprises gas pipelines with a maximum design pressure equal to or lower than 16 bars and those other gas pipelines whose purpose, regardless of their maximum design pressure, is to deliver gas to a single end-user from a gas pipeline in the basic network or secondary transport network.
Distributors	Those companies owning and operating part of the distribution network.
Eligible customers	During 2002, any facility with an annual consumption of natural gas of at least 1 million m^3(n) will entitle its owner to be categorized as an eligible customer with respect to that facility. Power plants and co-generators are automatically considered eligible customers. After January 1, 2003, however, all customers will be considered eligible customers, regardless of their level of consumption and accordingly will be able to elect their wholesalers.
Euroclear bank, S.A./N.V.	Operator of the Euroclear System.

Eurogas . . . . The European Gas Association.

European Central Bank . . . . The European Central Bank is the European Union's central bank created in 1992 by the Treaty of Maastricht and based in Frankfurt.

European Investment Bank (EIB) . . . . The European Investment Bank is the European Union's financing institution created in 1958 by the Treaty of Rome.

European Union Member States . . . . The member states of the European Union from time to time (currently, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Spain, Sweden, Portugal and the United Kingdom).

Gas Directive or Directive . . . . Directive 98/30 approved by the European Council and the European Parliament on June 22, 1998 containing common rules for the supply, regasification, storage, transportation and distribution of natural gas for the purpose of creating a common gas market through the liberalization and opening of the European national markets.

GWh . . . . A metric unit of energy equal to one billion Watt hours.

Hydrocarbons Sector Law . . . . The Ley 34/1998 del Sector de Hidrocarburos approved to implement the Gas Directive in Spain.

kW . . . . KiloWatt, or one thousand Watts. The Watt is the basic unit of power.

kWh . . . . A metric unit of energy equal to one thousand Watt hours.

LNG . . . . The liquefied natural gas obtained through the cooling of natural gas to minus 160ºC at atmospheric pressure. The natural gas is liquefied to allow transportation from the place of withdrawal to the sites at which it is transformed and consumed. One ton of LNG corresponds to 1,400 cubic meters of gas.

$m^3(n)$ . . . . The quantity of natural gas contained in a cubic meter at 0° celsius and 1.01325 bar pressure.

Ministry of Economy . . . . The Spanish Ministerio de Economía, a governmental department entrusted to propose and execute the Spanish Government's economic policy, including measures related to the energy markets.

MTOE . . . . Million tonnes of oil equivalent.

MW . . . . MegaWatt, or one million Watts.

Natural gas . . . . A mixture of hydrocarbons, consisting primarily of methane, which is withdrawn in its gaseous state from the subsoil at standard conditions.

OECD . . . . Organization for Economic Cooperation and Development.

Primary pipeline network . . . . The pipeline network comprising those pipelines with a maximum pressure equal to or higher than 60 bars.

Production	Natural gas withdrawal from natural gas fields.
Regasification	LNG shipped through LNG carriers at minus 160ºC at atmospheric pressure is stored in insulated tanks located at marine terminals. When needed, it is returned to its gaseous state, compressed to the pipeline pressure and input in the pipeline network.
Regasification terminal	A facility providing for LNG storage and vaporization by means of a regasification plant in order to input gas in the transportation network.
SCLV	Servicio de Compensación y Liquidación de Valores, the entity that operates the securities clearance and settlement system in Spain.
Secondary pipeline network	The pipeline network comprising those pipelines with a maximum pressure between 16 and 60 bars.
Spanish Registry of Foreign Investment	The Spanish Registro de Inversiones Extranjeras.
Spanish Securities Law	The Ley 24/1998 del Mercado de Valores of Spain, as amended and developed by secondary legislation.
Strategic storage	Volumes required for covering lack or reduction of supplies from extra-European sources or crises in the natural gas system.
System Technical Manager	Enagás as the entity responsible for coordinating the development, operation and maintenance of the Spanish natural gas infrastructure, for providing technical operating information and short-term projections of gas demand to other operators in the market and for assisting the regulatory authorities with the planning and coordination of infrastructure development projects.
Take-or-pay	Clause included in natural gas supply agreements according to which the purchaser is bound to pay the contractual price or a fraction of such price for a minimum quantity of the gas set in the agreement, even if it is not taken by the purchaser.
Tariff-based customers	These customers acquire natural gas from distributors in the tariff based market.
Transport pipeline network	The network of high (over 60 bars) and medium pressure (between 16 and 60 bars) larger diameter pipelines operated by transportation companies for the transport of natural gas.
Transportation companies	Those companies owning and operating part of the transportation network and carrying on the activities of regasification, transport and storage.
Transportation network	The natural gas network comprising the basic natural gas network and the secondary pipeline network.
Wholesalers	Those companies selling natural gas in the liberalized market to eligible customers and other wholesalers and benefiting from third-party access to the transportation and distribution networks.

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ANNEX 1

SUMMARY OF DIFFERENCES BETWEEN SPANISH AND U.S. REPORTING

The consolidated and unaudited pro forma consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Spain ("Spanish GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). The accounting policies of Enagás, S.A. and subsidiary companies (the "Group") are set out in Note 1 of the "Notes to the Consolidated Financial Statements" for the year ended December 31, 2001.

The following paragraphs summarize those areas in which differences between Spanish GAAP and U.S. GAAP could be significant to the Group's financial position or results of operations. The Group has not quantified these differences, nor undertaken a reconciliation of Spanish GAAP to U.S. GAAP. Had the Group undertaken any such quantification or reconciliation, other potential significant accounting and disclosure differences may have come to their attention which are not identified below. Accordingly, the Group cannot offer any assurance that the differences described below would, in fact, be the accounting principles creating the greatest differences between the consolidated financial statements of the Group prepared under Spanish GAAP and under U.S. GAAP, nor that the summary below represents all principal differences related to the financial statements of the Group. In addition, the Group cannot estimate the net effect that applying U.S. GAAP would have on its consolidated financial positions or consolidated results of operations, or any component thereof, in any of the presentations of financial information in this offering circular. However, the effect of such differences may be, individually or in the aggregate, material, and in particular, it may be that the consolidated income and total shareholder's equity, prepared on the basis of U.S. GAAP, would have been materially different due to these differences.

Potential investors should consult their own professional advisors for an understanding of the differences between Spanish GAAP and U.S. GAAP, and how these differences might affect the financial information in this offering circular.

No attempt has been made to identify future differences between Spanish GAAP and U.S. GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Spanish GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between Spanish GAAP and U.S. GAAP that may affect the Group's financial statements as a result of transactions or events that may occur in the future. In addition, this description is not intended to address all differences in presentation, including classification, disclosure and display of financial information contained in this offering circular.

Objective and basis of presentation of pro forma financial statements

Spanish GAAP

Under Spanish GAAP, as required by the Spanish Stock Exchange and the *Comisión Nacional del Mercado de Valores* ("CNMV"), the Spanish Regulator, the Company has presented the unaudited proforma consolidated financial statements contained in this Offering Circular as of and for the two years in the period ended December 31, 2000 as if the group reorganization and dispositions had been in effect from the beginning of those periods. The objective of presenting such proforma financial statements is to illustrate what the operations and financial statements of the entity might have been had certain transactions occurred at an earlier date and to present proforma financial information in a similar format to the 2001 consolidated financial statements. Due to the spin-off of certain operations by Enagás, for the purpose of this Offering Circular, the Company considers these proforma financial statements to be the primary consolidated financial information which include a balance sheet and income statement and explanatory notes thereto for the two years ended December 31, 2000.

In addition, the CNMV generally requires that companies that intend to be listed on one or more of the Spanish stock exchanges which have had significant changes in their operations in the last three years of operations, prepare proforma consolidated financial statements for the applicable periods. These financial statements are to represent a full set of consolidated proforma financial statements (balance sheet and income statement) and footnotes. The footnotes include an explanation of assumptions utilized and of adjustments applied to the historical financial statements in order to arrive at the consolidated proforma financial statements.

U.S. GAAP

Under U.S. GAAP, the primary financial statements presented in the offering circular would be the historical consolidated financial statements of the Enagás, S.A. Group. Group reorganizations and dispositions would not be eliminated on a pro forma basis and significant changes in operations would normally be disclosed and not be displayed in a proforma presentation.

In addition, under U.S. Securities Rules and Regulations, certain proforma presentations may be required, which could result in a substantially different presentation than that required by the CNMV.

Accounting for the effects of certain types of regulation

Spanish GAAP

Spanish GAAP has limited accounting guidance in the utilities industry which to date only relate to the electricity and water sectors. Until any specific guidance is issued for the gas sector, the Spanish General Accounting Plan should be applied to regulated gas operations. The major portion of revenue for 2002 and subsequent financial years will be determined in accordance with the regulatory remuneration structure that came into effect on February 19, 2002, as approved by the Ministry of Economy for the Spanish Natural Gas Industry's regulated activities. In general, the regulations permit tariffs, tolls and canons to be set at levels intended to recover the estimated costs of providing regulated services over the remaining useful lives of the facilities, including the cost of capital (interest costs and a provision for a reasonable return on capital investment). These rates are applicable to the year 2002 and are subject to review at the end of that period.

U.S. GAAP

Under U.S. GAAP, FAS71, "Accounting for the Effects of Certain Types of Regulation" as amended, applies to general-purpose external financial statements of an enterprise that has regulated operations that meet certain criteria. Among other requirements, if regulation provides assurance that incurred costs will be recovered in the future, FAS71 requires the capitalization of such costs. In addition, if current recovery is provided for costs that are expected to be incurred in the future, FAS71 requires companies to recognize those current receipts as liabilities.

Revaluation of fixed assets

Spanish GAAP

Fixed assets are normally recorded at cost less accumulated depreciation. The company revalued certain fixed assets to estimated net realizable value in 1996 in accordance with a fixed asset revaluation law, which permitted such revaluations at that time. Related depreciation is calculated on the revalued amount from the date of the revaluation. The increase from the carrying value to the net revalued amount is recorded as a revaluation reserve within shareholders' equity.

U.S. GAAP

Fixed assets are recorded at historical cost less accumulated depreciation. Revaluation of fixed assets is not permitted.

Goodwill and intangibles

Spanish GAAP

Under Spanish GAAP, goodwill and intangible assets are amortized to residual value over their useful economic lives.

U.S. GAAP

Under U.S. GAAP, prior to the introduction of FAS 142, "Accounting for goodwill and intangible assets", goodwill and intangible assets were amortized to residual value over their useful economic lives. After the introduction of FAS 142, which if adopted by the Company would be effective January 1, 2002, goodwill and indefinite lived intangible assets cease to be amortized, but instead are tested at least annually for impairment. Definite lived intangible assets continue to be amortized to residual value over their estimated useful lives.

Statement of cash flows

Spanish GAAP

Spanish GAAP does not require a statement of cash flows. The statement of source and application of funds is required to be disclosed in the notes to individual company financial statements but is not required in consolidated financial statements.

U.S. GAAP

U.S. GAAP requires the presentation of a statement of cash flows as one of the primary financial statements.

Push down accounting applied to acquisitions

Spanish GAAP

Spanish GAAP does not allow "push down" accounting for acquisitions.

U.S. GAAP

U.S. GAAP requires that push down accounting (recording adjustments related to acquisitions) that had been recorded by the parent company be "pushed down" to the affiliate where the parent owns at least 95% of the subsidiary. Under certain circumstances "push down" accounting is also required when the parent owns 80% to 94% of the subsidiary.

Treasury stock

Spanish GAAP

Treasury stock repurchased is recorded as an asset on the balance sheet at cost. Gains and losses on the subsequent sale of treasury stock are recorded in the profit and loss account.

U.S. GAAP

Treasury stock repurchased is recorded as a deduction from shareholders' equity at cost. Any gain or loss on the subsequent sale of treasury stock is recorded as a change in shareholders' equity.

Consolidation

Spanish GAAP

In certain circumstances, subsidiaries and affiliates which are deemed to be immaterial are not required to be consolidated. In addition, entities managed jointly with the Transgas Group are consolidated using the proportional consolidation method, independent of whether or not the investment percentage is greater or less than 50%.

U.S. GAAP

All majority owned subsidiaries and affiliates are required to be consolidated where evidence of control exists. Where equity interests in investees are less than 50% and control is deemed not to exist, the investment is accounted for under either the equity method or the cost method, depending upon the circumstances of the investment.

Start-up costs

Spanish GAAP

Formation and start-up expenses and legal and tax expenses associated with modifications to a company's capital are recorded at cost net of accumulated amortization, which is calculated on a straight-line basis over a period of five years.

U.S. GAAP

These expenses are generally charged against income in the period incurred.

Foreign currency

Spanish GAAP

Balance sheet amounts denominated in foreign currencies are translated into euro using exchange rates in effect at year-end. Any resulting realized and unrealized exchange losses and realized exchange gains are recognized as expenses and income, respectively in the profit and loss account. Unrealized exchange gains, when material, are deferred until realized.

U.S. GAAP

Balance sheet amounts denominated in foreign currencies are translated into euro using exchange rates in effect at year-end. Both unrealized exchange gains and losses resulting from the translation are recognized as expenses or income, respectively, in the income statement.

Investments accounted for under the equity method

Spanish GAAP

The equity method of accounting for investments in common stock should be followed by an investor whose investment in voting stock gives it the ability to exercise significant influence but not control over operating and financial policies of an investee. Generally, investments of 20% or more of the voting stock of an investee leads to the presumption that an investor has significant influence. In addition, when common stock of greater than 3% of the outstanding voting stock of a publicly listed investee is held by an investor, that investment is also accounted for using the equity method of accounting.

However, for the Spanish GAAP practice given to jointly managed investments with the Transgas Group, refer to the consolidation section above.

U.S. GAAP

The equity method of accounting for investments in common stock should only be followed by an investor whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee. Generally, investments of 20%, but less than 50%, or more of the voting stock of an investee leads to the presumption that an investor has significant influence.

Capitalization of interest

Spanish GAAP

Interest costs incurred need not be capitalized as part of the cost of a fixed asset. In the case of the Enagás, S.A. Group, interest costs incurred in relation to projects with a period of construction of more than one year are capitalized.

U.S. GAAP

Interest costs incurred must be capitalized as part of the cost of assets qualifying for interest capitalization.

Income taxes

Spanish GAAP

Deferred tax liabilities must be recorded. Deferred tax assets are recognized when it can be demonstrated that the deferred tax assets will be realized in the future. Deductible temporary differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets. Net operating losses are generally treated as permanent differences until realized.

U.S. GAAP

The liability method is used to calculate income tax expense. Under the liability method, deferred tax assets, including operating loss carryforwards, and liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities at each year/period-end. A valuation allowance is established to the extent that it is more likely than not that deferred tax assets will be recovered. There may be differences in timing with respect to the recognition of the effects of changes in enacted tax rates.

Stock based compensation

Spanish GAAP

Compensation expense is not recognized for options granted by the company or its parent.

U.S. GAAP

Compensation expense may be required to be recognized in respect of options granted by a company or by its parent depending upon the specific terms and conditions of the option.

Accounting for net assets received by a new entity created in connection with reorganization under common control

Spanish GAAP

Under Spanish GAAP, the net assets being transferred to an entity under common control are recorded both in the transferee and transferor books at their net book value and not at fair value.

U.S. GAAP

Under U.S. GAAP, sales, purchases and transfers of assets between parties under common control should be recorded at the carryover (historic) basis unless there is evidence of impairment.

Revenue Recognition

Spanish GAAP

Under Spanish GAAP revenue is recognized when realized or realizable and earned.

U.S. GAAP

Under U.S. GAAP revenue recognition follows more prescriptive rules and guidance. Revenues is generally only recognized when realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- The sellers price to the buyer is fixed or determinable; and
- Collectibility must be reasonably assured.

Research and development costs

Spanish GAAP

Under Spanish GAAP, research and development costs are capitalized if certain conditions are met and are amortized over a five-year period.

U.S. GAAP

Under U.S. GAAP, research and development costs are expensed as incurred.

Derivatives and hedging activities

Spanish GAAP

Spanish GAAP has limited guidance on accounting for derivatives and no guidance on embedded derivatives. Accordingly, there may be significant differences between U.S. GAAP and Spanish GAAP after January 1, 2001 when SFAS 133 became effective. As at March 31, 2002, the Group had not entered into any significant derivatives or hedging contracts.

U.S. GAAP

U.S. GAAP has established accounting and reporting standards which require certain derivative instruments (including certain derivative instruments embedded in other agreements) be recorded on the balance sheet as either an asset or a liability measured at its fair value. U.S. GAAP requires that changes in the derivative's fair value during an accounting period be recognized in earnings unless specific hedging criteria are met and documented, which would qualify the instrument for hedge accounting treatment. If a derivative instrument is designated as and qualifies for hedge accounting treatment, the gains or losses from the derivative instrument may offset gains and losses from the hedged item in the statement of operations or other comprehensive income, depending on the type of hedge. Under U.S. GAAP it would be unlikely that hedge accounting would be achieved due to the complexity of documenting and designating those transactions which could qualify for hedge accounting treatment. Consequently, the results of operations that would be presented under U.S. GAAP may differ significantly from those presented under Spanish GAAP. In addition, Enagás may have certain agreements which could have terms that would meet the definition of an "embedded derivative" under U.S. GAAP. Depending on the specific terms and circumstances of these agreements, current earnings may be impacted to the extent that separation from the host agreement and fair valuing of these "embedded derivatives" is required.

Disclosure differences between Spanish GAAP and U.S. GAAP

In addition to the above summary of significant differences between Spanish GAAP and U.S. GAAP which may effect consolidated income and total shareholders equity there are a number of disclosure differences Compared to Spanish GAAP, the financial statement disclosures required under U.S. GAAP are generally more comprehensive in many areas, including pensions, derivatives, segment information, earnings per share, stock options, etc. No attempt has been made to identify all disclosure differences or future disclosure differences as the result of prescribed changes in accounting standards. In addition, this description is not intended to address all differences in presentation, including classification, disclosure and display of financial information contained in this offering circular.

Extraordinary income and expenses

Spanish GAAP

The Group has recorded certain revenues and expenses as extraordinary in the income statement. Items included in extraordinary items generally include gains or loss on disposal of fixed assets and investments, unusual profit and loss items and prior year items recorded in the current year.

U.S. GAAP

These extraordinary revenue and expense items would not have been classified as extraordinary items but would have been included in the determination of operating results.

Under U.S. GAAP only extraordinary items, defined as those material items which derive from events or transactions that are both unusual and infrequent would be included. Extraordinary items are presented separately on the face of the income statement net of taxes.

Capital grants

Spanish GAAP

The Group has received capital grants from European Union, Spanish and Regional governmental entities to subsidize certain fixed asset investments. These capital grants are recorded as “Deferred Income” when earned if there is no remaining risk of repayment. These is no remaining risk of repayment when the grant conditions are met or when there is no doubt that these conditions will be met in the future. The grants are amortized on a straight-line basis in accordance with the estimated useful life of the related fixed asset as operating income.

U.S. GAAP

The U.S. GAAP treatment is similar to the foregoing except that it is also acceptable under U.S. GAAP to reduce depreciation expense by the amount of the grant amortized in the year.

Statement of comprehensive income

Spanish GAAP

A statement of comprehensive income is not required.

U.S. GAAP

A statement of comprehensive income is required to be presented under U.S. GAAP and is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in shareholders’ equity during a period except those resulting from investments by owners and distribution to owners.

Other comprehensive income refers to revenues, expenses, gains, and losses that under U.S. GAAP are included in comprehensive income but excluded from net income: e.g. currency translation adjustments, and unrealized gains or losses on certain investments in debt and equity securities.

Earnings per share

Spanish GAAP

This is not required under Spanish GAAP.

U.S. GAAP

For listed companies, presentation of basic and diluted earnings per share on the face of the profit and loss statement is required.

Statement of income

The format and the level of disclosure follows local regulations and is much more comprehensive under Spanish GAAP. These are significantly different from those required under U.S. GAAP.

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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (*)

To the Shareholders of Enagas, S.A.

We have audited the accompanying consolidated financial statements of Enagas, S.A. and associated companies, consisting of the consolidated balance sheet as at 31 December 2001, the consolidated profit and loss account and the related notes for the year then ended, the preparation of which is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the consolidated financial statements and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In our opinion, the accompanying consolidated financial statements for the year 2001 present fairly, in all material respects, the consolidated financial position of Enagas, S.A. and associated companies as at December 31, 2001 and the consolidated results of its operations and its consolidated source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain.

PricewaterhouseCoopers Auditores, S.L.

José Luis Fernández Baños
Partner

April 30, 2002

(*) A free translation of the report on the consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

PricewaterhouseCoopers Auditores, S. L.—R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3°
lnscrita en el R.O.A.C. con el número SO242 • CIF: B-79 031290

A free translation of the consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

ENAGAS GROUP

CONSOLIDATED BALANCE SHEET

As at 31 December 2001
(Expressed in thousands of euro)

	2001
ASSETS	
Fixed assets	2,310,870
Start up expenses (Note 3)	42
Intangible fixed assets (Note 4)	5,671
Research and development expenses	11,827
Concessions, patents, licences, trademarks and similar items	4,752
Computer software	3,802
Accumulated depreciation	(14,710)
Tangible fixed assets (Note 5)	2,261,184
Land and buildings	72,731
Plant and machinery	2,727,548
Fixtures, fittings, tools and equipment	9,628
Prepayments and fixed assets in course of construction	350,523
Other fixed assets	19,246
Provisions	(12,732)
Accumulated depreciation	(905,760)
Investments (Note 6)	43,973
Loans to Group companies	28,958
Shareholdings in associated companies	—
Loans to associated companies	7,488
Long-term securities portfolio	1,320
Other loans	572
Long term deposits and guarantees	617
Provisions	(312)
Deferred taxes (Note 15)	5,330
Deferred expenses (Note 7)	19,898
Current assets	423,814
Inventories (Note 8)	8,120
Raw materials and other consumables	8,120
Debtors	408,736
Trade debtors for sales and services rendered	27,334
Accounts receivable from Group companies (Note 9)	343,911
Accounts receivable from Associated companies (Note 9)	32,326
Other accounts receivable	2,730
Loans to employees	351
Public institutions	3,633
Provisions	(1,549)
Current asset investments	1,947
Loans to Group companies	1,524
Loans to associated companies	423
Cash in hand and at bank	4,102
Prepayments	909
TOTAL	2,754,582

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

ENAGAS GROUP

CONSOLIDATED BALANCE SHEET

As at 31 December 2001
(Expressed in thousands of euro)

	2001
LIABILITIES	
Shareholders' equity (Note 10)	779,643
Share capital	358,705
Revaluation reserve	342,505
Legal reserve	46,988
Voluntary reserve	15,942
Reserves in companies consolidated using the proportional method	(741)
Reserves in consolidated companies in special situation	—
Consolidated profit and loss account	117,844
Interim dividend paid (Note 10)	(101,600)
Deferred income (Note 11)	479,553
Capital grants	410,579
Other deferred income	68,974
Provisions for liabilities and charges (Note 12)	1,290
Other provisions	1,290
Long-term debt	985,513
Bank loans (Note 13)	78,612
Amounts owned to Group and associated companies (Note 14)	904,352
Amounts owned to Group companies	904,352
Other creditors	2,549
Deferred taxes (Note 15)	2,549
Current liabilities	508,583
Bank loans (Note 13)	83,383
Amounts owned to Group and associated companies	322,711
Amounts owned to Group companies (Note 14)	322,711
Trade creditors	85,231
Creditors for purchases or services received	85,231
Other creditors	17,258
Taxes and Social Security contributions	5,667
Other creditors	814
Accrued wages and salaries	762
Short-term deposits and guarantees received	10,015
TOTAL	2,754,582

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

ENAGAS GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001
(Expressed in thousands of euro)

	2001
EXPENSES	
Supplies (Note 17)	2,032,094
Consumption of goods purchased for resale	2,978
Consumption of raw materials and consumable materials	2,026,266
Other external expenses	2,850
Personnel costs (Note 18)	47,143
Wages, salaries and similar remuneration	33,818
Social Security expenses	13,325
Fixed asset depreciation	111,308
Other operating expenses (Note 19)	136,884
External services	135,314
Taxes	1,570
Operating profit	138,113
Financial and similar expenses	43,356
Exchange losses	50
Net financial income	—
Profit from ordinary activities	98,082
Changes in provisions for intangible and tangible fixed assets and controlling shareholdings	528
Losses on disposal of intangible and tangible fixed assets and controlling shareholdings	413
Extraordinary expenses	2,966
Prior-year expenses and losses	1,041
Net extraordinary profit (Note 21)	60,223
Profit before taxes	158,305
Corporate income tax (Note 15)	40,461
Profit for the year	117,844

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

ENAGAS GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001
(Expressed in thousands of euro)

	2001
INCOME	
Net turnover (Note 16)	2,414,258
Sales	2,239,412
Services rendered	174,846
Own work capitalised	199
Other operating income	51,085
Other income	32,895
Capital grants	18,190
Income from shareholdings	311
Income from negotiable securities and investments	2,312
Other interest and similar income	667
Exchange gains	85
Financial income/(Expense)	40,031
Profit on disposal of intangible and tangible fixed assets and controlling shareholdings	3,420
Extraordinary income	61,751
Extraordinary loss	—

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

ENAGAS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2001
(Expressed in thousands of euro)

1. Basis of presentation and consolidation principles

a) Basis of presentation

The consolidated financial statements of the Enagas Group were prepared from the accounts of Enagas, S.A. and the consolidated companies as at 31 December 2001 and in accordance with the provisions of the Spanish General Accounting Plan and the consolidation rules. All Group companies end their financial year on 31 December.

The figures set out in the consolidated balance sheet, consolidated profit and loss account and these notes to the consolidated financial statements are stated in thousand of euro (T€).

In accordance with the provisions of the Hydrocarbons Act 34/1998 (7 October 1998) and Royal Decree-Law 6/2000 (23 June 2000), on 30 October 2000 the General Meeting of Enagas, S.A. approved the partial spin-off plans affecting the economic units engaged in the supply of gas and real estate rental pertaining to Enagas, S.A. as at 30 June 2000. These economic units became part of Gas Natural SDG, S.A., majority shareholder in the Company, effective 1 July 2000.

As a consequence of the above-mentioned operations carried out within the framework of Law 34/1998 and Royal Decree-Law 6/2000, the consolidated financial statements for 2001 are not comparable with the accounts for the previous year.

b) Consolidation principles applied to the consolidated financial statements

Investee companies of Enagas, S.A., included within the scope of consolidation are set out below:

Company	**% Shareholdings**
Gasoducto Al-Andalus, S.A. (Spain)	66.96
Gasoducto Extremadura, S.A. (Spain)	51.00
Gasoducto Campo Maior-Leiria-Braga, S.A. (Portugal)	12.00
Gasoducto Braga-Tuy, S.A. (Portugal)	49.00

All the companies mentioned above have as their only activity the transportation of natural gas.

The Company records other direct and indirect shareholdings that have not been included in the consolidation process at cost as they are deemed insignificant with respect to presenting a true and fair view of the consolidated financial statements (see Note 6).

The consolidation was carried out as follows:

— The proportional integration method has been used for multi-group companies, Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. managed jointly with Transgas, S.A. (a Portuguese company).

— Transactions between consolidated companies

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

— Consistency

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

— Translation of financial statements denominated in foreign currencies

All the companies included in the scope of consolidation prepare their accounts in euro and therefore effective January 1, 1999 no foreign currency translation process has been necessary.

2. Accounting principles

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

a) Start up expenses

Formation, start-up and capital increase expenses for Gasoductos Al-Andalus, S.A. and Extremadura, S.A are recorded at cost and amortised over a period of five years, except Gasoducto Braga-Tuy, S.A. where a four year period is used.

b) Intangible fixed assets

Intangible fixed assets (including research and development expenses) are stated at their acquisition or production cost and amortised on a straight-line basis over five years, except for administrative concessions that are amortised over the concession period.

c) Tangible fixed assets

Tangible fixed assets are stated at acquisition or production cost, except for any restatement arising as a result of the fixed asset revaluation conducted by Enagas, S.A. in 1996 pursuant to Royal Decree-Law 7/1996.

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation rates applied are as follows:

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

d) Investments

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

e) Deferred expenses

Under deferred expenses Enagas, S.A. includes payments that fall due in future years and are taken to profit and loss in the year concerned. Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. record the gas transportation rights and related financial expenses that are directly related, which are amortised at 4.35% per year.

f) Inventories

The raw material, liquefied gas, is stated at acquisition price in accordance with the FIFO (first in first out) method, which results in a value equal to or lower than market value. Other consumables are stated at average acquisition cost, also resulting in a value which is equal to or lower than market value.

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

g) Trade and non-trade accounts receivable

Accounts receivable, regardless of whether or not they arise in the normal course of business, are recorded at their nominal value and classified as short or long-term depending on whether they fall due within or after more than one year.

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

h) Reserves in companies consolidated using the proportional method

These reserves relate to the difference between the book value of the interest held in the consolidated companies and their theoretical book value (net equity).

i) Deferred income

Capital grants are recorded at the amount received and allocated to income on a straight-line basis over the useful life of the fixed assets they finance.

In order to give a true and fair view, capital grants allocated to profit and loss for the year are recorded under Other operating income in order to provide a correlation with the depreciation charged on related assets.

Other deferred income includes prepayments received under gas transport contracts which are credited to income over the term of the contract.

j) Pension fund

The external pension fund was set up in accordance with the pension plan approved by Enagas, S.A. which was adapted to the requirements of the Spanish Law on pension plans and funds. It is a defined contribution plan covering the commitments of 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 monthly salary amounts. It is a mixed plan covering retirement benefits, disability and death. The charge in the profit and loss account of 2001 for this item amounts to T€1,789.

k) Other provisions

This caption includes the provisions for contingencies and expenses relating to probable or certain liabilities. Provisions are made when such circumstances arise based on the estimated amount of the contingencies involved.

l) Corporate income tax

The consolidated profit and loss account records the corporate income tax expense for each of the consolidated companies. The calculation includes the tax accruing during the year, the effect of the deferral of timing differences between the tax base and reported profits before taxes that reverse in subsequent years and any tax credits or deductions to which the Company is entitled.

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

m) Income and expense

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

Sales of natural gas are recorded based on billings for consumption. Consumption of gas distribution companies is recorded through monthly readings of their meters.

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

(Expressed in thousands of euro)

n) Exchange differences

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

3. Start up expenses

The amounts and variances arising in the items included under this heading are set out below:

	Balance as at 01.01.01	Amortisation	Balance as at 31.12.01
		Thousands of euro	
Formation expenses	219	(182)	37
Share capital increase expenses	25	(20)	5
	244	(202)	42

4. Intangible fixed assets

The amounts and variances arising in the items included under this heading are set out below:

	Balance as at 01.01.01	Increases	Transfers	Balance as at 31.12.01
		Thousands of euro		
Research and development expenses	10,424	1,403	—	11,827
Concessions, patents, licences, trademarks and similar items	4,397	21	334	4,752
Computer software	2,042	1,760	—	3,802
Accumulated amortisation	(12,654)	(2,056)	—	(14,710)
	4,209	1,128	334	5,671

5. Tangible fixed assets

The amounts and variances recorded for the items making up tangible fixed assets are as follows:

	Balance as at 01.01.01	Increases	Decreases	Transfers	Balance as at 31.12.01
			Thousands of euro		
Land and buildings	70,486	2,934	(689)	—	72,731
Plant and machinery	2,539,986	79,628	(10,023)	117,957	2,727,548
Fixtures, fittings, tools and equipment	9,008	620	—	—	9,628
Prepayments and fixed assets in course of construction	357,920	126,419	(15,574)	(118,242)	350,523
Other fixed assets	17,608	1,744	(57)	(49)	19,246
Provisions	(13,260)	(792)	1,320	—	(12,732)
Accumulated amortisation	(794,924)	(111,016)	180	—	(905,760)
	2,186,824	99,537	(24,843)	(334)	2,261,184

(Expressed in thousands of euro)

Increases include the purchase of natural gas transport assets from Gas Natural SDG, S.A. for T€13,782. Decreases include the sale to Gas Natural SDG, S.A. of certain distribution gas pipelines for T€2,940 and the sale of fibre-optic cable to Desarrollo del Cable, S.A. for T€6,142.

The restatement of tangible fixed assets by Enagas, S.A. in accordance with the provisions of Royal Decree Law 7/1996 (7 June 1996) will cause an increase of T€17,606 in the fixed asset depreciation charge for 2002.

Movements in restated tangible fixed assets are set out below:

	Thousands of euro
Balance as at 1 January 2001	267,599
Disposals	(54)
Depreciation charge for the year	(19,283)
Balance as at 31 December 2001	248,262

Plant and machinery includes non-extractable gas assets located in subterranean natural gas fields totalling T€118,720.

Financial costs for the year relating to infrastructure projects under construction amount to T€7,341 and T€265 and relate to the difference between assets acquired and assets transferred to Gas Natural SDG., S.A. at 31 December 2001, which represented an increase in the cost of tangible assets in the amount of T€140,648.

The increases of T€111,016 in accumulated amortization relates to the accumulated amortization of T€109,050 for 2001 plus the T€1,966 accumulated amortization for transport assets acquired from Gas Natural SDG, S.A.

The Company has obtained insurance policies it deems necessary to cover all reasonable risks that could affect tangible fixed asset items.

6. Investments

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

	Balance as at 01.01.01	Increases	Decreases	Balance as at 31.12.01
		Thousands of euro		
Loans to Group companies	31,256	2,344	(4,642)	28,958
Shareholdings in associated companies	34,175	—	(34,175)	—
Loans to associated companies	8,552	357	(1,421)	7,488
Long-term securities portfolio	767	553	—	1,320
Other loans	1,340	128	(896)	572
Long-term deposits and guarantees	220	421	(24)	617
Deferred taxes	8,999	470	(4,139)	5,330
Provisions	(312)	—	—	(312)
	84,997	4,273	(45,297)	43,973

The reduction in shareholdings in associated companies relates to the sale of the shareholding in Gas de Euskadi, S.A. for T€34,175.

(Expressed in thousands of euro)

Loans to Group companies fall due in 2011 and bear market interest rates (using Euribor). The balances relate to the interest held by Transgas, S.A. in the loans to Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.

The provisions, which have shown no movement, relate exclusively to the provision for the 8% investment held in the company Iran Gas Europe.

7. Deferred expenses

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

	Balance as at 01.01.01	Decreases	Balance as at 31.12.01
	Thousands of euro		
Enagas, S.A.	634	(67)	567
Gasoducto Campo Maior-Leiria-Braga, S.A.	12,445	(625)	11,820
Gasoducto Braga-Tuy, S.A.	7,921	(410)	7,511
	21,000	(1,102)	19,898

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

The balance for Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. records the prepayment in advance by these companies to Transgas, S.A. of gas transportation rights and the related financial expenses.

8. Inventories

Inventories at 31 December 2001 relate mainly to materials used for the maintenance of the regasification plants and gas pipeline networks.

In 2001 all natural gas inventories located in subterranean fields were sold to Gas Natural SDG., S.A. for a total of T€152,599.

9. Debtors

The items Accounts receivable from Group and Associated companies relate basically to the sale of natural gas by Enagas, S.A. to Group companies Gas Natural and Gas de Euskadi, S.A. respectively.

(Expressed in thousands of euro)

10. Shareholders' equity

The amounts of the accounts in this heading and movements are as follows:

	Balance as at 01.01.01	Distribution of 2000 profit/(loss)	Other	Profit for the year	Dividend paid in 2001	Balance as at 31.12.01
			Thousands of euro			
Share capital	358,705	—	—	—	—	358,705
Revaluation reserve	342,505	—	—	—	—	342,505
Legal reserve	34,473	12,515	—	—	—	46,988
Voluntary reserve	4,099	—	11,843	—	—	15,942
Consolidated reserves (proportional method)	(1,281)	386	154	—	—	(741)
Consolidated reserves in special situation	(3,782)	15,625	(11,843)	—	—	—
Consolidated profit and loss account	141,166	(141,166)	—	117,844	—	117,844
Interim dividend paid	—	—	—	—	(101,600)	(101,600)
	875,885	(112,640)	154	117,844	(101,600)	779,643

Share capital consists of 11,936,713 ordinary bearer shares with a par value of 30.050605 euro each, all fully paid in and bearing the same voting and dividend rights.

Share capital is entirely held by Gas Natural SDG, S.A., except for one share owned by La Propagadora del Gas, S.A.

On 10 December 2001 the Company's Board of Directors approved the payment of an interim dividend of T€101,600, on account of the final profit for 2001. In addition, during the year a dividend totalling T€112,640 approved against 2000 profits was paid out.

The revaluation reserve that has been approved by the tax authorities is not available for distribution. The balance of the Revaluation Reserve (Royal Decree Law 7/1996) may be used to offset losses, increase share capital or, after 31 December 2006, it can be transferred to unrestricted reserves under certain conditions.

The legal reserve is not available for distribution. In accordance with the Spanish Business Corporation Law 10% of the profit recorded in annual accounts must be appropriated to the legal reserve until the balance in the account reaches 20% of the share capital. Except for the issue mentioned above, and until the legal reserve has reached 20% of the share capital, this reserve may be used only to offset losses, in the event that no other reserves are available.

Reserves in companies consolidated using the proportional method as at 31 December 2001 relate basically to the following:

	Thousands of euro
—Enagas, S.A.	1,388
—Reserves contributed by Sociedad de Gas de Euskadi, S.A. which shareholdings was sold during 2001	14,554
Balance as at 31 December 2001	15,942

(Expressed in thousands of euro)

11. Deferred income

Deferred income mainly relates to capital grants received totalling T€410,579 and prepayments received for gas transport contracts, relating to the shareholding held by Transgas, S.A. in Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A., in the amount of T€68,974.

12. Provisions for liabilities and charges

The balance in this heading as at 31 December 2001 relates to provisions made for probable liabilities arising from identified contingencies.

Movements for the year are as follows:

	Thousands of euro
Balance as at 1 January 2001	60,119
Provision for the year	529
Application in the year (Note 21)	(59,358)
Balance as at 31 December 2001	1,290

13. Long term debts

These items break down as follows:

	Long term	Short term
	Thousands of euro	
Enagas, S.A. credit facilities and bank loans	78,612	78,563
Gasoducto Braga-Tuy, S.A. credit facilities and bank loans	—	4,349
Accrued interest	—	471
	78,612	83,383

Long-term loans and credit facilities accrue interest at market rates (using Euribor and Libor) and are due as follows:

	Thousands of euro
2003	8,629
2004	8,629
2005	8,629
2006	8,629
2007	8,629
In more than five years	35,467
	78,612

At 31 December 2001, the Group also had credit lines amounting to T€155,838 that had not been utilised.

(Expressed in thousands of euro)

14. Short and long-term amounts owed to Group companies

These items break down as follows:

	Long term Thousands of euro
Loan Gas Natural SDG, S.A. to Enagas, S.A.	862,069
Loan Transgas, S.A. to Gasoducto Al-Andalus, S.A.	21,071
Loan Transgas, S.A. to Gasoducto Extremadura, S.A.	14,530
Loan Transgas, S.A. to Gasoducto Campo Maior-Leiria-Braga, S.A.	6,682
	904,352

The loan granted to Enagas, S.A. by Gas Natural SDG, S.A., in the amount of T€862,069, bears interest at market rates (using Euribor) and are due in 2003.

The other long-term loans outstanding are the ones with Transgas, S.A. which bear interest at market rates (using Euribor) and are due in 2011.

The short term portion of amounts due to Group companies corresponds to debt relating to commercial transactions.

15. Tax situation

Enagas, S.A. is included in the Gas Natural Consolidated Tax Group. In 2001 the consolidated Group included Gas Natural SDG, S.A.; Gas Natural Cegas, S.A.; Gas Natural Castilla y León, S.A.; Gas Natural Castilla-La Mancha, S.A.; Gas Natural Informática, S.A.; Compañía Auxiliar de Industrias Varias, S.A.; Gas Natural Andalucía, S.A.; Gas Natural Extremadura, S.A.; Equipos y Servicios, S.A.; Gas Natural Servicios SDG, S.A.; Gas Natural Internacional SDG, S.A.; Holding Gas Natural, S.A.; La Propagadora del Gas, S.A.; La Energía, S.A.; Sagane, S.A.; Gas Natural Murcia SDG, S.A.; Gas Natural Cantabria SDG, S.A.; Gas Natural Latinoamericana, S.A.; Desarrollo del Cable, S.A.; Gas Natural Electricidad SDG, S.A.; Gas Natural Comercializadora, S.A.; Gas Natural Aprovisionamientos SDG, S.A. and Gas Natural Trading SDG, S.A.

The companies Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are taxed under the individual tax return system.

In 2001, the Spanish tax authorities completed their audit of the corporate income tax returns for the period 1995 to 1998 for Enagas, S.A. As a result of this audit a tax assessment was issued amounting to T€8,469 which has been appealed by the Company. The consolidated Group has made a provision for this tax assessment. The remaining taxes are open to inspection for the periods that have not become statute-barred.

In January 2002 the Group received notification of a tax inspection of Gasoducto Al-Andalus, S.A. in relation to value added tax and personal income tax for the years 1998 and 1999 and corporate income tax for 1997, 1998 and 1999 and this company's tax returns for all the years that have not become statute-barred are open to inspection.

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

(Expressed in thousands of euro)

Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are open to inspection for all taxes relating to 1997 to 2001, inclusive.

On 22 May 2001, the Judicial Review Division of the Supreme Court delivered a judgment on the appeal against the assessment raised in 1990 by the tax inspectorate in relation to sale tax for 1984 and 1985, ruling against the decision of 19 December 1995. As a result, the provision recorded at 31 December 2000 of T€59,358 (Note 12) was reversed and taken to profit and loss under Extraordinary items (Note 21).

Corporate income tax expense as at 31 December 2001 breaks down as follows:

	Thousands of euro
Company	
Enagas, S.A.	37,102
Gasoducto Al-Andalus, S.A.	2,060
Gasoducto Extremadura, S.A.	716
Gasoducto Campo Maior-Leiria-Braga, S.A.	338
Gasoducto Braga-Tuy, S.A.	245
	40,461

The reconciliation of the difference between the reported unconsolidated profits of Enagas, S.A. and the initial tax base (taxable income) is set out below:

	Thousands of euro
Reported profit before taxes	167,818
Permanent differences	
• Tax assessment 1995-1998	2,964
• Positive judgment in relation to sales tax	(41,490)
• Other	10
Timing differences	
• Accelerated depreciation	(120)
• Other	(6,359)
Initial tax base (taxable income)	122,823

Tax credits for double taxation applied to the tax base in 2001 amount to T€7,517 in Enagas, S.A.

For the rest of the consolidated companies the differences applied to the Group between the individual reported profit and the taxable income are as follows:

	Gasoducto Al-Andalus, S.A.	Gasoducto Extremadura, S.A.	Gasoducto Campo Maior-Leiria-Braga, S.A.	Gasoducto Braga-Tuy, S.A.
	Thousands of euro			
Reported profit	5,886	2,283	965	700
Prior years expenses	—	(238)	—	—
Initial tax base (taxable income)	5,886	2,045	965	700

(Expressed in thousands of euro)

At the year end a total of T€20, 635 in corporate income tax was paid by Enagas, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A.

The balances and variances in prepaid/deferred corporate income tax are set out below:

	Balance as at 01.01.01	Variation	Balance as at 31.12.01
	Thousands of euro		
Deferred tax asset			
• Provisions	3,383	(3,383)	—
• Capital grants	2,285	(176)	2,109
• Other	3,331	(110)	3,221
	8,999	(3,669)	5,330
Deferred tax liability			
• Provisions	2,767	(218)	2,549
	2,767	(218)	2,549

16. Net turnover

Details of net turnover are as follows:

	Thousands of euro
Sales of natural gas	2,237,398
Third party access income	174,846
Other sales	2,014
	2,414,258

Gas sales relate entirely to those made by Enagas, S.A. Third party access income breaks down as follows:

	Thousands of euro
Company	
Enagas, S.A.	165,728
Gasoducto Al-Andalus, S.A.	5,693
Gasoducto Extremadura, S.A.	1,238
Gasoducto Campo Maior-Leiria-Braga, S.A.	2,141
Gasoducto Braga-Tuy, S.A.	46
	174,846

17. Supplies

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

(Expressed in thousands of euro)

18. Personnel costs

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

Executives	41
Technicians	335
Administrative staff	128
Workers	349
	853

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

19. Other operating expenses

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

20. Contribution of Group companies to consolidated results

A breakdown is as follows:

	Contribution of Group companies to consolidated results
	Thousands of euro
Enagas, S.A.	111,130
Gasoducto Al-Andalus, S.A.	4,040
Gasoducto Extremadura, S.A.	1,597
Gasoducto Campo Maior-Leiria-Braga, S.A.	621
Gasoducto Braga-Tuy, S.A.	456
	117,844

21. Extraordinary profit

The extraordinary profit mainly corresponds to the elimination of T€59,358 of the existing provision as at 31 December 2000 as further described in Note 15. This amount is included as extraordinary income.

(Expressed in thousands of euro)

22. Transactions with Group companies

During 2001, the most significant transactions carried out with companies of the Gas Natural Group are as follows:

	Thousands of euro
Income	
Gas sales	2,181,348
Rent of subterranean field of Serrablo	10,566
Maintenance of fibre optics for Desarrollo del Cable, S.A.	2,080
	2,193,994
Expenses	
Gas purchases	1,933,148
Rent from minimum strategic reserves (35 days)	8,961
Interest on loans from Gas Natural, SDG, S.A.	39,100
Rent and maintenance of fibre optics for Desarrollo del Cable, S.A.	14,596
Corporate fees with Gas Natural SDG, S.A.	14,318
Computer fees	6,786
	2,016,909

23. Other information

On 31 August 2001, in accordance with the provisions of Article 10 of Royal Decree-Law 6/2000 (23 June 2000) on emergency measures to encourage competition in the goods and services market, the government commission for economic issues approved Enagas, S.A.'s action plan to allow the entry of new shareholders. The Company and its shareholders are bound by the main terms and time frames contained in the plan and a shareholding in Enagas, S.A. held by a company or group of companies must not exceed 35%.

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

Royal Decree 949/2001 which regulates third-party access to gas installations and establishes an integrated economic regime for the natural gas industry, has established the remuneration of regulated activities, general criteria for calculating and structuring tariffs, tolls and royalties, a cost-based tariff system and a settlement procedure. This Royal Decree is pending development through the appropriate ministerial order.

In 2001, remuneration accrued and loans granted to the Enagas, S.A. Board amounted to T€924 and T€122, respectively.

Enagas, S.A. obligations with respect to pension payments for members of the Board stand at seven thousand euro. The Company does not provided life insurance policies for its Directors.

At 31 December 2001 gas transportation rights amount to 1,432,330,000 thousand therms for the period 2002 to 2020. All contracts include "ship or pay" clauses.

Enagas, S.A. has furnished a guarantee of T€8,885 for the loan Banco Santander Central Hispano, S.A. has granted to Gasoducto Braga-Tuy, S.A.

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

24. Subsequent events

On 15 February 2002 the Ministry of Economy approved three ministerial orders on tariffs, tolls, royalties and remuneration for regulated activities in the gas industry. These orders were published in the Official State Gazette on 18 February and also establish the remuneration for 2002 for all companies engaged in regasification, storage, transport or distribution activities, as well as the formulae and criteria for updating remuneration in coming years.

Decisions to be approved by the General Shareholders' Meeting relating to the proposed sale of Enagas, S.A. shares

The Board of Directors will propose to the Extraordinary General Shareholders' Meeting of Enagas, S.A. to be held on 3 May 2002 to adopt the following resolutions, inter alia, in order to prepare the Company to its future condition as a listed company:

— Agreements about Share capital, by-laws and listing: reduce the Company's share capital in order to round off the par value of its shares to €30, transferring the amount of the reduction to reserves and to change the par value of the Company's shares from €30 to €1.5, with their multiplication by 20, without changing the total figure for share capital; by-laws modifications as a consequence of the rounding in par value, share capital split, and transformation of the certificates representing shares into book entries, application for the official listing of all shares representing the share capital of Enagas, S.A. on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and their inclusion in the Spanish stock exchange network.

— Agreements about authorisations and delegation to the Board of Directors: authorisation to the Board of Directors to acquire its own shares within a period of 18 months; delegating to the Board of Directors powers to issue fixed rate bonds and debentures up to an amount of €2,000 million, and to increase share capital by a maximum amount of €179 million within five years.

(Expressed in thousands of euro)

25. Consolidated statement of source and application of funds

	2001
APPLICATIONS	
Acquisition of fixed assets	
Intangible fixed assets	3,184
Tangible fixed assets	209,379
Investments	4,273
Dividends	214,240
Reduction in creditors due after one year	155,268
Total applications	586,344
SOURCES	
Funds generated from operations	216,751
Capital grants	28,583
Other reserves	154
Total sources	245,488
Excess of applications over sources (reduction in working capital)	340,856
	586,344

	2001	
	Increases	Decreases
	Thousands of euro	
Changes in working capital		
Debtors	32,788	—
Creditors	—	288,903
Inventories	—	87,245
Current investments	—	720
Cash in hand and at banks	3,004	—
Prepayments	220	—
	36,012	376,868
Decrease in working capital	—	340,856

	2001
Funds generated from operations	
Profit for the year	117,844
Depreciation/amortisation	111,308
Deferred expenses	1,102
Deferred income	(25,606)
Net application of the provision for liabilities and charges	(58,829)
Disposals of tangible fixed assets	26,163
Disposals of investments	45,297
Change in provision for tangible fixed assets	(528)
Funds generated from operations	216,751

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A free translation of the pro forma consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

ENAGAS GROUP

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As at 31 December 2000 and 1999
(Expressed in thousands of euro)

	2000	1999
ASSETS		
Fixed assets	2,238,715	2,141,854
Start up expenses (Note 2)	244	456
Intangible fixed assets (Note 3)	4,209	4,758
Research and development expenses	10,424	8,410
Concessions, patents, licenses, trademarks and similar items	4,397	4,357
Computer software	2,042	2,042
Amortisation depreciation	(12,654)	(10,051)
Tangible fixed assets (Note 4)	2,186,824	2,083,282
Land and buildings	70,486	68,899
Plant and machinery	2,539,986	2,456,786
Fixtures, fittings, tools and equipment	9,008	8,396
Prepayments and fixed assets in course of construction	357,920	268,116
Other fixed assets	17,608	17,769
Provisions	(13,260)	(10,158)
Accumulated depreciation	(794,924)	(726,526)
Investments (Note 5)	47,438	53,358
Loans to Group companies	39,808	44,433
Long-term securities portfolio	767	1,781
Other loans	1,340	1,371
Long-term deposits and guarantees	220	221
Provisions	(312)	(312)
Public institutions—long term (Note 14)	5,615	5,864
Deferred expenses (Note 6)	21,000	22,103
Current assets	388,253	295,074
Inventories (Note 7)	7,850	7,872
Raw materials and other consumables	7,841	6,836
By-products, scrap and reusable material	9	1,036
Debtors	375,949	277,603
Trade debtors for sales and services rendered	27,671	15,327
Accounts receivable from Group companies (Note 8)	327,399	240,540
Accounts receivable from Associated companies (Note 8)	21,101	16,436
Other accounts receivable	1,200	3,573
Loans to employees	—	374
Deferred taxes	127	2,902
Provisions	(1,549)	(1,549)
Current asset investments	2,667	1,766
Loans to Group companies	2,305	1,766
Short-term securities portfolio	362	—
Cash in hand and at bank	1,098	7,044
Prepayments	689	789
TOTAL	2,647,968	2,459,031

The accompanying notes 1 to 23 form an integral part of these unaudited pro forma consolidated financial statements.

ENAGAS GROUP

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As at 31 December 2000 and 1999
(Expressed in thousands of euro)

	2000	1999
LIABILITIES		
Shareholders' Equity (Note 9)	807,488	1,212,836
Share capital	358,705	358,705
Revaluation reserve	342,505	342,505
Legal reserve	34,473	23,835
Voluntary reserve	18,652	401,683
Reserves in companies consolidated using the proportional method	(1,281)	(8,616)
Consolidated profit and loss account	54,434	94,724
Deferred income (Note 10)	476,574	448,151
Capital grants	400,174	363,383
Other deferred income	76,400	84,768
Provisions for liabilities and charges (Note 11)	60,119	58,774
Provisions for taxes	59,358	57,747
Other provision	761	1,027
Long term debt	1,121,758	490,963
Bank loans (Note 12)	85,344	108,240
Amounts owed to Group companies (Note 13)	1,033,647	380,062
Amounts owed to Group companies	1,033,647	380,062
Other creditors	2,767	2,661
Public institutions—long term (Note 14)	2,767	2,661
Current liabilities	182,029	248,307
Bank loans (Note 12)	30,719	14,282
Amounts owed to Group and associated companies	33,042	124,134
Amounts owed to Group companies (Note 13)	33,042	123,901
Amounts owed to associated companies	—	233
Trade creditors	97,065	88,668
Creditors for purchases or services received	97,065	88,668
Other creditors	21,203	21,223
Taxes and Social Security contributions	10,202	9,449
Other creditors	695	1,505
Accrued wages and salaries	1,114	1,280
Short-term deposits and guarantees received	9,192	8,989
TOTAL	2,647,968	2,459,031

The accompanying notes 1 to 23 form an integral part of these unaudited pro forma consolidated financial statements.

ENAGAS GROUP

UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the years ended 31 December 2000 and 1999
(Expressed in thousands of euro)

	2000	1999
EXPENSES		
Supplies (Note 16)	2,356,313	1,157,952
Consumption of goods purchased for resale	4,741	116
Consumption of raw and consumable materials	2,349,550	1,153,446
Other external expenses	2,022	4,390
Personnel costs (Note 17)	42,330	43,002
Wages, salaries and similar remuneration	30,146	30,300
Social Security expenses	12,184	12 702
Fixed asset depreciation	109,242	107,730
Variation in trade provisions	—	10
Other operating expenses (Note 18)	123,172	91,214
External services	121,690	90,178
Taxes	1,482	1,036
Operating profit	103,612	139,832
Financial and similar expenses	26,114	11,465
Changes in provisions for investments	—	(203)
Exchange losses	688	212
Net financial income	—	—
Profit from ordinary activities	85,103	135,567
Change in provisions for intangible and tangible fixed assets and controlling shareholdings	1,951	(564)
Losses on disposal of intangible and tangible fixed assets and controlling shareholdings	75	1
Extraordinary expenses	77	171
Prior-year expenses and losses	—	8
Extraordinary profit	—	6,881
Profit before taxes	83,822	142,448
Corporate income tax (Note 14)	29,388	47,724
Profit for the year	54,434	94,724

The accompanying notes 1 to 23 form an integral part of these unaudited pro forma consolidated financial statements.

ENAGAS GROUP

UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the years ended 31 December 2000 and 1999
(Expressed in thousands of euro)

	2000	1999
INCOME		
Net turnover (Note 15)	2,662,983	1,500,214
Sales	2,607,063	1,488,519
Services rendered	55,920	11,695
Own work capitalised	247	279
Other operating income	71,439	39,247
Other income	54,631	24,643
Capital grants	16,808	14,604
Income from shareholdings	402	824
Income from negotiable securities and investments	2,067	485
Other interest and similar income	5,389	5,109
Exchange gains	435	791
Net financial expense	18,509	4,265
Profit on disposal of intangible and tangible fixed assets and controlling shareholdings	14	5,926
Extraordinary income	688	3
Prior year income and profits	120	568
Extraordinary loss	1,281	—

The accompanying notes 1 to 23 form an integral part of these unaudited pro forma consolidated financial statements.

ENAGAS GROUP

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2000 and 1999
(Expressed in thousands of euro)

1. Assumptions applied when preparing the pro forma consolidated financial statements as at 31 December 2000 and 1999

1.1 Basis of presentation

The following was carried out to prepare the pro forma consolidated financial statements:

—The audited unconsolidated annual accounts of Enagas, S.A. as at 31 December 2000 and 1999 were adjusted with respect to the effects of eliminating the spin-off and other operations carried out by the Company in 1999 and 2000 as indicated in points 1.2 and 1.3 below.

—The resulting financial statements for Enagas, S.A., after the adjustments for the above-mentioned operations, were consolidated in accordance with Spanish consolidation legislation with the audited annual accounts as at 31 December 2000 and 1999 for the investee companies Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.

The figures set out in the pro forma consolidated balance sheet, pro forma consolidated profit and loss account and these notes to the pro forma consolidated financial statements are stated in thousand of euros (T€).

1.2 Spin-offs

In 2000 the General Shareholder's Meeting of Enagas, S.A. held on 30 October 2000 approved the partial spin-off of the Company's economic units engaged in gas supply and real estate rental as at 30 June 2000. These economic units then became part of Gas Natural SDG, S.A. effective 1 July 2000.

The following adjustments have been made to the annual accounts for Enagas, S.A. as at 31 December 2000 and 1999 to prepare the pro forma consolidated financial statements:

—For 2000 transactions relating to the gas supply and real estate rental economic units have been identified and eliminated for the period from 1 January 2000 and 30 June 2000, such that the pro forma financial statements for 2000 do not include transactions and balances relating to the economic units that were spun-off.

—For 1999 transactions relating to the gas supply and real estate rental economic units have been identified and eliminated for the period between 1 January 1999 and 31 December 1999, such that the pro forma financial statements for 1999 do not include transactions and balances relating to these economic units.

Due to the spin-off of the gas supply unit, effective 1 July 2000 Enagas, S.A. purchases gas from Gas Natural Aprovisionamientos SDG, S.A. and Sagane, S.A., instead of from at source suppliers. Therefore, and with the objective of making the gas purchases made in 1999 and 2000 comparable in the pro forma consolidated financial statements, the following adjustments were made to the annual accounts for Enagas, S.A. as at 31 December 1999 and 2000:

—The actual price for gas paid at source by Enagas, S.A. (during the first half of 2000 and all of 1999) was replaced by a purchase price based on the gas purchase agreements applicable as from 1 July 2000. These agreements were based on raw material cost according to selling prices published in the Official State Gazette.

—This price was applied to the actual quantities of gas purchased during the above-mentioned periods, thereby resulting in the gas supplies received and reflected in the pro forma consolidated financial statements for 1999 and 2000.

(Expressed in thousands of euro)

A breakdown of the increases/(decreases) resulting from the above adjustments in the pro forma consolidated financial statements at 31 December 1999 and 2000 is set out below:

	1999	2000
	Thousands of euro	
TOTAL ASSETS	(144,663)	(3,382)
Share capital and reserves	(202,453)	2,712
Consolidated profit and loss account	(18,843)	(71,107)
Total liabilities	76,633	65,013
TOTAL SHARE CAPITAL AND RESERVES AND LIABILITIES	(144,663)	(3,382)

1.3 Other operations

In order to complete the specialisation process of the activities of Enagas, S.A., in accordance with its exclusive corporate objects as defined in Royal Decree Law 6/2000, in 2001 an additional two transactions were carried out, the impact of which has been taken into account in the preparation of the consolidated pro forma financial statements for 1999 and 2000 in order to make them comparable with the consolidated financial statements at 31 December 2001.

These transactions and their treatment in the consolidated pro forma financial statements are as follows:

—In 2001 Enagas, S.A. sold to Gas Natural SDG, S.A. its 20.5% shareholding in the share capital of Sociedad Gas Euskadi, S.A. a company engaged in distribution and other activities incompatible with the corporate objects of Enagas, S.A. For the purposes of preparing the consolidated pro forma financial statements, the sale of this shareholding is understood to have taken place prior to 1 January 1999. As a result, the profit on this transaction amounting to T€14,554 has increased voluntary reserves and reduced by the same amount plus the book value of the shareholding in Sociedad Gas Euskadi, S.A. (T€19,622) the long-term debt with group companies in the consolidated pro forma financial statements at 31 December 1999 and 2000.

—As part of the spin-off of the gas supply economic unit in favour of Gas Natural SDG, S.A. mentioned in point 1.2 above, gas inventories were also transferred. However, for operations carried out in the first few months of 2000, Enagas, S.A. made certain acquisitions of gas to be held as inventories in excess of the amounts strictly necessary to provide for gas supplies to the regulated market. For this reason, in 2001 Enagas, S.A. sold to Gas Natural SDG, S.A. gas inventories purchased since the spin-off date. For the purposes of preparing the consolidated pro forma financial statements, the gas inventories accounted for by Enagas, S.A. at 31 December 1999 and 2000 amounting to T€203,256 and T€87,513, respectively, were transferred to Gas Natural SDG, S.A. prior to the year end in question at their respective net book values. As a balancing entry, these amounts have been deducted from the long-term debt with Group companies for the purposes of preparing the consolidated pro forma financial statements.

1.4 Consolidation principles applied to the pro forma consolidated financial statements

Investee companies of Enagas, S.A., included within the scope of consolidation for the pro forma consolidated financial statements and all of which engage in transportation of natural gas, are set out below:

Company	% Shareholdings
Gasoducto Al-Andalus, S.A. (Spain)	66.96
Gasoducto Extremadura, S.A. (Spain)	51.00
Gasoducto Campo Maior-Leiria-Braga, S.A. (Portugal)	12.00
Gasoducto Braga-Tuy, S.A. (Portugal)	49.00

The Company records other direct and indirect shareholdings that have not been included in the consolidation process at cost as they are deemed insignificant with respect to the pro forma consolidated financial statements (see Note 5).

The Company has considered the first consolidation to be effective for the year ended December 31, 1999.

The pro forma consolidated financial statements were consolidated as follows:

—The proportional consolidation method has been used for multi-group companies, Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A., managed jointly with Transgas, S.A. (a Portuguese company).

—Transactions between consolidated companies

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

—Consistency

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

—Translation of financial statements denominated in foreign currencies

All the companies included in the scope of consolidation prepare their accounts in euros effective January 1, 1999 and therefore no foreign currency translation process has been necessary.

1.5 Accounting principles

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

a) Start up expenses

Formation, start-up and capital increase expenses for Gasoductos Al-Andalus, S.A. and Extremadura, S.A. are recorded at cost and amortised over a period of five years except for Gasoducto Braga-Tuy, S.A. where a four year period is used.

b) Intangible fixed assets

Intangible assets (including research and development expenses) are stated at their acquisition or production cost and amortised on a straight-line basis over five years, except for administrative concessions that are amortised over the concession period.

c) Tangible fixed assets

Tangible fixed assets are stated at acquisition or production cost, except for any restatement arising as a result of balance sheet updates made by Enagas, S.A. in 1996 pursuant to Royal Decree Law 7/1996.

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation rates applied are as follows:

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

d) Investments

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

e) Deferred expenses

Under deferred expenses Enagas, S.A. includes payments that fall due in future years and are taken to profit and loss in the year concerned. Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. record the gas transportation rights and related financial expenses that are directly related, which are amortised at 4.35% per year.

f) Inventories

The raw material, liquefied gas, is stated at acquisition price in accordance with the FIFO (first in first out) method, which results in a value equal to or lower than market value. Other consumables are stated at average acquisition cost, also resulting in a value which is equal to or lower than market value.

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

g) Trade and non-trade accounts receivable

Accounts receivable, regardless of whether or not they arise in the normal course of business, are recorded at their nominal value and classified as short or long-term depending on whether they fall due within or after more than one year.

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

h) Reserves in companies consolidated using the proportional method

These reserves relate to the difference between the book value of the interest held in the consolidated companies and their theoretical book value (net equity).

i) Deferred income

Capital grants are recorded at the amount received and allocated to income on a straight-line basis over the useful live of the fixed assets they finance.

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

Other deferred income includes prepayments received under gas transport contracts which are credited to income over the term of the contract.

j) Pension fund

The external pension fund was set up in accordance with the pension plan approved by Enagas, S.A. which was adapted to the Spanish 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 monthly salary amounts. It is a mixed plan covering retirement benefits, disability and death. The charge in the profit and loss account of 1999 and 2000 for this item amount to T€1.764 and T€1.806 respectively.

k) Other provisions

This caption includes the provisions for contingencies and expenses relating to probable or certain liabilities. Provisions are made when such circumstances arise based on the estimated amount of the contingencies involved.

l) Corporate income tax

The pro forma consolidated profit and loss account records the corporate income tax expense for each of the consolidated companies. The calculation includes the tax accruing during the year, the effect of the deferral of timing differences between the tax base and reported profits before taxes that reverse in subsequent years and any tax credits or deductions to which the Company is entitled.

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

m) Income and expense

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

(Expressed in thousands of euro)

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

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

n) Exchange differences

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

2. Start up expenses

The amounts and variances recorded in the items included under this heading are set out below:

	Balance as at 31.12.99	Amortisation	Balance as at 31.12.00
		Thousands of euro	
Formation expenses	407	(188)	219
Share capital increase expenses	49	(24)	25
	456	(212)	244

3. Intangible fixed assets

The amounts and variances recorded in the items included under this heading are set out below:

	Balance as at 31.12.99	Increases	Transfers	Balance as at 31.12.00
		Thousands of euro		
Research and development expenses	8,410	2,014	—	10,424
Concessions, patents, licences, trademarks and similar items	4,357	72	(32)	4,397
Computer software	2,042	—	—	2,042
Accumulated amortisation	(10,051)	(2,603)	—	(12,654)
	4,758	(517)	(32)	4,209

4. Tangible fixed assets

The amounts and movements recorded for the items making up tangible fixed assets are as follows:

	Balance as at 31.12.99	Increases	Decreases	Transfers	Balance as at 31.12.00
			Thousands of euro		
Land and buildings	68,899	2,140	(781)	228	70,486
Plant and machinery	2,456,786	102,551	(90,242)	70,891	2,539,986
Fixtures, fittings, tools and equipment	8,396	619	(7)	—	9,008
Prepayments and fixed assets in course of construction	268,116	185,490	(24,599)	(71,087)	357,920
Other fixed assets	17,769	120	(281)	—	17,608
Provisions	(10,158)	(3,348)	246	—	(13,260)
Accumulated amortisation	(726,526)	(106,427)	38,029	—	(794,924)
	2,083,282	181,145	(77,635)	32	2,186,824

(Expressed in thousands of euro)

During the year ended 31 December 2000, the heading “Increases” includes records the purchase of gas transport assets from Gas Natural SDG, S.A. for T€18,391. Decreases include a total of T€78,372 million for the sale to Gas Natural SDG, S.A. of certain distribution gas pipelines and fibre-optic cable to Desarrollo del Cable, S.A. These operations have not been adjusted in the 1999 and 2000 pro forma consolidated financial statements since they are current operations.

The restatement of tangible fixed assets by Enagas, S.A. in accordance with the provisions of Royal Decree-Law 7/1996 of 7 June regarding the restatement of balance sheets, will cause an increase of T€19.283 in the fixed asset depreciation charge for 2001.

Movements in restated tangible fixed assets are set out below:

	Thousands of euro
Balance as at 31 December 1999	297,416
Depreciation charge for 2000	(29,817)
Balance as at 31 December 2000	267,599

Plant and machinery at 31 December 1999 and 2000 includes non-extractable gas assets located in subterranean natural gas fields totalling T€118,718.

The financial costs applied in 2000 to infrastructure being constructed amount to T€3,925 and (T€3.760 at 31 December 1999) as at 31 December 2000 T€133,140 was recorded as an increase in gross tangible fixed assets (T€129,174 at 31 December 1999).

The increases of T€106,427 in 2000 accumulated amortization relates to the accumulated amortization of T€104,429 plus the T€1,998 accumulated amortization for transport assets acquired from Gas Natural SDG, S.A.

The Company has obtained insurance policies it deems necessary to cover all reasonable risks that could affect tangible fixed asset items.

5. Investments

The amounts and movements recorded for the items making up investments are as follows:

	Balance as at 31.12.99	Increases	Decreases	Balance as at 31.12.00
		Thousands of euro		
Loans to Group companies	44,433	4,521	(9,146)	39,808
Long-term securities portfolio	1,781	52	(1,066)	767
Other loans	1,371	300	(331)	1,340
Long-term deposits and guarantees	221	5	(6)	220
Deferred taxes	5,864	—	(249)	5,615
Provisions	(312)	—	—	(312)
	53,358	4,878	(10,798)	47,438

Loans to Group companies fall due in 2011 and bear market interest rates (using Euribor). The balances relate to the interest held by Transgas, S.A. in the loans to Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. y Gasoducto Brag-Tuy, S.A.

(Expressed in thousands of euro)

The provisions, which showed no movement, relate exclusively to the provision for the 8% investment held in the company Iran Gas Europe.

6. Deferred expenses

The amount and movements recorded for the items making up Deferred expenses are as follows:

	Balance as at 31.12.99	Decreases	Balance as at 31.12.00
	Thousands of euro		
Enagas, S.A.	701	(67)	634
Gasoducto Campo Maior-Leiria-Braga, S.A.	13,072	(627)	12,445
Gasoducto Braga-Tuy, S.A.	8,330	(409)	7,921
	22,103	(1,103)	21,000

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

The balance for Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. records the prepayment in advance by these companies to Transgas, S.A. of gas transportation rights and the related financial expenses.

7. Inventories

Inventories relate mainly to materials used for the maintenance of the regasification plants and gas pipeline networks.

8. Debtors

Accounts receivable from Group and Associated companies relate basically to the sale of natural gas by Enagas, S.A. to Group companies Gas Natural and Gas de Euskadi, S.A. respectively.

9. Shareholders' equity

The amounts of the accounts in this heading and movements are as follows:

	Balance as at 31.12.99	Distribution of 1999 profit/(loss)	Distribution from reserves	Other	2000 profits	Balance as at 31.12.00
	Thousands of euro					
Share capital	358,705	—	—	—	—	358,705
Revaluation reserve	342,505	—	—	—	—	342,505
Legal reserve	23,835	10,638	—	—	—	34,473
Voluntary reserve	401,683	30,303	(414,698)	1,364	—	18,652
Consolidated reserves (proportional method)	(8,616)	(10,040)	—	17,375	—	(1,281)
Consolidated profit and loss account	94,724	(94,724)	—	—	54,434	54,434
	1,212,836	(63,823)	(414,698)	18,739	54,434	807,488

Share capital consists of 11,936,713 ordinary bearer shares with a par value of 30,050605 euros each, all fully paid in and bearing the same voting and dividend rights.

(Expressed in thousands of euro)

Share capital is entirely held by Gas Natural SDG, S.A., except for one share owned by La Propagadora del Gas, S.A.

The General Meeting held on 30 October 2000 adopted a resolution to distribute a dividend totalling T€414,698 charged to voluntary reserves. In addition, in 2000 a dividend totalling T€63,823 was approved and charged against 1999 profits under certain conditions.

The revaluation reserve that has been approved by the tax authorities is not available for distribution. The balance of the Revaluation Reserve (Royal Decree Law 7/1996) may be used to offset losses, increase share capital or, after 31 December 2006, it can be transferred to unrestricted reserves.

The legal reserve is not available for distribution. In accordance with the Spanish Business Corporation Law 10% of the profit recorded in annual accounts must be appropriated to the legal reserve until the balance in the account reaches 20% of the share capital. Except for the issue mentioned above, and until the legal reserve has reached 20% of the share capital, this reserve may be used only to offset losses, in the event that no other reserves are available.

The balance under Voluntary Reserves at 31 December 1999 relates basically to:

	Thousands of euro
—Enagas, S.A.	384,172
—Dividends paid out by the company Gas de Euskadi, S.A. charged against 1998 profits and collected by Enagas, S.A. in 1999	2,957
—Reserves contributed by the company Gas de Euskadi, S.A. whose shareholding was sold in 2001	14,554
Balance as at 31 December 1999	401,683

The balances under Voluntary Reserves at 31 December 2000 relates basically to:

	Thousands of euro
—Enagas, S.A.	1,388
—Dividends paid out by the company Gas de Euskadi, S.A. charged against 1999 profits and collected by Enagas, S.A. in 2000	2,710
—Reserves contributed by the company Gas de Euskadi, S.A. whose interest was sold in 2001	14,554
Balance as at 31 December 2000	18,652

10. Deferred income

Deferred income mainly relates to capital grants received and advance payments received for gas transport contracts corresponding to Transgas, S.A. participation in Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A.

11. Provisions for liabilities and charges

The balance in this heading relates to provisions made for probable liabilities arising from identified contingencies.

(Expressed in thousands of euro)

Movements have been as follows:

	Thousands of euro
Balance as at 31 December 1999	58,774
Provision for 2000	1,611
Application in 2000	(266)
Balance as at 31 December 2000	60,119

The balance of this provision corresponds basically to the assessment raised in 1990 in relation to sales tax (Impuesto General sobre el Tráfico de Empresas-IGTE) which has been appealed by the Company and is pending final resolution.

12. Long term debts

These items break down as follows:

	Long term 1999	Short term 1999	Long term 2000	Short term 2000
		Thousands of euro		
Enagas, S.A. credit facilities and bank loans	108,240	6,731	85,344	22,897
Gasoducto Al-Andalus, S.A. credit facilities and bank loans	—	1,708	—	1,708
Gasoducto Extremadura, S.A. credit facilities and bank loans	—	1,341	—	1,341
Gasoducto Braga-Tuy, S.A. credit facilities and bank loans	—	4,343	—	4,343
Accrued interest	—	159	—	430
	108,240	14,282	85,344	30,719

Long-term loans and credit facilities accrue interest at market rates (using Euribor and Libor) and are due as follows:

	1999	2000
	Thousands of euro	
2002	8,630	8,630
2003	8,630	8,630
2004	8,630	8,630
2005	8,630	8,630
2006	8,630	8,630
In more than five years	65,090	42,194
	108,240	85,344

At 31 December 1999 and 2000, the Group also had credit lines amounting to T€30.051 and T€156.263 respectively that had not been utilised.

(Expressed in thousands of euro)

13. Short and Long-term amounts due to Group companies

These items break down as follows:

	1999	2000
	Thousands of euro	
Loan Gas Natural SDG, S.A. to Enagas, S.A.	329,395	988,072
Loan Transgas, S.A. to Gasoducto Al-Andalus, S.A.	23,712	21,961
Loan Transgas, S.A. to Gasoducto Extremadura, S.A.	18,692	16,537
Loan Transgas, S.A. to Gasoducto Campo Maior-Leiria-Braga, S.A.	8,263	7,077
	380,062	1,033,647

The loan from Gas Natural SDG, S.A. to Enagas, S.A. as at 31 December 2001 totalling T€988.072 bears interest at a market rate (using Euribor) and are due in 2003. The three loans from Transgas, S.A. as at 31 December 2001 totalling T€21.961, T€16.537 and T€7.077 bear interest at market rates (using Euribor) and are due in 2011.

The short term portion of amounts due to Group companies correspond to debt relating to commercial transactions.

14. Tax situation

Enagas, S.A. paid taxes in 1999 and 2000 under the Gas Natural Consolidated Tax Group. In 2000 the consolidated Group included Gas Natural SDG, S.A.; Compañía Española del Gas, S.A.; Gas Natural Castilla y León, S.A.; Gas Natural Castilla-La Mancha, S.A.; Gas Natural Informática, S.A.; Compañía Auxiliar de Industrias Varias, S.A.; Gas Natural Andalucía, S.A.; Gas Penedés, S.A., Gas Vic, S.A.; Gas Natural Extremadura, S.A.; Equipos y Servicios, S.A.; Gas Natural Servicios SDG, S.A.; Gas Natural Internacional SDG, S.A.; Holding Gas Natural, S.A.; La Propagadora del Gas, S.A.; La Energía, S.A.; Sagane, S.A.; Gas Natural Murcia, SDG, S.A.; Gas Natural Cantabria SDG, S.A.; Gas Natural Colombia, S.A.; Gas Natural Latinoamericana, S.A.; Desarrollo del Cable, S.A.; Gas Natural Electricidad SDG, S.A.; Gas Natural Comercializadora, S.A.; Gas Natural Aprovisionamientos SDG, S.A. and Gas Natural Trading SDG, S.A.

During 2000 Tax Authorities has began the inspection for Gas Natural Consolidated Tax Group, in relation to Enagas, S.A. corporate income tax for the period 1995 to 1998. The remaining taxes are open to inspection for the period that has not become statute-barred.

The companies Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. paid taxes in 1999 and 2000 under the individual reporting system.

All the taxes to which Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A. are subject to that are not statute-barred are open to inspection. Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are open to inspection for all taxes relating to 1996 to 2000, inclusive.

(Expressed in thousands of euro)

Corporate income tax expense breaks down as follows:

Company	1999	2000
	Thousands of euro	
Enagas, S.A.	44,636	26,529
Gasoducto Al-Andalus, S.A.	2,885	2,520
Gasoducto Extremadura, S.A.	—	—
Gasoducto Campo Maior-Leiria-Braga, S.A.	14	255
Gasoducto Braga-Tuy, S.A.	189	84
	47,724	29,388

The balances and variances in prepaid/deferred corporate income tax are set out below:

	Balance as at 31.12.99	Variation	Balance as at 31.12.00
		Thousands of euro	
Deferred tax asset			
—Capital grants	1,617	(180)	1,437
—Other	4,247	(69)	4,178
	5,864	(249)	5,615
Deferred tax liability			
—Provisions	2,661	106	2,767
	2,661	106	2,767

15. Net turnover

Details of net turnover are as follows:

	1999	2000
	Thousands of euro	
Sales of natural gas	1,488,519	2,607,063
Third party access income	11,695	55,920
	1,500,214	2,662,983

Gas sales relate entirely to Enagas, S.A. Third party access income breaks down as follows:

	1999	2000
	Thousands of euro	
Enagas, S.A.	11	45,293
Gasoducto Al-Andalus, S.A.	5,740	5,528
Gasoducto Extremadura, S.A.	3,985	3,090
Gasoducto Campo Maior-Leiria-Braga, S.A.	1,871	1,921
Gasoducto Braga-Tuy, S.A.	88	88
	11,695	55,920

16. Supplies

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

(Expressed in thousands of euro)

17. Personnel costs

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

	1999	2000
	Thousands of euro	
Executives	41	41
Technicians	268	327
Administrative staff	137	124
Workers	422	360
	868	852

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

18. Other operating expenses

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

19. Contribution of Group companies to pro forma consolidated results

The contribution of Group companies to pro forma consolidated results, obtained in accordance with the assumptions described in Note 1 above, is set out below:

	1999	2000
	Thousands of euro	
Enagas, S.A.	85,737	47,324
Gasoducto Al-Andalus, S.A.	5,589	4,911
Gasoducto Extremadura, S.A.	1,821	1,585
Gasoducto Campo Maior-Leiria-Braga, S.A.	859	468
Gasoducto Braga-Tuy, S.A.	718	146
	94,724	54,434

(Expressed in thousands of euro)

20. Transactions with Group companies

The most significant transactions carried out during 2000 with companies pertaining to the Gas Natural Group that are included in the pro forma consolidated financial statements, are as follows:

	2000
	Thousands of euro
Income	
Gas sales	2,558,066
Rent of subterranean field of Serrablo	8,564
Maintenance of fibre optics for Desarrollo del Cable, S.A.	811
	2,567,441
Expenses	
Gas purchases	2,349,550
Rent of minimum security stocks (35 days)	12,621
Interest on loans from Gas Natural SDG, S.A.	19,824
Rent and maintenance of fibre optics for Desarrollo del Cable, S.A.	12,149
Corporate fees with Gas Natural SDG; S.A.	10,716
Computer fees	6,237
	2,411,097

21. Other information

In June 2000 the Spanish government approved a Royal Decree-Law which enacted several measures to deregulate the Spanish market and encourage competition.

Several of the deregulation measures approved by the Spanish government in June 2000 affect the natural gas sector. The schedule for opening the natural gas market has been brought forward to 2003 and distribution will be deregulated in 2005. As from 2003 any consumer may freely choose a supplier. Furthermore, the law stipulates that until 1 January 2004 25% of gas obtained from Algeria through the Maghreb pipeline must be distributed among natural gas marketing companies. The rest is assigned to Enagas, S.A. to cover the regulated market.

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

At 31 December 2000 gas transportation rights amount to 1,507,440,000 thousand therms for the period 2001 to 2020. All contracts include "ship or pay" clauses.

Enagas, S.A. has furnished a guarantee of T€8,885 for the loan Banco Santander Central Hispano has granted to Gasoducto Braga-Tuy, S.A.

The detail of the remuneration accrued, loans granted and the Group obligations with respect to pension payments for members of the Enagas, S.A. Board has been as follows:

	Remuneration	Loans	Pensions
	Thousands of euro		
1999	155	—	—
2000	434	133	2

The Company does not provide life insurance policies for its Directors.

22. Subsequent significant events

On 31 August 2001, in accordance with the provisions of Article 10 of Royal Decree-Law 6/2000 (23 June) on emergency measures to encourage competition in the goods and services market, the government commission for economic issues approved Enagas, S.A.'s action plan to allow the entry of new shareholders. The Company and its shareholders are bound by the main terms and time frames contained in the plan and a shareholding in Enagas, S.A. held by a company or group of companies must not exceed 35%.

Royal Decree 949/2001 which regulates third-party access to gas installations and establishes an integrated economic regime for the natural gas industry, has established the remuneration of regulated activities, general criteria for calculating and structuring tariffs, tolls and royalties, a cost-based tariff system and a settlement procedure. This Royal Decree is pending development through the appropriate ministerial order.

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

On 15 February 2002 the Ministry of Economy approved three ministerial orders on tariffs, tolls, royalties and remuneration for regulated activities in the gas industry. These orders were published in the Official State Gazette on 18 February and also establish the remuneration for 2002 for all companies engaged in regasification, storage, transport or distribution activities, as well as formulae and criteria for updating remuneration in coming years.

Decisions to be approved by the General Shareholders' Meeting relating to the proposed sale of Enagas, S.A. shares

The Board of Directors will propose to the Extraordinary General Shareholders' Meeting of Enagas, S.A. to be held on 3 May 2002 to adopt the following resolutions, inter alia, in order to prepare the Company for its future condition as a listed company:

—*Agreements about Share capital, by-laws and listing*: reduce the Company´s share capital in order to round off the par value of its shares to €30, transferring the amount of the reduction to reserves and to change the par value of the Company's shares from €30 to €1.5, with their multiplication by 20, without changing the total figure for share capital; by-laws modifications as a consequence of the rounding in par value, share capital split, and transformation of the certificates representing shares into book entries, application for the official listing of all shares representing the share capital of Enagas, S.A. on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and their inclusion in the Spanish stock exchange network.

—*Agreements about authorisations and delegation to the Board of Directors*: authorisation to the Board of Directors to acquire its own shares within a period of 18 months; delegating to the Board of Directors powers to issue fixed rate bonds and debentures up to an amount of €2,000 million, and to increase share capital by a maximum amount of €179 million within five years.

(Expressed in thousands of euro)

23. Consolidated statement of source and application of funds

	2000
APPLICATIONS	
Acquisition of fixed assets	
Intangible fixed assets	2,086
Tangible fixed assets	288,922
Investments	4,878
Dividends	478,521
Application of the provision for liabilities and charges	266
Total applications	774,673
Excess of sources over applications (increase in working capital)	159,457
	934,130
SOURCES	
Funds generated from operations	231,100
Capital grants	53,496
Long-term debts	630,795
Other reserves	18,739
Total sources	934,130
Excess of applications over sources (reduction in working capital)	—

	2000	
Changes in working capital	**Increases**	**Decreases**
	Thousands of euro	
Debtors	98,346	—
Creditors	66,278	—
Inventories	—	22
Current investments	901	—
Cash in hand and at bank	—	5,946
Prepayments and accrued income accruals and deferred income	—	100
	165,525	6,068
Increase in working capital	159,457	

	2000
Funds generated from operations	**Thousands of euro**
Profit for the year	54,434
Depreciation/amortisation	107,244
Deferred expenses	1,103
Deferred income	(25,073)
Net application of the provision for liabilities and charges	1,611
Disposals of tangible fixed assets	77,881
Disposals of investments	10,798
Change in provision for tangible fixed assets	3,102
Funds generated from operations	231,100

ENAGAS GROUP

APPENDIX I: DIFFERENCES BETWEEN NET EQUITY, INVESTMENTS AND PROFIT AND LOSS ACCOUNT

Unaudited Consolidated Pro forma as of December 31, 2000 and Consolidated Historic as of January 1, 2001

	Unaudited Consolidated pro forma 31.12.00	Consolidated Historic 01.01.01	Difference
	Thousands of euro		
Net equity			
Voluntary reserve	18,652	4,099	(14,553)(1)
Consolidated reserve in special situation	—	(3,782)	(3,782)(2)
Profit and loss	54,434	141,166	86,732(3)
Investments			
Shareholdings in associated companies	—	34,175	34,175(4)
Public institutions—long term (prepaid tax)	5,615	8,999	3,384(5)

	Thousands euro
—Effect in pro forma 2000 of the sale of Gas Euskadi, S.A. performed in 2001	(17,263)
—Adjustment in 2000 pro forma in relation to the dividend paid by Gas Euskadi, S.A. during 2000 to Enagas, S.A. corresponding to 1999 profit	2,710
Difference in Voluntary reserve	(14,553)(1)
—Effect of the Sub-Group Sagane consolidation in 2000 eliminated in historic financials due to the spin-off from Enagas Group	(16,619)
—Reserves of Gas de Euskadi, S.A. not distributed corresponding to Enagas, S.A. (20.5%) which were integrated as voluntary reserves in historic financials	12,837
Difference in Consolidated reserve in special situation	(3,782)(2)
—Effect in 2000 historic from the Sub-Group Sagane consolidated in 2000	16,619
—Profit 2000 of Gas de Euskadi, S.A. not distributed as dividend	1,716
—Dividends of Gas de Euskadi, S.A. paid to Enagas, S.A. in 2000	(2,710)
—Effect in 2000 profit and loss account of the first six months period spin-off of 2000	71,107
Difference in Profit and loss	86,732(3)
Difference in Shareholdings in associated companies (Elimination of the investment in Gas de Euskadi, S.A.)	34,175(4)
Difference in Public institutions-long term (prepaid tax) (Effect of the spin-off adjustments corresponding to the first six months period of 2000 in pro forma)	3,384(5)

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AUDITORS' REPORT ON THE ANNUAL ACCOUNTS (*)

To the Shareholders of Enagas, S.A.

We have audited the annual accounts of Enagas, S.A., consisting of the balance sheet as at 31 December 2000, the profit and loss account and the related notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Directors of the Company have presented for comparative purposes only, for each item of the 2000 balance sheet, the profit and loss account and the statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2000. Our opinion refers exclusively to the 2000 annual accounts. On February 28, 2000 we issued our audit report on the 1999 annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying annual accounts for the year 2000 present fairly, in all material respects, the financial position of Enagas, S.A. as at December 31, 2000 and the results of its operations and its source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying Directors' Report for 2000 contains the information that the Company's Directors consider relevant to the company's position, the evolution of its business and of other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the annual accounts for 2000. Our work as auditors is limited to checking the Directors' Report within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

José Luis Fernández Baños
Partner

February 27, 2001

(*) A free translation of the report on the non-consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

PricewaterhouseCoopers Auditores, S. L.—R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3°
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ENAGAS, S.A.

BALANCE SHEET

As of December 31, 2000 and 1999
(Expressed in thousands of euro)

	31.12.00	31.12.99
ASSETS		
Fixed Assets	2,355,736	2,359,502
Intangible fixed assets (Note 5)	4,209	4,758
Research and development expenses	10,424	8,410
Concessions, patents, licences, trademarks and similar items	4,397	4,354
Computer software	2,042	2,045
Accumulated depreciation	(12,654)	(10,051)
Tangible fixed assets (Note 6)	2,186,824	2,104,850
Land and buildings	70,486	98,312
Plant and machinery	2,539,986	2,456,821
Fixtures, fittings, tools and equipment	9,008	12,111
Prepayments and fixed assets in course of construction	357,920	268,116
Other fixed assets	17,608	21,964
Provisions	(7,851)	(4,749)
Accumulated depreciation	(800,333)	(747,725)
Investments (Note 7)	164,703	249,894
Shareholdings in Group companies	33,476	75,481
Loans to Group companies	85,250	92,781
Shareholdings in associated companies	19,622	19,622
Long-term securities portfolio	6,088	7,248
Other loans	11,599	13,536
Long-term deposits and guarantees	220	1,054
Provisions	(551)	(2,099)
Deferred taxes (Note 15)	8,999	42,271
Deferred Expenses	634	7,813
Current Assets	479,588	535,673
Inventories (Note 8)	95,365	228,808
Raw materials and other consumables	6,544	24,515
Finished products	88,812	203,256
Byproducts, scrap and reusable material	9	1,037
Debtors (Note 9)	376,224	281,850
Trade debtors for sales and services rendered	25,899	13,516
Accounts receivable from Group companies	329,577	248,631
Accounts receivable from Associated companies	21,101	16,436
Other accounts receivable	1,196	3,489
Loans to employees	—	374
Public institutions	—	953
Provisions	(1,549)	(1,549)
Current investments	6,608	7,737
Loans to Group companies	6,608	7,737
Cash at bank and in hand	884	8,397
Prepayments	507	8,881
Total	2,835,958	2,902,988

ENAGAS, S.A.

BALANCE SHEET

As of December 31, 2000 and 1999
(Expressed in thousands of euro)

	31.12.00	31.12.99
LIABILITIES		
Shareholders' equity (Note 10)	862,228	1,421,009
Share capital	358,705	540,909
Revaluation reserve	342,505	348,199
Reserves	35,861	425,520
Legal reserve	34,473	41,348
Other reserves	1,388	384,172
Profit for the year	125,157	106,381
Deferred Income (Note 11)	605,850	584,576
Capital grants	400,175	363,384
Other deferred income	205,675	221,192
Provision for liabilities and charges (Note 12)	60,119	153,128
Provision for taxes	59,358	57,747
Other provisions	761	95,381
Long-term debt	893,467	390,129
Bank loans (Note 13)	85,344	108,240
Amounts owned to Group and associated companies	805,356	279,137
Amounts owned to Group companies (Note 14)	805,356	279,137
Other creditors	2,767	2,752
Other loans	—	—
Long-term guarantees and deposits received	—	41
Deferred taxes (Note 15)	2,767	2,711
Current liabilities	414,294	354,146
Bank loans (Note 13)	23,326	6,890
Amounts owned to Group and associated companies	274,673	148,350
Amounts owned to Group companies (Note 14)	274,673	148,344
Amounts owned to associated companies	—	6
Trade creditors	97,046	181,616
Creditors for purchases or services rendered	97,046	181,616
Other non-trade creditors	19,249	17,290
Taxes and Social Security contributions	8,444	5,800
Other creditors	500	1,221
Accrued wages and salaries	1,114	1,280
Short-term deposits and guarantees received	9,191	8,989
Total	2,835,958	2,902,988

ENAGAS, S.A.

PROFIT AND LOSS ACCOUNT

As of December 31, 2000 and 1999
(Expressed in thousands of euro)

	31.12.00	31.12.99
EXPENSES		
Supplies (Note 17)	2,261,335	1,153,858
Consumption of goods purchased for resale	4,741	108
Consumption of raw materials and consumable materials	2,254,572	1,149,352
Other external expenses	2,022	4,398
Personnel costs (Note 18)	43,303	44,739
Wages, salaries and similar remuneration	30,935	31,690
Social Security expenses	12,368	13,049
Fixed asset depreciation	109,557	108,760
Changes in trade provisions	—	10
Other operating charges (Note 19)	149,279	118,138
External services	147,848	117,140
Taxes	1,431	998
Operating profits	193,769	149,814
Financial and similar expenses	25,243	12,423
Amounts due to Group companies	20,416	6,841
Amounts due to third parties and similar expenses	4,827	5,582
Changes in provisions for financial investments	—	(203)
Exchange losses	688	212
Net financial profit	—	2,009
Profit from ordinary activities	187,367	151,823
Changes in provisions for intangible and tangible fixed assets and controlling shareholdings	403	(563)
Losses from intangible and tangible fixed assets and controlling shareholdings	75	1
Extraordinary expenses	64	171
Prior years' expenses and loss	—	8
Net extraordinary profit	279	6,880
Profit before taxes	187,646	158,703
Corporate income tax	62,489	52,322
Profit for the year (Note 15)	125,157	106,381

ENAGAS, S.A.

PROFIT AND LOSS ACCOUNT

As of December 31, 2000 and 1999
(Expressed in thousands of euro)

	31.12.00	31.12.99
INCOME		
Net turnover	2,669 457	1,503,786
Sales (Note 16)	2,624,164	1,503,775
Services rendered	45,293	11
Own work capitalized	247	279
Other operating income	87,539	71,254
Other income	70,731	56,650
Capital grants	16,808	14,604
Income from shareholdings	8,290	3,781
From group companies	4,821	—
From associated companies	3,444	3,347
From non-group companies	25	434
Income from negotiable securities and investments	5,418	4,764
Group companies	4,828	3,929
Non-Group companies	590	835
Other interest and similar income	5,383	5,105
Other interest	5,383	5,105
Exchange gains	435	791
Financial expense	6,405	—
Profit on the disposal of intangible and tangible fixed assets and controlling shareholding	14	5,926
Extraordinary income	687	3
Prior years income and profits	120	568

ENAGAS, S.A.

NOTES TO THE ANNUAL ACCOUNTS OF ENAGAS, S.A.

For the year ended December 2000
(Expressed in thousands of euro)

1. Activities

The Company primarily engages in the import and purchase of natural gas in the domestic market, as well as the industrial treatment, storage, transport, distribution and sale of natural gas.

2. Basis of presentation

The accompanying annual accounts are based on the Company's accounting records and have been prepared in accordance with accounting principles generally accepted in Spain.

The figures set out in the balance sheet, profit and loss account and notes to the accounts are stated in thousands of euro (T€).

The figures relating to 2000 and 1999 have been converted to euro. To this end, the conversion rate of 1 euro = 166.386 pesetas published in the European Council Regulations 2866/98 (31 December 1998) and the rounding rules envisaged in Article 11 of Law 46/98 (17 December) have been applied.

In accordance with current legislation, this conversion rate has been applied to the components of the annual accounts.

In accordance with the provisions of Hydrocarbons Act 34/1998 (7 October) and Royal Decree-Law 6/2000 (23 June), on 30 October 2000 the General Meeting of Enagas, S.A. approved the partial spin-off plans affecting the economic units engaged in the supply of gas and real estate rental pertaining to Enagas, S.A. as at 30 June 2000. These economic units became part of Gas Natural SDG, S.A., majority shareholder in the Company, effective 1 July 2000.

As a consequence of the above-mentioned operations carried out within the framework Law 34/1998 and Royal Decree-Law 6/2000, the annual accounts for 2000 are not comparable with the accounts for the previous year.

The breakdown of assets and liabilities spun-off as part of the gas supply unit on 30 June 2000 is set out below:

	Thousands of euro
Assets	
Fixed assets	78,305
Deferred expenses	5,616
Current assets	299,437
	383,358

	Thousands of euro
Liabilities	
Share Capital and reserves	184,643
Share capital	168,452
Legal reserve	16,191
Deferred income	174
Provision for liabilities and charges	100,693
Current liabilities	97,848
	383,358

(Expressed in thousands of euro)

The breakdown of assets and liabilities spun-off as part of the real estate rental unit on 30 June 2000 is set out below:

	Thousands of euro
Assets	
Fixed assets	21,675
Current assets	52
	21,727
Liabilities	
Share Capital and reserves	20,768
Share capital	13,752
Legal reserve	1,321
Revaluation reserve	5,695
Long term debt	95
Current liabilities	864
	21,727

3. Proposed distribution of profits

The proposed distribution of net profits for 2000 that will be presented by the Board at the Annual General Meeting is set out below:

	Thousands of euro
Legal reserve	12,516
Dividend	112,641
	125,157

4. Accounting principles

The most significant accounting policies applied during the preparation of the annual accounts are set out below:

a) *Effect resulting from the spin-offs.* Given that the spin-offs referred to in Note 2 were carried out using pre-existing book values without any capital gains arising, there are therefore no differences between the book and reported values of the assets and liabilities concerned which would lead to the recognition of deferred tax assets or liabilities.

b) *Intangible fixed assets.* Intangible assets are stated at their acquisition or production cost and are amortised on a straight-line basis over five years, except for administrative concessions that are amortised over the concession period.

c) *Tangible fixed assets.* Tangible fixed assets are stated at their acquisition or production cost, except for assets restated in 1996 pursuant to Royal Decree-Law 7/1996.

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives.

The depreciation rates applied are as follows:

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

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

e) Deferred expenses. Deferred expenses include payments falling due in future years, which are taken to profit and loss in the year concerned.

f) Inventories. The raw material, liquefied gas, is stated at acquisition price in accordance with the FIFO (first in first out) method, which results in a value equal to or lower than market value. Finished products are valued at average production cost and all other materials are stated at their average acquisition cost, which in both cases results in a value that is equal to or less than market value.

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

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

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

h) Deferred income. Non-refundable capital grants are recorded at the amount received and allocated to income on a straight-line basis over the useful live of the fixed assets they finance.

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

Other deferred income includes prepayments received under gas transport contracts which are credited to income over the term of contract.

i) Pension fund. The external pension fund was set up in accordance with the pension plan approved by Enagas, S.A. which was adapted to the Spanish 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 monthly salary amounts. It is a mixed plan covering retirement benefits, disability and death.

(Expressed in thousands of euro)

j) Other provisions. The caption includes the provisions for contingences and expenses relating to probable or certain liabilities. Provisions are made when such circumstances arise based on the estimated amount of the contingences involved.

k) Corporate income tax. The profit and loss account includes corporate income tax expense. The calculation includes tax accruing during the year, the effect of the deferral of timing differences between the tax base and reported profits before taxes that reverse in subsequent years and any tax credits or deductions to which the Company is entitled.

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

The Company has filed consolidated tax returns since 1995.

l) Income and expense. Income and expense is recorded based on an accruals basis.

Sales of natural gas are recorded based on billings for consumption. Consumption of gas distribution companies is recorded through monthly readings of their meters.

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

5. Intangible fixed assets

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

	Balance 01.01.00	Increases	Transfers	Balance 31.12.00
		Thousands of euro		
Research and development expenses	8,410	2,014	—	10,424
Concessions, patents, licences, trademarks and similar items	4,354	71	(28)	4,397
Computer software	2,045	(3)	—	2,042
Accumulated depreciation	(10,051)	(2,606)	3	(12,654)
Net balance	4,758	(524)	(25)	4,209

6. Tangible fixed assets

The amounts and variances recorded during the year for the items making up tangible fixed assets before depreciation are as follows:

	Balance 01.01.00	Increases	Decreases	Transfers	Spin-off	Balance 31.12.00
			Thousands of euro			
Land and buildings	98,312	2,825	(945)	227	(29,933)	70,486
Plant and machinery	2,456,821	102,550	(90,239)	70,889	(35)	2,539,986
Fixtures, fittings, tools and equipment	12,111	629	(6)	—	(3,726)	9,008
Prepayment and fixed assets in course of construction	268,116	185,492	(24,600)	(71,088)	—	357,920
Other fixed assets	21,964	321	(277)	—	(4,400)	17,608
Provisions	(4,749)	(3,347)	245	—	—	(7,851)
Net balance	2,852,575	288,471	(115,823)	28	(38,094)	2,987,157

(Expressed in thousands of euro)

Increases records the purchase of gas transport assets from Gas Natural SDG, S.A. for T€18,397. Decreases records a total of T€78,375 million for the sale to Gas Natural SDG, S.A. of certain distribution gas pipelines and fibre-optic cable.

The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of T€19,283 in the fixed asset depreciation charge for 2001.

Movements in restated tangible fixed assets are set out below:

	Thousands of euro
Balance as at 01 January 2000	297,412
Additions	—
Disposals—spin-off	(9,635)
Depreciation charge for the year	(20,178)
Balance as at 31 December 2000	267,599

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

The financial costs applied during the year to infrastructure being constructed totalled T€3,930 and as at 31 December 2000 T€133,042 was recorded as an increase in gross tangible fixed assets.

Movements in accumulated depreciation during the year are as follows:

	Balance 01.01.00	Increases	Decreases	Transfers	Spin-off	Balance 31.12.00
			Thousands of euro			
Buildings	28,962	2,820	—	—	(10,109)	21,673
Plant and machinery	687,677	103,814	(39,673)	3	(35)	751,786
Fixtures, fittings, tools and equipment	8,828	892	—	—	(2,614)	7,106
Other fixed assets	22,258	1,422	(251)	—	(3,661)	19,768
Net balance	747,725	108,948	(39,924)	3	(16,419)	800,333

The increases of T€108,948 in accumulated depreciation relates to the accumulate depreciation of T€106,951 for 2000 plus the T€1,988 accumulated depreciation for transport assets acquired from Gas Natural SDG, S.A.

The Company has obtained all insurance policies it deems necessary to cover all reasonable risks that could affect tangible fixed asset items.

(Expressed in thousands of euro)

7. Investments

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

	Balance 01.01.00	Increases	Decreases	Spin-off	Balance 31.12.00
			Thousands of euro		
Shareholdings in Group companies	75,481	—	—	(42,005)	33,476
Loans to Group companies	92,781	3,959	(11,490)	—	85,250
Shareholdings in associated companies	19,622	—	—	—	19,622
Long-term securities portfolio	7,248	54	(1,214)	—	6,088
Other loans	13,536	856	(2,567)	(226)	11,599
Long-term deposits and guarantees	1,054	5	(6)	(833)	220
Deferred taxes	42,271	2,004	(34)	(35,242)	8,999
Provisions	(2,099)	—	1,548	—	(551)
Net balance	249,894	6,878	(13,763)	(78,306)	164,703

Loans to Group companies fall due in 2011 and bear market interest rates. The balances relate to the loans to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A.

At 31 December 2000 accrued interest not yet payable amounts to T€4,828.

Details of the Company's relevant direct shareholdings are set out below:

	Location	Activity	% Interest Direct	Capital	Thousands of euro Reserves	Results
Shareholdings in associated companies						
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	66,96	35,460	2,353	6,990
Gasoducto Extremadura, S.A.	Madrid	Gas transport	51,00	19,082	(3,503)	3,036
Shareholdings in Group companies						
Sociedad de Gas de Euskadi, S.A.	Bilbao	Gas distribution	20,50	47,320	111,021	23,016

Dividends received in 2000 from Group and associated companies amount to T€7,532.

The movement in Provisions relates solely to the reversal of the provision for Gasoducto Extremadura, S.A.

The main balances in the Long-term securities portfolio relate to the shareholdings in Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.

The main balances recorded under Other loans basically relate to the loans to Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. They bear interest at market rates and mature in 2011.

8. Inventories

At 31 December 2000 the breakdown of inventories is as follows:

Finished products	87,516
Consumables and spare parts	7,849
	95,365

(Expressed in thousands of euro)

9. Debtors

The items Accounts receivable from Group and Associated companies relate basically to sales of natural gas.

10. Shareholders' equity

Balances and movements, excluding profit for the year, during the year recorded under this heading as at 31 December 2000 are as follows:

	Balance 01.01.00	Distribution of 1999 profits	Distribution of reserves	Spin-off	Balance 31.12.00
			Thousands of euro		
Share capital	540,909	—	—	(182,204)	358,705
Revaluation reserve	348,199	—	—	(5,694)	342,505
Legal reserve	41,348	10,638	—	(17,513)	34,473
Other reserves	384,172	31,914	(414,698)	—	1,388
	1,314,628	42,552	(414,698)	(205,411)	737,071

Share capital consists of 11,936,713 ordinary bearer shares with a par value of 5,000 pesetas (€30.05) each, all fully paid in and bearing the same voting and economic rights, after taking into account the share capital reduction consisting of 6,063,222 shares.

Share capital is entirely held by Gas Natural SDG, S.A., except for one share owned by La Propagadora del Gas, S.A.

The General Meeting held on 30 October 2000 adopted a resolution to distribute a dividend totalling T€414,698 charged to voluntary reserves. In addition, during the year a dividend totalling T€63,829 and charged to 1999 profits was distributed.

The revaluation reserve accepted by the tax authorities is not available for distribution. The balance of the Revaluation Reserve (Royal Decree Law 7/1996) may be used to offset losses, increase share capital or, after 31 December 2006, it can be transferred to unrestricted reserves under certain conditions.

The legal reserve is not available for distribution.

11. Deferred income

Deferred income mainly relates to capital grants amounting to T€400,175 and accruals under gas transportation contracts totalling T€205,675.

12. Provisions for liabilities and charges

The balance in Other provisions as at 31 December 2000 relates to provisions made for probable liabilities arising from identified contingencies.

13. Long term debts

These items break down as follows:

	Long term	Short term
	Thousands of euro	
Bank loans and credit facilities	85,344	22,896
Accrued interest	—	430
	85,344	23,326

(Expressed in thousands of euro)

Debts with credit institutions include short-term loans denominated in escudos totalling T€16,165.

Long-term loans and credit facilities accrue interest at market rates and are due as follows:

2002	7,680
2003	8,629
2004	8,629
2005	8,629
2006	8,629
In more than five years	43,148
	85,344

14. Amounts owned to Group companies

Amounts due to Group companies falling due within and after more than one year relate to loans granted by Gas Natural SDG, S.A. at market rates. The long-term balances are due in 2002.

15. Tax situation

Enagas, S.A. is included in the Gas Natural Consolidated Tax Group. In 2000 the consolidated tax group included Gas Natural SDG, S.A.; Compañía Española del Gas, S.A.; Gas Natural Castilla y León, S.A.; Gas Natural Castilla-La Mancha, S.A.; Gas Natural Informática, S.A.; Compañía Auxiliar de Industrias Varias, S.A.; Gas Natural Andalucía, S.A.; Gas Penedés, S.A.; Gas Vic, S.A.; Gas Natural Extremadura, S.A.; Equipos y Servicios, S.A.; Gas Natural Servicios SDG, S.A.; Gas Natural Internacional SDG, S.A.; Holding Gas Natural, S.A.; La Propagadora del Gas, S.A.; La Energía, S.A.; Sagane, S.A.; Gas Natural Murcia, S.A.; Gas Natural Cantabria SDG, S.A.; Gas Natural Colombia, S.A.; Gas Natural Latinoamericana, S.A.; Desarrollo del Cable, S.A.; Gas Natural Electricidad SDG, S.A.; Gas Natural Comercializadora, S.A.; Gas Natural Aprovisionamientos SDG, S.A.; and Gas Natural Trading SDG, S.A.

This year the Tax Authorities have begun a tax inspection of the Gas Natural Consolidated Tax Group, in relation to Enagas, S.A. group beginning with this company. The inspection covers corporate income tax for the period 1995-1998. All other taxes to which the group is liable for all years not statute-barred are open to inspection.

The reconciliation of the difference between reported profit and initial tax base (taxable income) is set out below:

	Thousands of euro
Reported profit before taxes	187,646
Permanent differences:	
• Other	36
Timing differences:	
• Provisions for liabilities and charges	6,316
• Accelerated depreciation	(165)
• Other	(6,005)
Initial tax base (taxable income)	187,828

Tax credits for double taxation applied to the tax base in 2000 amount to T€2,761.

(Expressed in thousands of euro)

At the year end the Company had paid T€64,086 on account of corporate income tax for the year.

The balances and variances in prepaid/deferred corporate income tax are set out below:

	Balance 01.01.00	Variation	Spin-off	Balance 31.12.00
		Thousands of euro		
Deferred tax asset:				
• Provisions	3,383	—	—	3,383
• Capital grants	1,614	(176)	—	1,438
• Other	37,274	2,146	(35,242)	4,178
	42,271	1,970	(35,242)	8,999
Deferred tax liability:				
• Provisions	2,711	110	(54)	2,767
	2,711	110	(54)	2,767

16. Net turnover

Activities are carried out solely in the domestic market. Sales break down as follows:

Sales of natural gas	2,620,048
Other sales	4,116
	2,624,164

17. Supplies

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

18. Personnel costs

The Company's average number of employees during the year, by category, was as follows:

Executives	41
Technicians	327
Administrative staff	124
Workers	360
	852

19. Other operating expenses

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

20. Matters deriving from the implementation of the euro

The Company has analysed the implications of introducing the euro into its general business and concluded that there will be no significant impact. In this respect the Company has drawn up an action plan in order to comply with the key deadlines for introducing the euro.

The estimated costs for the steps to be taken, as well as the investments to be made and expenses incurred during the process to implement the euro, are not significant.

21. Other information

In June 2000 the Spanish government approved a Royal Decree-Law which enacted several measures to deregulate the Spanish market and encourage competition.

Several of the deregulation measures approved by the Spanish government in June 2000 affect the natural gas sector. The schedule for liberalizing the natural gas market has been brought forward to 2003 and distribution will be deregulated in 2005. As from 2003 any consumer may freely choose a supplier. Furthermore, the law stipulates that until 1 January 2004 25% of gas obtained from Algeria through the Maghreb pipeline must be distributed among natural gas marketing companies. The rest is assigned to Enagas to cover the regulated market.

In order to govern the entry of other operators into the share capital of Enagas, S.A., the company assigned to be the technical manager of the system and the owner of the high-pressure distribution system in Spain, no more than a 35% shareholding may be acquired or held by a company or group of companies. Finally, as from 2003, no more than 70% of natural gas supplies may be obtained from a company or group of companies.

In 2000, remuneration accrued and loans granted to members of the Company's Board amount to T€434 and T€133, respectively.

The Company's obligations with respect to pension payments for members of the Board amounted to two thousand euro. The Company does not provided life insurance policies for its Directors.

Costs shared by the Company and other Group gas companies are divided and allocated in accordance with criteria based on activity parameters or cost generators.

Transactions with Group and associated companies recorded under Income total T€2,582,914.5, while T€968,645.9 is recorded under expenses.

At 31 December 2000 gas purchase rights amount to 1,132,000,000 thousand therms for the period 2001 to 2020. All contracts include "take or pay" clauses.

At 31 December 2000 gas transportation rights amount to 1,131,580,000 thousand therms for the period 2001 to 2020. All contracts include "ship or pay" clauses.

22. Subsequent events

There have been no significant events taking place after 31 December 2000.

The Company's Board of Directors held a meeting on 14 November 2000 and adopted a resolution to distribute an interim dividend as from 10 January 2001. This dividend totalling €8.5595 (gross) per share will be charged against 2000 profits.

(Expressed in thousands of euro)

23. Statement of source and application of funds

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

	2000	1999
Application of funds		
Purchases of fixed assets	298,783	427,123
Intangible fixed assets	2,085	3,059
Tangible fixed assets	289,820	397,025
Investments	6,878	27,039
Dividends	478,527	—
Outflows resulting from spin-off	200,778	—
Total applications of funds	978,088	427,123
Surplus of sources over application of funds (Increase in working capital)	—	255,896
Source of funds		
Funds generated from operations	212,127	269,007
Deferred income	54,896	20,206
Debts: amount falling due after one year	503,432	245,325
Proceeds from disposal of fixed assets	91,399	141,367
Intangible fixed assets	4	475
Tangible fixed assets	76,084	106,870
Investments	15,311	34,020
Disposals resulting from spin-off	—	7,114
Total sources of funds	861,854	683,019
Surplus of applications over sources of funds (Reduction in working capital)	116,234	—

	2000		1999	
	Increases	Decreases	Increases	Decreases
	Thousands of euro			
Changes in working capital				
Inventories	106,841	—	57,828	—
Debtors	144,833	—	144,710	—
Creditors	—	158,862	27,047	—
Current investments	43	—	6,604	—
Cash at bank and in hand	—	4,290	6,528	—
Prepayments	—	4,022	6,065	—
Disposals resulting from spin-off	—	200,777	7,114	—
	251,717	367,951	255,896	—
Change in working capital	—	116,234	255,896	—

(Expressed in thousands of euro)

The reconciliation of book profit for the year and resources generated from operations is as follows:

	2000	1999
	Thousands of euro	
Profit for the year	125,157	106,381
Increases:	118,869	194,640
Depreciation and amortisation	109,557	148,974
Provision for liabilities and charges	7,683	46,511
Changes in provisions for financial investments	(1,548)	(2,081)
Changes in provisions for fixed assets	3,102	1,236
Loss on disposal of fixed assets	75	—
	31,899	32,014
Decreases:		
Income and deferred expenses	(1,563)	32,014
Provisions applied	33,448	—
Profit on disposal of fixed assets	14	—
	212,127	269,007

ENAGAS, S.A.

DIRECTORS' REPORT 2000

1. Company Development in 2000

Net profit totalled T€125,157, representing a 17.65% increase over the previous year. Gas sales increased by 74.2% compared with the preceding year.

Net turnover amounted to T€2,669,457. The 98.1% of turnover relates to gas sales and the remaining 1.9% relates to services rendered.

Resources generated by operations total T€212,127. These resources have partially financed the tangible fixed asset investment plan totalling T€289,820, aimed basically at extending and improving the transportation network to 5,551 km at 31 December 2000.

Shareholders' equity recorded by Enagas, S.A. amounts to T€862,228 at 31 December 2000.

Share capital consists of 11,936,713 ordinary bearer shares with a par value of 5,000 pesetas (€30,05) each, all fully paid in and bearing the same voting and dividend rights.

The Company has not carried out any transactions involving its own shares.

In compliance with its environmental policy, in 2000 the Company obtained Environmental Management Certificates at most of its Centres and the audit and certification process is expected to be completed in mid-2001.

2. Subsequent events

There have been no significant events that took place after 31 December 2000.

The Company's Board of Directors held a meeting on 14 November 2000 and adopted a resolution to distribute an interim dividend as from 10 January 2001. This dividend totalling €8.5595 (gross) per share will be charged against 2000 profits.

3. Future prospects

In accordance with the provisions of Law 34/1998 and Royal Decree 1914/98 on Third Party Access to the Network, numerous meetings and negotiations have been held with companies that may potentially have a need to use the transport network owned by Enagas, S.A. and agreements have been reached with four marketers which are transporting gas in the Spanish system for a total of 16,000 million therms in 2000.

During 2001 more than 70,000 million therms are expected to enter the market attended by third party access.

During the first half of 2001 the equipment extension and replacement work taking place at the Regasification plants in Cartagena and Barcelona are expected to be completed. A new 105,000 m^3 liquid natural gas tank will enter into service at the Cartagena plant by the end of the year.

The Paterna Compression Plant, the new Granada-Motril, Aranda-Soria-Almazán pipelines, the improvement of the Paterna-Onteniente pipeline and the reinforcement in the north and east of Madrid as well as the western part of Cantabria will be the main gas transport installations that will begin operations in 2001.

The important underground exploration and development work will continue.

4. Research and development activities

Technology innovation activities carried out by the Company in 2000 concentrated on the evaluation, development and demonstration of new gas technologies, with the aim of increasing and improving the competitiveness of natural gas in different applications, focusing technological efforts on projects with strategic value for the Company.

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

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AUDITORS' REPORT ON THE ANNUAL ACCOUNTS (*)

To the Shareholders of Enagas, S.A.

We have audited the annual accounts of Enagas, S.A., consisting of the balance sheet as at 31 December 1999, the profit and loss account and the related notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Directors of the Company have presented for comparative purposes only, for each item of the 1999 balance sheet, the profit and loss account and the statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 1999. Our opinion refers exclusively to the 1999 annual accounts. On February 26, 1999 we issued our audit report on the 1998 annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying annual accounts for the year 1999 present fairly, in all material respects, the financial position of Enagas, S.A. as at December 31, 1999 and the results of its operations and its source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying Directors' Report for 1999 contains the information that the Company's Directors consider relevant to the company's position, the evolution of its business and of other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the annual accounts for 1999. Our work as auditors is limited to checking the Directors' Report within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

José Luis Fernández Baños
Partner

February 28, 2000

(*) A free translation of the report on the non-consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

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ENAGAS, S.A.

BALANCE SHEET

As of December 31, 1999 and 1998
(Expressed in thousands of euro)

	31.12.99	31.12.98
ASSETS		
Fixed assets	2,359,502	2,643,044
Intangible fixed assets (Note 5)	4,758	3,867
Research and development expenses	8,410	8,335
Concessions, patents, licenses, trademarks and similar items	4,354	4,350
Computer software	2,045	695
Accumulated depreciation	(10,051)	(9,513)
Tangible fixed assets (Note 6)	2,104,850	2,375,809
Land and buildings	98,312	92,462
Plant and machinery	2,456,821	2,676,031
Fixtures, fittings, tools and equipment	12,111	10,724
Prepayments and fixed assets in course of construction	268,116	267,551
Other fixed assets	21,964	21,512
Provisions	(4,749)	(3,529)
Accumulated depreciation	(747,725)	(688,942)
Investments (Note 7)	249,894	263,369
Shareholdings in Group companies	75,481	75,872
Loans to Group companies	92,781	111,503
Shareholdings in associated companies	19,622	20,691
Long-term securities portfolio	7,248	7,998
Other loans	13,536	23,628
Long-term deposits and guarantees	1,054	4,875
Provisions	(2,099)	(10,365)
Deferred taxes (Note 15)	42,271	29,167
Deferred expenses	7,813	11,465
Current assets	535,672	413,859
Inventories (Note 8)	228,807	170,980
Raw materials and other consumables	24,515	20,211
Finished products	203,256	150,504
Byproducts, scrap and reusable materials	1,036	265
Debtors (Note 9)	281,850	236,934
Trade debtors for sales and services rendered	13,516	105,220
Accounts receivable from Group companies	248,631	103,648
Accounts receivable from Associated companies	16,436	10,207
Other accounts receivable	3,489	10,090
Loans to employees	374	200
Public institutions	953	9,381
Provisions	(1,549)	(1,812)
Current investments	7,737	1,133
Loans to Group companies	7,737	1,098
Other loans	—	56
Provisions	—	(21)
Cash at bank and in hand	8,397	1,868
Prepayments	8,881	2,943
TOTAL	2,902,987	3,068,368

ENAGAS, S.A.

BALANCE SHEET

As of December 31, 1999 and 1998
(Expressed in thousands of euro)

	31.12.99	31.12.98
LIABILITIES		
Shareholders' equity (Note 10)	1,421,009	1,532,461
Share capital	540,909	632,119
Revaluation reserve	348,199	429,389
Reserves	425,520	373,390
Legal reserve	41,348	38,563
Other reserves	384,172	334,827
Profit for the year	106,381	97,563
Deferred income (Note 11)	584,576	629,065
Capital grants	363,384	387,285
Other deferred income	221,192	241,780
Provisions for liabilities and charges (Note 12)	153,128	118,875
Provision for taxes	57,747	56,136
Other provisions	95,381	62,739
Long-term debt	390,129	299,741
Bank loans (Note 13)	108,240	114,971
Amounts owned to Group and associated companies	279,137	177,404
Amounts owned to Group companies (Note 14)	279,137	177,404
Other creditors	2,752	7,366
Other loans	—	1,868
Long-term guarantees and deposits received	41	1,679
Deferred taxes (Note 15)	2,711	3,819
Current liabilities	354,146	488,230
Bank loans (Note 13)	6,890	3,507
Amounts owned to Group and associated companies	148,350	266,819
Amounts owned to Group companies (Note 14)	148,344	266,796
Amounts owned to associated companies	6	23
Trade creditors	181,616	192,885
Advance payment received for orders	—	176
Creditors for purchases or services rendered	181,616	192,709
Other creditors	17,290	25,019
Taxes and Social Security contributions	5,800	5,841
Other creditors	1,221	8,772
Accrued wages and salaries	1,280	2,114
Short-term guarantees and deposits received	8,989	8,292
TOTAL	2,902,988	3,068,372

ENAGAS, S.A.

PROFIT AND LOSS ACCOUNT

As of December 31, 1999 and 1998
(Expressed in thousands of euro)

	31.12.99	31.12.98
EXPENSES		
Supplies (Note 17)	1,153,858	1,068,241
Consumption of goods purchased for resale	108	354
Consumption of raw materials and consumable materials	1,149,352	1,062,906
Other external expenses	4,398	4,981
Personnel costs (Note 18)	44,739	47,229
Wages, salaries and similar remuneration	31,690	33,948
Social Security expenses	13,049	13,281
Fixed asset depreciation	108,760	112,366
Changes in trade provisions	10	(39)
Other operating expenses (Note 19)	118,138	95,916
External services	117,140	94,139
Taxes	998	1,777
Operating profit	149,814	147,525
Financial and similar expenses	12,423	23,277
Amounts due to Group companies	6,841	16,994
Amounts due to third parties and similar expenses	5,582	6,283
Changes in provision for financial investments	(203)	151
Exchange losses	212	107
Net financial profit	2,009	—
Profit from ordinary activities	151,823	139,312
Changes in provisions for intangible and tangible fixed assets and controlling shareholdings	(563)	(268)
Loss on disposal of from intangible and tangible fixed assets and controlling shareholdings	1	(148)
Extraordinary expenses	171	13,886
Prior-year expenses and loss	8	—
Extraordinary profit (Note 20)	6,880	3,199
Profit before taxes	158,703	142,511
Corporate income tax	52,322	44,948
Profit for the year (Note 15)	106,381	97,563

ENAGAS, S.A.

PROFIT AND LOSS ACCOUNT

As of December 31, 1999 and 1998
(Expressed in thousands of euro)

	31.12.99	31.12.98
INCOME		
Net turnover	1,503,786	1,432,763
Sales (Note 16)	1,503,775	1,436,952
Services rendered	11	103
Returned goods and volume discounts	—	(4,292)
Own work capitalized	279	258
Other operating income	71,254	38,217
Other income	56,650	25,872
Capital grants	14,604	12,345
Income from shareholdings	3,781	2,955
From associated companies	3,347	2,626
From non-Group companies	434	329
Income from negotiable securities and investments	4,764	6,920
Group companies	3,929	6,025
Non-Group companies	835	895
Other interest and similar income	5,105	5,172
Other interest	5,105	5,172
Exchange gains	791	275
Financial expense	—	8,213
Profit on disposal of intangible and tangible fixed assets and controlling shareholdings	5,926	76
Extraordinary income	3	16,592
Prior years income and profits	568	1

ENAGAS, S.A.

NOTES TO THE ANNUAL ACCOUNTS OF ENAGAS, S.A.

For the year ended 31 December 1999
(Expressed in thousands of euro)

1. Activities

The Company primarily engages in the import and purchase of natural gas in the domestic market, as well as the industrial treatment, storage, transport, distribution and sale of natural gas.

2. Basis of presentation

The accompanying annual accounts are based on the Company's accounting records and have been prepared in accordance with accounting principles generally accepted in Spain.

The figures set out in the balance sheet, profit and loss account and notes to the accounts are stated in thousands of euro (T€).

The figure relating to 1999 and 1998 have been converted to euros for the purposes of comparison. To this end, the conversion rate of 1 euro = 166.386 pesetas published in the European Council Regulations 2866/98 (31 December 1998) and the rounding rules envisaged in Article 11 of Law 46/98 (17 December) have been applied.

In accordance with current legislation, this conversion rate has been applied to the components of the annual accounts.

In accordance with the provision of Law 34/1998 of 7 October on the Hydrocarbon Sector, on 29 April 1999 the Company's General Meeting approved the partial spin-off of the gas distribution unit as at 31 December 1998. This economic unit became part of Gas Natural SDG, S.A., majority shareholder in the Company, effective 1 January 1999.

In addition, on 17 March 1999 the Company's Board of Directors approved the purchase from Gas Natural SDG, S.A. of gas transport assets, consisting of the principle and accessory assets, as well as all installations to which they relate.

As a consequence of operations carried out within the framework of the above-mentioned Law 34/1998, the annual accounts for 1999 are not comparable with the accounts for the previous year.

A breakdown of the assets and liabilities spun-off as at 31 December 1998 is set out below:

	Thousands of euro
Assets	
Fixed assets	430,961
Deferred expenses	607
Current assets	99,922
	531,490
Liabilities	
Share capital and reserves	217,832
Share capital	91,210
Legal reserve	6,971
Revaluation reserve	81,190
Other reserves and accumulated results	38,461
Deferred income	39,428
Provision for liabilities and charges	12,256
Long term debt	154,937
Current liabilities	107,037
	531,490

(Expressed in thousands of euro)

3. Proposed distribution of profits

The proposed distribution of net profits for 1999 that will be presented by the Board at the Annual General Meeting is set out below:

	Thousands of euro
Legal reserve	10,638
Voluntary reserve	31,910
Dividend	63,833
	106,381

4. Accounting principles

The most significant accounting policies applied during the preparation of the annual accounts are set out below:

a) Effect resulting from the spin-off. Given that the spin-off referred to in Notes 1 and 2 was carried out using pre-existing book values without any capital gains arising, there are therefore no differences between the book and reported values of the assets and liabilities concerned which would lead to the recognition of deferred tax assets or liabilities.

b) Intangible fixed assets. Intangible assets are stated at their acquisition or production cost and the amounts are amortised on a straight-line basis over five years except for administrative concessions that are amortised over the concession period.

c) Tangible fixed assets. Tangible fixed assets are stated at acquisition or production cost, except for assets restated in 1996 pursuant to Royal Decree-Law 7/1996.

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation rates applied are as follows:

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

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

e) Deferred expenses. Deferred expenses include payments fall due in future years, which are taken to profit and loss in the year concerned.

The main item recorded under this heading relates to the differential financial expense arising for the Company as a result of the loan granted to Sonatrach and ceded to the State Agency for Industrial Shareholdings (SEPI) with respect to the 1985 Algerian Gas Supply Contract. It is taken to profit and loss in accordance with the amount of therms purchased over the entire term of the contract.

f) Inventories. The raw material, liquefied gas, is stated at acquisition price in accordance with the FIFO (first in first out) method, which results in a value equal to or lower than market value. Finished products are valued at average production cost and all other materials are stated at their average acquisition cost, which in both cases results in a value that is equal to or less than market value.

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

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

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

h) Deferred income. Non-refundable grants are recorded at the amount received and allocated to income on a straight-line basis over the useful life of the fixed assets they finance.

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

Other deferred income includes prepayments received under gas transport contracts which are credited to income over the term of contract.

i) Pension fund. The external pension fund was set up in accordance with the pension plan approved by Enagas, S.A. which was adapted to the Spanish 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 monthly salary amounts. It is a mixed plan covering retirement benefits, disability and death.

j) Other provisions. The caption includes the provisions for contingences and expenses relating to probable or certain liabilities. Provisions are made when such circumstances arise based on the estimated amount of the contingences involved.

k) Corporate income tax. The profit and loss account includes corporate income tax expense. The calculation includes tax accruing during the year, the effect of the deferral of timing differences between the tax base and reported profits before taxes that reverse in subsequent years and any tax credits or deductions to which the Company is entitled.

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

The Company has filed consolidated tax returns since 1995.

(Expressed in thousands of euro)

l) Income and expense. Income and expense is recorded based on an accruals basis.

Sales of natural gas sales are recorded based on billings for consumption. Consumption of gas distribution companies is recorded through monthly readings of their meters.

m) Exchange differences. Creditor and debtor balances denominated in foreign currency are converted to euro applying the exchange rate in force at the date of the transaction.

5. Intangible fixed assets

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

	Balance 01.01.99	Increases	Decreases	Transfers	Balance 31.12.99
			Thousands of euro		
Research and development expenses	8,335	1,693	(1,618)	—	8,410
Concessions, patents, licenses, trademarks and similar items	4,350	16	—	(12)	4,354
Computer software	695	1,350	—	—	2,045
Accumulated depreciation	(9,513)	(1,682)	1,143	1	(10,051)
Net balance	3,867	1,377	(475)	(11)	4,758

6. Tangible fixed assets

The amounts and variances recorded during the year for the items making up tangible fixed assets before depreciation are as follows:

	Balance 01.01.99	Increases	Decreases	Transfers	Spin-off	Balance 31.12.99
			Thousands of euro			
Land and buildings	92,462	5,573	(303)	809	(229)	98,312
Plant and machinery	2,676,031	264,434	(96,197)	59,112	(446,559)	2,456,821
Fixtures, fittings, tools and equipment	10,724	1,387	—	—	—	12,111
Prepayments and fixed assets in course of construction	267,551	123,999	(2,495)	(59,910)	(61,029)	268,116
Other fixed assets	21,512	1,632	(977)	—	(203)	21,964
Provisions	(3,529)	(1,237)	1	—	16	(4,749)
Net balance	3,064,751	395,788	(99,971)	11	(508,004)	2,852,575

Increases includes the purchase of gas transport assets from Gas Natural SDG, S.A. for T€116,159, as described in Note 2.

The restatement of tangible fixed assets by Enagas, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of T€20,232 in the fixed asset depreciation charge for 2000.

(Expressed in thousands of euro)

Movements in restated tangible fixed assets are set out below:

	Thousands of euro
Balance as at 01 January 1999	389,973
Additions	15,418
Disposals—spin-off	83,700
Depreciation charge for the year	24,279
Balance as at 31 December 1999	297,412

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

The financial costs applied during the year to infrastructure being constructed totalled T€3,760 and as at 31 December 1999 T€129,174 was recorded as an increase in gross tangible fixed assets.

Movements in accumulated depreciation during the year are as follows:

	Balance 01.01.99	Increases	Decreases	Transfers	Spin-off	Balance 31.12.99
			Thousands of euro			
Buildings	25,925	3,037	—	—	—	28,962
Plant and machinery	638,955	136,273	(2,012)	1	(85,540)	687,677
Fixtures, fittings, tools and equipment	7,834	995	—	(1)	—	8,828
Other fixed assets	16,228	6,987	(881)	—	(76)	22,258
Net balance	688,942	147,292	(2,893)	—	(85,616)	747,725

The increases of T€147,292 in accumulated depreciation relates to the accumulated depreciation of T€107,077 for 1999 plus the T€40,215 accumulated depreciation for transport assets acquired from Gas Natural SDG, S.A.

The Company has obtained insurance policies it deems necessary to cover all reasonable risks that could affect tangible fixed asset items.

7. Investments

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

	Balance 01.01.99	Increases	Decreases	Spin-off	Balance 31.12.99
			Thousands of euro		
Shareholdings in Group companies	75,872	—	(391)	—	75,481
Loans to Group companies	111,503	5,915	(24,637)	—	92,781
Shareholdings in associated companies	20,691	—	(1,069)	—	19,622
Long-term securities portfolio	7,998	694	(1,444)	—	7,248
Other loans	23,628	2,423	(6,223)	(6,292)	13,536
Long-term deposits and guarantees	4,875	121	(17)	(3,925)	1,054
Deferred taxes	29,167	17,886	(241)	(4,541)	42,271
Provisions	(10,365)	(1,016)	3,097	6,185	(2,099)
Net balance	263,369	26,023	(30,925)	(8,573)	249,894

(Expressed in thousands of euro)

Loans to Group companies fall due in 2011 and bear market interest rates. The balances relate to the loans to Gasoducto Al-Andalus, S. A. and Gasoducto de Extremadura, S. A.

At 31 December 1999 accrued interest not yet payable amounts to T€3,929.

Details of the Company's relevant direct shareholdings are set out below:

	Location	Activity	% Interest Direct	Capital	Reserves	Results
				Thousands of euro		
Shareholdings in Group companies						
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	66,96	35,460	1,552	8,000
Gasoducto Extremadura, S.A.	Madrid	Gas transport	51,00	19,082	(7,034)	3,531
Sagane, S.A.	Madrid	Gas supply	99,99	94,960	(21,633)	6,029
Shareholdings in associated companies						
Sociedad de Gas de Euskadi, S.A.	Bilbao	Gas distribution	20,50	47,320	98,643	25,524

Dividends received in 1999 from Group and associated companies amount to T€2,957.

The movement in Provisions basically relates to the reversal of the provision for Gasoducto Extremadura, S.A.

The main balances in the Long-term securities portfolio relate to the shareholdings in Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.

The main balances recorded under Other loans basically relate to the loans to Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. They bear interest at market rates and mature in 2011.

8. Inventories

At 31 December 1999 the breakdown of inventories is as follows:

	Thousands of euro
Liquid natural gas (LNG)	16,187
Finished products	203,257
Consumables and spare parts	9,364
	228,808

9. Debtors

The items Accounts receivable from Group and Associated companies relate basically to sale of natural gas.

10. Shareholders' equity

Balances and movements, excluding profit for the year, during the year recorded under this heading as at 31 December 1999 are as follows:

	Balance 01.01.99	Distribution of result at 1998	Spin-off	Balance 31.12.99
		Thousands of euro		
Share capital	632,119	—	(91,210)	540,909
Revaluation reserve	429,389	—	(81,190)	348,199
Legal reserve	38,563	9,756	(6,971)	41,348
Other reserves	334,826	87,807	(38,461)	384,172
	1,434,897	97,563	(217,832)	1,314,628

(Expressed in thousands of euro)

Share capital consists of 17,999,935 ordinary bearer shares with a par value of 5,000 pesetas (€30.05) each, all fully paid in and bearing the same voting and economic rights, after taking into account the share capital reduction consisting of 3,035,200 shares.

Share capital is entirely held by Gas Natural SDG, S.A., except for one share owned by La Propagadora del Gas, S.A.

The revaluation reserve accepted by the tax authorities is not available for distribution. The account balance of the Revaluation Reserve (Royal Decree Law 7/1996) may be used to offset losses, increase share capital or, after 31 December 2006, it can be transferred to unrestricted reserves under certain conditions.

The legal reserve is not available for distribution.

11. Deferred income

Deferred income mainly relates to capital grants amounting to T€363,384 and accruals under gas transportation contracts totalling T€221,192.

12. Provisions for liabilities and charges.

The balance in Other provisions as at 31 December 1999 relates to provisions made for probable liabilities arising from identified contingencies.

13. Long-term debts

These items break down as follows:

	Long term	Short term
	Thousands of euro	
Bank loans and credit facilities	108,240	6,731
Accrued interest	—	159
	108,240	6,890

Debts with credit institutions include long-term loans denominated in escudos totalling T€16,165.

Long-term loans and credit facilities accrue interest at market rates and are due as follows:

2001	6,731
2002	7,680
2003	8,629
2004	8,629
2005	8,630
In more than five years	67,941
	108,240

14. Amounts owned to Group companies

Amounts due to Group companies falling due within and after more than one year relate to loans granted by Gas Natural SDG, S.A. at market rates. The long-term balances are due in 2003.

(Expressed in thousands of euro)

15. Tax situation

Enagas, S.A. is included in the Gas Natural Consolidated Tax Group. In 1999 the consolidated tax group included Gas Natural SDG, S.A.; Compañía Española del Gas, S.A.; Gas Natural Castilla y León, S.A.; Gas Castilla-La Mancha, S.A.; Gas Natural Informática, S.A.; Compañía Auxiliar de Industrias Varias, S.A.; Gas Tarraconense, S.A.; Gas Andalucía, S.A.; Gas Lleida, S.A.; Gas Penedés, S.A.; Gas Vic, S.A.; Gas Natural Extremadura, S.A.; Equipos y Servicios, S.A.; Gas Natural Servicios SDG, S.A.; G.N. Internacional SDG, S.A.; Holding Gas Natural, S.A.; La Propagadora del Gas, S.A.; La Energía, S.A.; Sagane, S.A.; Gas Natural Murcia SDG, S.A.; Gas Natural Cantabria SDG, S.A.; Gas Natural Colombia, S.A.; Gas Natural Latinoamericana, S.A.; Desarrollo del Cable, S.A.; Gas Natural Electricidad SDG, S.A.; Gas Natural Comercializadora, S.A.; and Gas Natural Aprovisionamientos SDG, S.A.

The reconciliation of the difference between reported profit and initial tax base (taxable income) is set out below:

	Thousands of euro
Reported profit before taxes	158,703
Permanent differences:	
• Sale of shareholding in Gas Galicia	(5,872)
• Other	2
Timing differences:	
• Provisions for liabilities and charges	50,987
• Accelerated depreciation	(889)
• Other	(539)
Initial tax base (taxable income)	202,392

Tax credits for double taxation applied to the tax base in 1999 amount to T€1,169.

At the year end the Company had paid T€36,927 on account of corporate income tax for the year.

The balances and variances in prepaid/deferred corporate income tax are set out below:

	Balance 01.01.99	Variation	Spin-off	Balance 31.12.99
		Thousands of euro		
Deferred tax asset:				
• Provisions	3,383	—	—	3,383
• Capital grants	1,866	—	(252)	1,614
• Other	23,918	17,645	(4,289)	37,274
	29,167	17,645	(4,541)	42,271
Deferred tax liability:				
• Provisions	3,819	71	(1,179)	2,711
	3,819	71	(1,179)	2,711

The Company's tax returns from 1995 and subsequent years are open to inspection.

(Expressed in thousands of euro)

16. Net turnover

Activity is carried out solely in the domestic market. Sales break down as follows:

Sales of natural gas	1,503,734
Other sales	41
	1,503,775

17. Supplies

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

18. Personnel costs

The Company's average number of employees during the year, by category, was as follows:

Executives and technicians	309
Administration and sales staff	137
Professionals and auxiliary personnel	422
	868

19. Other operating expenses

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

20. Extraordinary results

Extraordinary income basically relates to the sale of the shareholding in Gas Galicia SDG, S.A.

21. Matters deriving from the implementation of the euro

The Company has analysed the implications of introducing the euro into its general business and concluded that there will be no significant impact. In this respect the Company has drawn up an action plan in order to comply with the key deadlines for introducing the euro.

The estimated costs for the steps to be taken, as well as the investments to be made and expenses incurred during the process to implement the euro, are not significant.

22. Other information

In 1999 remuneration accrued to the Members of the Board of Directors amounted to T€155.

The Company has not entered into any pension payments or life insurance policies commitments with respect to Members of the Board of Directors.

Costs shared by the Company and other Group gas companies are divided and allocated in accordance with criteria based on activity parameters or cost generators.

Transactions with Group and associated companies recorded under Income total T€1,483,998, while T€415,488 is recorded under expenses.

(Expressed in thousands of euro)

At 31 December 1999 gas purchase rights amount to 3,255,400,000 thousand therms for the period 2000 to 2030. All contracts include "take or pay" clauses.

Furthermore, there are long-term contracts for 8 cryogenic ships for liquid natural gas transport.

At 31 December 1999 gas transportation rights amount to 1,188,159,840 thousand therms for the period 2000 to 2020. All contracts include "ship or pay" clauses.

In 1999 the costs incurred by the Company with respect to year 2000 projects were not significant and they are not expected to be in the future. The Company does not believe that any risks or uncertainties will arise due to the effect of the year 2000.

23. Subsequent events

There have been no significant events taking place after 31 December 1999.

24. Statement of source and application of funds

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

	1999	1998
APPLICATION OF FUNDS		
Purchases of fixed assets	427,123	297,112
Intangible fixed assets	3,059	1,609
Tangible fixed assets	397,025	253,582
Investments	27,039	41,921
Repayment or reclassification to current liabilities of liabilities due after one year	—	64,959
Total applications of funds	427,123	362,071
Surplus of sources over application of funds (Increase in working capital)	255,896	24,608
SOURCE OF FUNDS		
Funds generated from operations	269,007	238,731
Deferred income	20,206	127,272
Debts falling due after one year	245,325	—
Proceeds from disposal of fixed assets	141,367	20,675
Intangible fixed assets	475	3
Tangible fixed assets	106,870	648
Investments	34,022	20,024
Disposals resulting from spin-off	7,114	—
Total sources of funds	683,019	386,678
Surplus of applications over sources of funds (Reduction in working capital)	—	—

	1999		1998	
	Thousands of euro			
Changes in working capital	Increases	Decreases	Increases	Decreases
Inventories	57,828	—	42,825	—
Debtors	144,710	—	26,264	—
Creditors	27,047	—	—	42,037
Current investments	6,604	—	—	44
Cash at bank and in hand	6,528	—	—	430
Prepayments	6,065	—	—	1,971
Disposal resulting from spin-off	7,114	—	—	—
	255,896	—	69,089	44,482
Change in working capital	255,896	—	24,607	—

The reconciliation of book profit for the year and resources generated from operations is as follows:

	1999	1998
	Thousands of euro	
Profit for the year	106,381	97,563
Increases:	194,640	169,122
Depreciation and amortisation	148,974	112,366
Provision for liabilities and charges	46,511	57,024
Changes in the provision for investments	(2,081)	(268)
Changes in the provision for fixed assets	1,236	—
Decreases:	32,014	27,954
Income and deferred expenses	32,014	16,997
Provisions applied	—	10,957
Total	269,007	238,731

ENAGAS, S.A.

DIRECTORS' REPORT 1999

1. Company Development in 1999

Net profit totalled T€106,381, representing a 9% increase over the previous year. Gas sales increased by 4.7% compared with the preceding year.

Net turnover amounted to T€1,503,786. The 99.9% of turnover relates to gas sales and the remaining 0.1% relates to services rendered.

Resources generated by operations total T€238,474. These resources have partially financed the tangible fixed asset investment plan totalling T€356,811, aimed basically at extending and improving the transportation network to 5,701 km at 31 December 1999.

Shareholders' equity recorded by Enagas, S.A. amount to T€1,421,009 at 31 December 1999.

Share capital consists of 17,999,935 ordinary bearer shares with a par value of 5,000 pesetas (€30.05) each, all fully paid in and bearing the same voting and dividend rights.

The Company has not carried out any transactions involving its own shares.

The Company is implementing its Environmental Management System in co-ordination with the other companies pertaining to Gas Natural Group, and invoking the environmental policy established in its Environmental Manual. The environmental plan established will allow for the audit and certification of the system by an accredited agency at the Company's various plants over the course of 2000.

2. Subsequent events

There have been no significant events that took place after 31 December 1999.

3. Future prospects

In accordance with the provisions of Law 34/1998 and Royal Decree 1914/98 on Third Party Access to the Network, meetings and negotiations have been held with companies that may potentially have a need to use the transport network owned by Enagas, S.A.

During 2000 a large number of these negotiations are expected to be completed and third party access to the regasification and transport network installations will begin to be regulated.

In December 1999 a contract was concluded with a leading Spanish company and the first ship was unloaded at our installations.

For Enagas, S.A. the new legal framework means that we will be able to strengthen our basic transport activity and continue with the gasification process and extend supplies to new zones.

Supply security levels will be maintained, investing in meshed and security infrastructures for the gas system and the policy of diversifying supply sources will continue.

We will also continue to develop energy policies that promote environmental efficiency.

4. Research and development activities

Technology innovation activities carried out by the Company in 1999 concentrated on the evaluation, development and demonstration of new gas technologies, with the aim of increasing and improving the competitiveness of natural gas in different applications, focusing technological efforts on projects with strategic value for the Company.

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

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A free translation of the unaudited consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

ENAGAS GROUP

UNAUDITED CONSOLIDATED BALANCE SHEET

as at 31 March 2002 and 2001

(Expressed in Thousands of euro)

	31.03.2002	31.03.2001
ASSETS		
Fixed assets	2,318,491	2,278,917
Start up expenses (Note 3)	—	193
Intangible fixed assets (Note 4)	7,954	4,283
Research and development expenses	12,155	10,828
Concessions, patents, licences, trademarks and similar items	6,428	4,397
Computer software	4,566	2,042
Accumulated depreciation	(15,195)	(12,984)
Tangible fixed assets (Note 5)	2,266,179	2,190,460
Land and buildings	72,731	72,119
Plant and machinery	2,763,613	2,544,771
Fixtures, fittings, tools and equipment	10,053	9,098
Prepayments and fixed assets in course of construction	347,744	381,713
Other fixed assets	19,238	17,783
Provisions	(12,732)	(13,260)
Accumulated depreciation	(934,468)	(821,764)
Investments (Note 6)	44,358	83,981
Loans to Group companies	36,882	38,817
Shareholdings in associated companies	—	34,175
Long-term securities portfolio	1,320	767
Other loans	567	1,359
Long term deposits and guarantees	621	220
Provisions	(312)	(312)
Deferred taxes (Note 15)	5,280	8,955
Deferred expenses (Note 7)	19,623	20,724
Current assets	270,400	378,611
Inventories (Note 8)	8,285	99,715
Raw materials and other consumables	8,285	7,972
Finished products	—	91,743
Debtors	249,795	268,381
Trade debtors for sales and services rendered	62,740	45,188
Accounts receivable from Group companies (Note 9)	117,812	194,631
Accounts receivable from Associated companies (Note 9)	47,165	25,580
Other accounts receivable	4,830	3,445
Loans to employees	288	15
Public institutions	18,509	1,071
Provisions	(1,549)	(1,549)
Current asset investments	8,245	8,323
Loans to Group companies	1,844	3,069
Loans to associated companies	6,401	5,254
Cash in hand and at bank	3,620	1,951
Prepayments	455	241
	2,608,514	2,678,252

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

ENAGAS GROUP

UNAUDITED CONSOLIDATED BALANCE SHEET

as at 31 March 2002 and 2001

(Expressed in Thousands of euro)

	31.03.2002	31.03.2001
LIABILITIES		
Shareholders' equity (Note 10)	815,431	789,980
Share capital	358,705	358,705
Revaluation reserve	342,505	342,505
Legal reserve	46,988	34,473
Voluntary reserve	15,942	1,388
Reserves in companies consolidated using the proportional integration method	(741)	(741)
Reserves in companies consolidated using the equity consolidation method	—	14,554
Retained earnings	117,844	125,155
Consolidated profit and loss account	35,788	16,113
Interim dividend paid relating to the prior year	(101,600)	(102,172)
Deferred income (Note 11)	494,464	495,216
Capital grants	428,291	421,024
Other deferred income	66,173	74,192
Provisions for liabilities and charges (Note 12)	2,051	60,595
Provision for taxes	—	59,358
Other provisions	2,051	1,237
Long-term debt	910,049	939,046
Bank loans (Note 13)	74,298	86,321
Amounts due to Group and associated companies (Note 14)	833,257	849,970
Amounts due to Group companies	833,257	849,970
Other creditors	2,494	2,755
Deferred taxes (Note 15)	2,494	2,755
Current liabilities	386,519	393,415
Bank loans (Note 13)	85,134	17,956
Amounts due to Group and associated companies	202,631	288,872
Amounts due to Group companies (Note 14)	202,631	288,872
Trade creditors	66,814	59,780
Creditors for purchases or services received	66,814	59,780
Other creditors	31,940	26,807
Taxes and Social Security contributions	22,323	15,200
Other creditors	2,233	5,045
Accrued wages and salaries	328	542
Short-term deposits and guarantees received	7,056	6,020
	2,608,514	2,678,252

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

ENAGAS GROUP

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three month periods ended 31 March 2002 and 2001

(Expressed in Thousands of euro)

	31.03.2002	31.03.2001
EXPENSES		
Supplies (Note 17)	445,158	662,360
Consumption of raw materials and consumable materials	443,983	661,294
Other external expenses	1,175	1,066
Personnel costs (Note 18)	12,323	11,581
Wages, salaries and similar remuneration	9,134	8,406
Social Security expenses	3,189	3,175
Fixed asset depreciation	29,435	27,222
Other operating expenses (Note 19)	30,943	31,165
External services	30,935	31,015
Taxes	8	150
Operating profit	63,342	33,423
Financial and similar expenses	8,996	13,407
Exchange losses	8	38
Net financial income	—	—
Profit from ordinary activities	54,829	20,731
Net extraordinary profit	147	2,636
Profit before taxes	54,976	23,367
Corporate income tax (Note 15)	19,188	7,254
Net Profit for the period	35,788	16,113

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

ENAGAS GROUP

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three month periods ended 31 March 2002 and 2001

(Expressed in Thousands of euro)

	31.03.2002	31.03.2001
INCOME		
Net turnover (Note 16)	568,278	752,713
Sales	485,023	720,023
Services rendered	83,255	32,690
Own work capitalised	51	61
Other operating income	12,872	12 977
Other income	7,076	8,944
Capital grants	5,796	4,033
Income from shareholdings	397	631
Other interest and similar income	92	110
Exchange gains	2	12
Financial income/(Expense)	8,513	12,692
Profit on disposal of intangible and tangible fixed assets and controlling shareholdings	147	2,636

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

ENAGAS GROUP

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the three month periods ended 31 March 2002 and 2001

(Expressed in thousands of euro)

1. Basis of presentation and consolidation principles

a) Basis of presentation

The consolidated financial statements of the Enagas Group were prepared from the accounts of Enagas, S.A. and the consolidated companies as at 31 March 2002 and 2001 and in accordance with the provisions of the Spanish General Accounting Plan, Spanish generally accepted accounting principles and the applicable consolidation rules.

The figures set out in the consolidated balance sheet, consolidated profit and loss account and these notes to the consolidated financial statements are stated in thousands of euro (T€).

The new remuneration structure for regulated activities in the Spanish natural gas sector, which came into force on February 19, 2002, has significantly charged the way the company is remunerated for its regulated activities. Consequently, the revenue figure shown in our financial statements for 2001 and previous years cannot be compared with our revenues for 2002 or any future financial period (see Note 2).

b) Consolidation principles applied to the consolidated financial statements

Investee companies of Enagas, S.A., included within the scope of consolidation are set out below:

Company	% Shareholdings
Gasoducto Al-Andalus, S.A. (Spain)	66,96
Gasoducto Extremadura, S.A. (Spain)	51,00
Gasoducto Campo Maior-Leiria-Braga, S.A. (Portugal)	12,00
Gasoducto Braga-Tuy, S.A. (Portugal)	49,00
Sociedad de Gas de Euskadi, S.A. (Spain) (Only as at 31 March 2001)	20,50

All the above mentioned companies have as their only activity the transportation of natural gas.

The Company records other direct and indirect shareholdings that have not been included in the consolidation process at cost as they are deemed insignificant with respect to presenting a true and fair view of the consolidated financial statements (see Note 6).

The consolidation was carried out as follows:

— The proportional integration method has been used for multi-group companies, Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. managed jointly with Transgas, S.A. (a Portuguese company).

— The proportional consolidation method has been used for Sociedad de Gas de Euskadi, S.A. as at 31 March 2001, because this participation was sold by Enagas, S.A. to Gas Natural SDG, S.A. on 27 April 2001.

— Transactions with consolidated companies:

During the consolidation process, payables, receivables, income, expenses and results of operations with other Group companies have been eliminated in the same proportion as Enagas, S.A.'s shareholding in those companies.

— Consistency

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

— Translation of financial statements denominated in foreign currencies.

All the companies included in the scope of consolidation prepare their accounts in euro and therefore effective January 1, 1999 no foreign currency translation process has been necessary.

2. Accounting principles

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

a) Start up expenses

Formation, start-up and capital increase expenses for Gasoductos Al-Andalus, S.A. and Extremadura, S.A are recorded at cost and are amortised over a period of five years except Gasoducto Braga-Tuy, S.A. where a four year period is used.

b) Intangible fixed assets

Intangible fixed assets (including research and development expenses) are stated at their acquisition or production cost and amortised on a straight-line basis over five years, except for administrative concessions that are amortised over the concession period.

c) Tangible fixed assets

Tangible fixed assets are stated at acquisition or production cost, except for any restatement arising as a result of the fixed asset revaluation conducted by Enagas, S.A. in 1996 pursuant to Royal Decree-Law 7/1996.

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

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

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

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

All necessary provisions for depreciation are recorded to cover potential contingencies that could lead to the assets becoming inactive.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives. The depreciation rates applied are as follows:

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

d) Investments

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

e) Deferred expenses

Under deferred expenses Enagas, S.A. includes payments that fall due in future years and are taken to profit and loss in the year concerned. Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. record the gas transportation rights and related financial expenses that are directly related, which are amortised at 4.35% per year.

f) Inventories

The raw material, liquefied gas, is stated at acquisition price in accordance with the FIFO (first in first out) method, which results in a value equal to or lower than market value. Other consumables are stated at average acquisition cost, also resulting in a value which is equal to or lower than market value.

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

g) Trade and non-trade accounts receivable

Accounts receivable, regardless of whether or not they arise in the normal course of business, are recorded at their nominal value and classified as short or long-term depending on whether they fall due within or after more than one year.

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

h) Reserves in companies consolidated using the proportional integration method and equity consolidation method.

These reserves relate to the difference between the book value of the interest held in the consolidated companies and their theoretical book value (net equity).

i) Deferred income

Capital grants are recorded at the amount received and allocated to income on a straight-line basis over the useful life of the fixed assets they finance.

In order to give a true and fair view, capital grants allocated to profit and loss for the year are recorded under Other operating income in order to provide a correlation with the depreciation charged on related assets.

Other deferred income includes prepayments received under gas transport contracts which are credited to income over the term of the contract.

j) Pension fund

The external pension fund was set up in accordance with the pension plan approved by Enagas, S.A. which was adapted to the requirements of Spanish Law on pension plans and funds. It is a defined contribution plan covering the commitments of 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 monthly salary amounts. It is a mixed plan covering retirement benefits, disability and death. The charge in the profit and loss account of 2002 and 2001 for this item amounts to T€ 451 and T€ 506 respectively.

k) Other provisions

This caption includes the provisions for contingencies and expenses relating to probable or certain liabilities. Provisions are made when such circumstances arise based on the estimated amount of the contingencies involved.

l) Corporate income tax

The consolidated profit and loss account records the corporate income tax expense for each of the consolidated companies. The calculation includes the tax accruing during the year, the effect of the deferral of timing differences between the tax base and reported profits before taxes that reverse in subsequent years and any tax credits or deductions to which the Company is entitled. The Company's policy is to record deferred tax assets only if there is no doubt as to their future recovery.

m) Income and expense

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

Set out below is an explanation of the methods applied prior to and following the issue of new regulations on 15 February 2002 (applicable as from 19 February 2002):

Up to 18 February 2002

Gas sales are recorded on the basis of consumption billed. Consumption by gas distribution companies is based on monthly meter readings.

Income from storage, transport and regasification services rendered (third-party access to the network) of the regulated market is recorded based on amounts invoiced, which is calculated on the basis of monthly meter readings of therms stored, processed and transported.

As from 19 February 2002

Regulated activities

On 15 February 2002 three Ministerial Orders were approved by the Spanish Ministry of Economy to introduce the new remuneration system for the Spanish natural gas industry's regulated activities. These Orders established the remuneration for the regulated gas industry activities as well as the natural gas tariffs, tolls, royalties associated to the access of Third-parties to the gas facilities, among others and was published in the Official State Gazette on 18 February 2002, taking effect the day after its publication, establishing the total remuneration to be received for the entire year 2002 for the activities of system technical management and gas distribution and for all the companies that perform these activities, as well as the formulae and methods for updating remuneration in future years.

Under the new regulations, Enagas, S.A. has the right to obtain remuneration for the following activities:

— Regasification.

— Storage.

— Transport.

— Management of purchase and sales.

— System Technical Management.

Incomes from the activities of Regasification, storage and transport

Ministerial Order 301 issued on 15 February 2002 regulates income from the regulated activities of regasification, storage and transportation, consisting of those activities cost, stipulating that the authorised cost of regasification, transport and storage activities shall be made up of a fixed and a variable component.

— **Authorised fixed cost.** This is calculated based on production assets and represents remuneration for investment costs and operating costs of the gas system assets operated.

Remuneration for investment costs comprises the following items:

i) Remuneration for the depreciation of system assets is calculated based on the gross updated book value of the assets (including the effect of the asset restatement carried out in 1996 under Royal Decree-Law 7/1996) reduced by the amount of capital grants received to finance the assets. A revaluation coefficient consisting of the average of the Consumer Price Index and the Industrial Price Index is applied to this difference. The depreciation rate corresponding to the useful life of the asset is then applied to the amount calculated to obtain at the amount of income for this item. No remuneration for depreciation is recognised for fully depreciated assets.

ii) Financial remuneration for the value of the investment is calculated by applying a financial remuneration rate of the annual interest rate for Government ten year bonds or the interest rate which replaces it plus 1.5% to the value obtained in the previous paragraph. In the case of fully depreciated assets, the rate is applied to 50% of the value obtained in the previous paragraph.

Remuneration for operating costs of system assets is calculated on the basis of the authorised costs of gas system facilities in 2000 for each activity, these being standard costs per physical and technical unit. The annual revaluation coefficient, consisting of the average of the Consumer Price Index and the Industrial Price Index, is applied to the standard cost. These updated standard costs are applied to the physical units, resulting in the amount of income for this item.

For 2002, the authorised fixed cost for the three activities carried on by the Gas Natural Group amounts to € 423 million, approximately € 407 million of which relates to Enagas, S.A The forecast gas demand in Article 18 of the Order ECO/301/2002 of 15 February 2002 is 237,246 Gwh (gigawatt hour) in the current year. This will be reviewed at the year end based on actual total demand for 2002.

As the Company is remunerated under the new system for investments made and the cost of the investments is equal to the annual depreciation charged on a straight-line basis to the profit and loss account, the Company takes the income arising from authorised fixed costs to profit and loss on a straight line basis, ensuring the correlation of income (remuneration) and expenses (depreciation).

— **Authorised variable cost.** This is calculated on the basis of kWh actually regasified and the variable unit value of regasification for the relevant period. For 2002, this cost has been set at 0.000243 euro per kWh regasified. This variable retribution will be obtained applying the regasified gas over the previous rate.

The income is taken to profit and loss on an accrual basis based on the amount of monthly regasified gas.

Income for System Technical Management

Income from this activity is calculated annually based on the authorised cost for each year. The purpose is to pay remuneration to Enagas, S.A. for the fulfillment of its obligations as System Technical Manager, which include coordinating the development, operation and maintenance of the transport network, supervising natural gas supply safety (storage levels and emergency plans), preparing plans for the future development of gas infrastructures and controlling third-party access to the network.

For 2002, the charge that will be used to pay remuneration for System Technical Management to companies owning regasification, transport, storage and distribution facilities, calculated as a percentage of turnover from tolls and royalties arising from third-party access to the network, will be 0.63% of tolls and royalties and 0.3 % of tariffs. This charge will be paid by the companies during the periods and in the manner laid down in the settlement procedure into the deposit account that will be opened by the National Energy Commission for these purposes.

The turnover percentage referred to above will be calculated based on the amount obtained by applying the maximum tolls and royalty rates to the amounts invoiced, without deducting any discounts agreed by facility owners and users.

The stipulated income for System Technical Management in 2002, in accordance with the report published by the Energy National Commission on 7 January 2002, amounts to €8,955 million.

The above-mentioned income is taken to profit and loss using the straight-line method.

Settlement of tolls associated to the access of Third-party to the gas facilities

Remuneration for regulated activities basis to settlement (third-party access to the network and system technical management) is invoiced and collected to be laid down in the settlement procedure that has not yet been issued by the Ministry of Economy. Chapter V of Royal Decree 949/2001 (3 August) states that monthly provisional settlements will be made on account of a yearly final settlement.

Income from gas purchases and sales

In accordance with the Hydrocarbons Act, Enagas, S.A. as a transport company has been assigned the activity consisting of the purchase and sale of gas for supply to distribution companies, which in turn sell the gas to the market at the regulated price, as laid down in Royal Decree 949/2001 (3 August). Solely for this purpose, Enagas, S.A. purchases gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A. Gas consumption by distribution companies is monitored based on monthly meter readings.

The cost and selling price of gas are set using the following methods:

— Gas purchase price. This raw material cost (CMP) is calculated based on the average cost of the gas (depending on the average price of Brent crude (short contract/spot), purchased CIF, paid by the transport company for sale on the regulated market, including costs incurred for gas positioning in the basic network. This cost will be calculated quarterly in January, April, July and October each year.

— Selling price. The transfer price includes the cost of the raw material for sale on the regulated market, management costs incurred in purchasing and selling natural gas and the average regasification cost. The transfer price will vary when raw material cost prices are changed by decision of the Directorate General for Energy Policy and Mines, or on a annual basis, if the structure or terms of supply are altered.

The income received by Enagas, S.A. for performing this gas purchase and sale activity is designed to act as remuneration for raw material costs, having been set at 0.011111 euro per kWh. Since this income is not subject to liquidation, the criteria for imputation to the profit and loss account is based on billing to the distribution companies of the obtained monthly real consumption obtained from the readings of their meters. The income will be taken to profit and loss on an accrual basis.

Income from the management of gas purchases and sales

The purpose of this income is to remunerate the management of gas purchases and sales for the supply of gas to distribution companies, which then sell the gas on the market at a regulated price. This remuneration is calculated using the following methods:

— Specific total cost of gas purchases and supplies. It is calculated by applying a percentage to the volume of gas sold on the market at a regulated price and valued at the average cost of the raw material sold during the year. In 2002 the applicable percentage is 0.005%.

— Cost of gas shrinkage during the regasification, storage and transport of gas to be sold on the market at a regulated price, as broken down below:

  - Regasification: 0.5% of the average cost of the raw material to be sold on the market at a regulated price in respect of the volume of gas unloaded at the regasification plants for sale on the market at a regulated price.

  - Storage: 2.11% of the average cost of the raw material in respect of the volume of gas injected into the underground storage areas for sale to the market at a regulated price.

  - Transport: 0.43% of the average cost of the raw material in respect of the volume of gas fed into the transport system for sale to the market at a regulated price.

— Cost of financing inventories of gas for sale to the market at a regulated price. This cost is calculated by applying a coefficient of 0.218% to the volume of gas demanded by final customers (valued at the average cost of the raw material for sale to the market at a regulated price), using a financial cost rate for a three month period of last year using Euribor plus 0.5%. For the year 2002 it is set at a rate of 4.5%.

The total income estimated by Enagas, S.A. for 2002 from this activity, in accordance with the report published by the National Energy Commission on 7 January 2002, amounts to T€ 23,983. The income is taken to profit and loss using the straight-line method.

n) Exchange differences.

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

(Expressed in thousands of euro)

3. Start up expenses

3.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.00	Amortisation	Balance as at 31.03.01
Formation expenses	219	(46)	173
Share capital increase expenses	25	(5)	20
	244	(51)	193

3.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.01	Amortisation	Balance as at 31.03.02
Formation expenses	37	(37)	—
Share capital increase expenses	5	(5)	—
	42	(42)	—

4. Intangible fixed assets

4.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.00	Increases	Balance as at 31.03.01
Research and development expenses	10,424	404	10,828
Concessions, patents, licences, trademarks and similar items	4,397	—	4,397
Computer software	2,042	—	2,042
Accumulated amortisation	(12,654)	(330)	(12,984)
	4,209	74	4,283

4.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.01	Increases	Balance as at 31.03.02
Research and development expenses	11,827	328	12,155
Concessions, patents, licences, trademarks and similar items	4,752	1,676	6,428
Computer software	3,802	764	4,566
Accumulated amortisation	(14,710)	(485)	(15,195)
	5,671	2,283	7,954

4.3 The increases in concessions and computer software correspond basically to the concession of Lands of the Port of Huelva for the Regasification Plant and to the investments that the Company is making in independent computing systems as a part of its plan to operate independently from Gas Natural in 2002 and therefore no longer being reliant on Gas Natural SDG's computers systems.

(Expressed in thousands of euro)

5. Tangible fixed assets

5.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro				
	Balance as at 31.12.00	Increases	Decreases	Transfers	Balance as at 31.03.01
Land and buildings	70,486	2,147	(514)	—	72,119
Plant and machinery	2,539,986	4,785	—	—	2,544,771
Fixtures, fittings, tools and equipment	9,008	90	—	—	9,098
Prepayments and fixed assets in course of construction	357,920	23,793	—	—	381,713
Other fixed assets	17,608	175	—	—	17,783
Provisions	(13,260)	—	—	—	(13,260)
Accumulated amortisation	(794,924)	(26,840)	—	—	(821,764)
	2,186,824	4,150	(514)	—	2,190,460

5.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro				
	Balance as at 31.12.01	Increases	Decreases	Transfers	Balance as at 31.03.02
Land and buildings	72,731	—	—	—	72,731
Plant and machinery	2,727,548	6 979	(1,409)	30,495	2,763,613
Fixtures, fittings, tools and equipment	9,628	425	—	—	10,053
Prepayments and fixed assets in course of construction	350,523	27,754	—	(30,533)	347,744
Other fixed assets	19,246	6	(14)	—	19,238
Provisions	(12,732)	—	—	—	(12,732)
Accumulated amortisation	(905,760)	(28,907)	161	38	(934,468)
	2,261,184	6,257	(1,262)	—	2,266,179

5.3 Increases are the last part of the investments that the Company is making in the Cartagena Regasification Plant.

5.4 The restatement of tangible fixed assets by Enagas, S.A. in accordance with the provisions of Royal Decree Law 7/1996 (7 June) will cause an increase of approximately T€ 17,606 in the fixed asset depreciation charge for 2002.

Movements in restated tangible fixed assets are set out below:

	Thousands of euro	
	31.03.02	31.03.01
Balance as at 1 January	248,262	267,599
Disposals	(1)	—
Depreciation charge for the period	(4,402)	(4,821)
Balance as at 31 March	243,859	262,778

5.5 Financial costs for the period ended as at 31 March 2002 relating to infrastructure projects under construction amount to T€ 905 and T€ 117 and relate to the difference between assets acquired and assets transferred to Gas Natural SDG., S.A. at 31 March 2002, which represented an increase in the cost of tangible assets in the amount of T€ 141,436.

(Expressed in thousands of euro)

5.6 Plant and machinery includes non-extractable gas assets located in subterranean natural gas fields totalling T€ 118,720.

5.7 The Company has obtained insurance policies it deems necessary to cover all reasonable risks that could affect tangible fixed asset items.

6. Investments

6.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro			
	Balance as at 31.12.00	Increases	Decreases	Balance as at 31.03.01
Loans to Group companies	39,808	—	(991)	38,817
Shareholdings in associated companies	34,175	—	—	34,175
Long-term securities portfolio	767	—	—	767
Other loans	1,340	38	(19)	1,359
Long-term deposits and guarantees	220	—	—	220
Deferred taxes	8,999	12	(56)	8,955
Provisions	(312)	—	—	(312)
	84,997	50	(1,066)	83,981

6.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro			
	Balance as at 31.12.01	Increases	Decreases	Balance as at 31.03.02
Loans to Group companies	36,446	436	—	36,882
Long-term securities portfolio	1,320	—	—	1,320
Other loans	572	—	(5)	567
Long-term deposits and guarantees	617	4	—	621
Deferred taxes	5,330	—	(50)	5,280
Provisions	(312)	—	—	(312)
	43,973	440	(55)	44,358

6.3 Loans to Group companies are receivable in 2011 and bear market interest rates (using Euribor). The balances relate to the interest held by Transgas, S.A. in the loans to Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior—Leiria—Braga, S.A. y Gasoducto Braga—Tuy, S.A.

6.4 The Shareholdings in associated companies as at 31 of March of 2001 corresponds to the investment of 20.5% in Sociedad de Gas de Euskadi, S.A.'s share capital.

6.5 The provisions, which have shown no movement, relate exclusively to the provision for the 8% investment held in the company Iran Gas Europe.

(Expressed in thousands of euro)

7. Deferred expenses

7.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.00	Decreases	Balance as at 31.03.01
Enagas, S.A. (note 7.3)	634	(17)	617
Gasoducto Campo Maior-Leiria-Braga, S.A.	12,445	(156)	12,289
Gasoducto Braga-Tuy, S.A.	7,921	(103)	7,818
	21,000	(276)	20,724

7.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro		
	Balance as at 31.12.01	Decreases	Balance as at 31.03.02
Enagas, S.A. (Note 7.3)	567	(16)	551
Gasoducto Campo Maior-Leiria-Braga, S.A.	11,820	(156)	11,664
Gasoducto Braga-Tuy, S.A.	7,511	(103)	7,408
	19,898	(275)	19,623

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

7.4 The balance for Gasoducto Campo Maior—Leiria—Braga, S.A. and Gasoducto Braga—Tuy, S.A. records the prepayment in advance by these companies to Transgas, S.A. of gas transportation rights and the related financial expenses.

8. Inventories

In 2001 all natural gas inventories located in subterranean fields were sold to Gas Natural SDG, S.A

Inventories at 31 December 2001 relate mainly to materials used for the maintenance of the regasification plants and gas pipeline networks.

9. Debtors

The items Accounts receivable from Group and Associated companies relate basically to the sale of natural gas by Enagas, S.A. to Group companies Gas Natural and Gas de Euskadi, S.A., respectively.

(Expressed in thousands of euro)

10. Shareholders' equity

10.1 The amounts and variances, during the period from 31 December 2000 and 31 March 2001, in the items included under this heading are set out below:

	Thousands of euro				
	Balance as at 31.12.00	Distribution of 2000 profit/(loss)	Other	First Quarter profit	Balance as at 31.03.01
Share capital	358,705	—	—	—	358,705
Revaluation reserve	342,505	—	—	—	342,505
Legal reserve	34,473	—	—	—	34,473
Voluntary reserve	4,099	—	(2,711)	—	1,388
Reserves in companies consolidated using the proportional integration method	(1,281)	—	540	—	(741)
Reserves in companies consolidated using the equity consolidation method	(3,782)	—	18,336	—	14,554
Retained earnings	—	141,166	(16,011)	—	125,155
Consolidated profit and loss account	141,166	(141,166)	—	16,113	16,113
Interim dividend paid relating to the prior year	—	(102,172)	—	—	(102,172)
	875,885	(102,172)	154	16,113	789,980

On 14 November 2000 the Company's Board of Directors approved the payment of an interim dividend of T€ 102,172, on account of the final profit for 2000.

10.2 The amounts and variances, during the period from 31 December 2001 and 31 March 2002, in the items included under this heading are set out below:

	Thousands of euro			
	Balance as at 31.12.01	Distribution of 2001 profit/(loss)	First Quarter profit	Balance as at 31.03.02
Share capital	358,705	—	—	358,705
Revaluation reserve	342,505	—	—	342,505
Legal reserve	46,988	—	—	46,988
Voluntary reserve	15,942	—	—	15,942
Reserves in companies consolidated using the proportional integration method	(741)	—	—	(741)
Retained earnings	—	117,844	—	117,844
Consolidated profit and loss account	117,844	(117,844)	35,788	35,788
Interim dividend paid relating to the prior year	(101,600)	—	—	(101,600)
	779,643	—	35,788	815,431

On 10 December 2001 the Company's Board of Directors approved the payment of an interim dividend of T€ 101,600, on account of the final profit for 2001.

10.3 Share capital, as at 31 March 2002 and 2001, consists of 11,936,713 ordinary bearer shares with a par value of 30,050,605 euro each, all fully paid in and bearing the same voting and dividend rights (Note 23).

Share capital is entirely held by Gas Natural SDG, S.A., except for one share owned by La Propagadora del Gas, S.A.

(Expressed in thousands of euro)

10.4 The revaluation reserve that has been approved by the tax authorities is not available for distribution. The balance of the Revaluation Reserve (Royal Decree Law 7/1996) may be used to offset losses, increase share capital or, after 31 December 2006, in can be transferred to unrestricted reserves under certain conditions.

10.5 The legal reserve is not available for distribution. In accordance with the Spanish Business Corporation Law 10% of the profit recorded in annual accounts must be appropriated to the legal reserve until the balance in the account reaches 20% of the share capital. Except for the issue mentioned above, and until the legal reserve has reached 20% of the share capital, this reserve may be used only to offset losses, in the event that no other reserves are available.

11. Deferred income

Deferred income for the period ended 31 March 2001 relates to capital grants received totalling T€ 421,024 and prepayments received for gas transport contracts, relating to the shareholding held by Transgas, S.A. in Gasoductos Al-Andalus, S.A. and Gasoducto Extremadura, S.A., in the amount of T€ 74,192.

Deferred income for the period ended 31 March 2002 relates to capital grants received totalling T€ 428,291 and prepayments received for gas transport contracts, relating to the shareholding held by Transgas, S.A. in Gasoductos Al-Andalus, S.A. and Gasoducto Extremadura, S.A., in the amount of T€ 66,173.

12. Provisions for liabilities and charges

12.1 The balance in this heading relates to Provisions for liabilities and charges made for probable liabilities arising from identified contingencies.

12.2 The movement in Provisions for liabilities and charges during the period from 31 December 2000 and 31 March 2001 were as follows:

	Thousands of euro
Balance as at 1 January 2001	60,119
Provision for the year	476
Balance as at 31 March 2001	60,595

This provision is basically for the appeal against the assessment raised in 1990 by the tax inspectorate in relation to sales tax for 1984 and 1985 (Note 15.1).

12.3 The movement in Provisions for liabilities and charges during the period from 31 December 2001 and 31 March 2002 are as follows:

	Thousands of euro
Balance as at 1 January 2002	1,290
Provision for the year	761
Balance as at 31 March 2002	2,051

(Expressed in thousands of euro)

13. Long term debt

13.1 These items, on 31 March 2001, break down as follows:

	Thousands of euro	
	Long term	Short term
Enagas, S.A. credit facilities and bank loans	86,321	14,111
Gasoducto Al-Andalus, S.A. credit facilities and bank loans	—	1,708
Gasoducto Extremadura, S.A. credit facilities and bank loans	—	1,341
Accrued interest	—	796
	86,321	17,956

13.2 These items, on 31 March 2002, break down as follows:

	Thousands of euro	
	Long term	Short term
Enagas, S.A. credit facilities and bank loans	74,298	77,837
Gasoducto Al-Andalus, S.A. credit facilities and bank loans	—	1,109
Gasoducto Extremadura, S.A. credit facilities and bank loans	—	765
Gasoducto Braga—Tuy, S.A. credit facilities and bank loans	—	4,550
Accrued interest	—	873
	74,298	85,134

At 31 March 2002, the Group also had credit lines amounting to T€ 226,744 that had not been utilized (see Note 23.3).

13.3 Long-term loans and credit facilities accrue interest at market rates (using Euribor and Libor) and are due as follows:

	Thousands of euro	
	31.03.02	31.03.01
2002	—	4,308
2003	4,315	12,978
2004	8,629	8,629
2005	8,629	8,629
2006	8,629	8,629
In more than five years	44,096	43,148
	74,298	86,321

14. Amounts due to Group companies

These items, on 31 March 2001 and 2002 break down as follows:

	Thousands of euro	
	Long term	
	31.03.02	31.03.01
Loan Gas Natural SDG, S.A. to Enagas, S.A.	792,000	805,355
Loan Transgas, S.A. to Gasoducto Al-Andalus, S.A.	21,071	21,363
Loan Transgas, S.A. to Gasoducto Extremadura, S.A.	14,530	16,175
Loan Transgas, S.A. to Gasoducto Campo Maior—Leiria—Braga, S.A.	5,656	7,077
	833,257	849,970

The loan granted to Enagas, S.A. by Gas Natural SDG, S.A. bears interest at market rates (using Euribor) and are due on 28 February 2005.

Enagas, S.A. is currently involved in negotiations with different financial institutions to replace the inter-group loan with Gas Natural SDG, S.A. with a bridging loan maturing in one year in order to have the necessary time to obtain a rating and subsequently refinance the bridging loan through the capital markets, bank financing and institutional funding. As a result of the progress made in the negotiations with financial institutions, the process may be expected to be completed without difficulty and with the economic terms attaching to the bridging loan expected to be only slightly higher than those relating to the inter-group loan.

The other long-term loans outstanding are the ones with Transgas, S.A. which bear interest at market rates (using Euribor) and are due in 2011.

The short term portion of amounts due to Group companies correspond to debt relating to commercial transactions.

15. Tax situation

15.1 Enagas, S.A. is presently included in the Gas Natural Consolidated Tax Group. In 2001 and 2002 2001 the consolidated Group included Gas Natural SDG, S.A.; Gas Natural Cegas, S.A.; Gas Natural Castilla y León, S.A.; Gas Natural Castilla-La Mancha, S.A.; Gas Natural Informática, S.A.; Compañía Auxiliar de Industrias Varias, S.A.; Gas Natural Andalucía, S.A.; Gas Natural Internacional SDG, S.A.; Holding Gas Natural, S.A.; La Propagadora del Gas, S.A.; La Energía, S.A.; Sagane, S.A.; Gas Natural Murcia SDG, S.A.; Gas Natural Cantabria SDG, S.A.; Gas Natural Latinoamericana, S.A.; Desarrollo del Cable, S.A.; Gas Natural Electricidad SDG, S.A.; Gas Natural Comercializadora, S.A.; Gas Natural Aprovisionamientos SDG, S.A. y Gas Natural Trading SDG, S.A. Once the Initial Public Offering (IPO) of Enagas, S.A.'s shares is completed during 2002, Enagas will begin to file individual corporate tax returns with retroactive effect to January 1, 2002.

The companies Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are taxed under the individual tax return system.

In 2001, the Spanish tax authorities completed their audit of the corporate income tax returns for the period 1995 to 1998 for Enagas, S.A. As a result of this audit a tax assessment was issued amounting to T€ 8,469 which has been appealed by the Company. The consolidated Group has made a provision for this tax assessment. The remaining taxes are open to inspection for the periods that have not become statute-barred.

In March 2002 the tax inspection of Gasoducto Al-Andalus, S.A. was finalized, relative to value added tax and personal income tax for the years 1998 and 1999 and corporate income tax for the years 1997, 1998 and 1999, from which no significant tax issues have arisen for this company.

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

Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are open to inspection for all taxes relating to 1997 to 2001, inclusive.

On 22 May 2001, the Judicial Review Division of the Supreme Court delivered a judgment on the appeal against the assessment raised in 1990 by the tax inspectorate in relation to sales tax for 1984 and 1985, reversing the ruling of 19 December 1995. As a result, the provision recorded at 31 December 2000 of T€ 59,358 (Note 12) was also reversed and taken to profit and loss as part of Extraordinary items.

(Expressed in thousands of euro)

15.2 Corporate income tax expense for the three months ended 31 March 2002 and 2001 breaks down as follows:

	Thousands of euro	
Company	**31.03.02**	**31.03.01**
Enagas, S.A.	18,052	6,509
Gasoducto Al-Andalus, S.A.	696	550
Gasoducto Extremadura, S.A.	262	77
Gasoducto Campo Maior-Leiria-Braga, S.A.	112	52
Gasoducto Braga-Tuy, S.A.	66	66
	19,188	7,254

The reconciliation of the difference between the reported unconsolidated profits of Enagas, S.A. and the initial tax base (taxable income), for the periods ended 31 March 2002 and 2001, is set out below:

	Thousands of euro	
	31.03.02	**31.03.01**
Reported profit before taxes	51,577	21,309
Timing differences	—	(2,943)
Initial tax base (taxable income)	51,577	18,366

For the rest of the consolidated companies there are not any differences between the reported profit and the corporate income tax base.

15.3 The balances and variances in prepaid/deferred corporate income tax, for the three month period ended 31 March 2001, are set out below:

	Thousands of euro		
	Balance as at 31.12.00	**Variation**	**Balance as at 31.03.01**
Deferred tax asset			
Provisions	3,383	—	3,383
Capital grants	2,285	(44)	2,241
Others	3,331	—	3,331
	8,999	(44)	8,955
Deferred tax liability			
Provisions	2,767	(12)	2,755
	2,767	(12)	2,755

(Expressed in thousands of euro)

15.4 The balances and variances in prepaid/deferred corporate income tax, for the three month period ended 31 March 2002, are set out below:

	Thousands of euro		
	Balance as at 31.12.01	Variation	Balance as at 31.03.02
Deferred tax asset			
Provisions	—	—	—
Capital grants	2,109	(40)	2,069
Others	3,221	(10)	3,211
	5,330	(50)	5,280
Deferred tax liability			
Provisions	2,549	(55)	2,494
	2,549	(55)	2,494

16. Net turnover

Details of net turnover, for the three month periods ended 31 March 2002 and 2001, are as follows:

	Thousands of euro	
	31.03.02	31.03.01
Gas sales	480,768	719,767
Other sales	4,255	256
Services rendered	83,255	32,690
	568,278	752,713

17. Supplies

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

18. Personnel costs

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

19. Other operating expenses

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

20. Contribution of Group companies to consolidated results

	Thousands of euro	
	31.03.02	31.03.01
Enagas, S.A.	33,599	14,423
Gasoducto Al-Andalus, S.A.	1,335	1,080
Gasoducto Extremadura, S.A.	491	391
Gasoducto Campo Maior-Leiria-Braga, S.A.	228	96
Gasoducto Braga-Tuy, S.A.	135	123
	35,788	16,113

(Expressed in thousands of euro)

21. Transactions with Group Companies

During the three month periods ended 31 March 2002 and 2001, the most significant transactions carried out with companies of the Gas Natural Group are as follows:

	Thousands of euro	
Income	**31.03.02**	**31.03.01**
Gas sales	440,866	699,616
Other sales and services	6,316	1,252
Expenses		
Gas purchases	442,383	664,326
Other costs	18,426	24,544

22. Other information

On 31 August 2001, in accordance with the provisions of Article 10 of Royal Decree-Law 6/2000 (23 June) on emergency measures to encourage competition in the goods and services market, the government commission for economic issues approved Enagas, S.A.'s action plan to allow the entry of new shareholders. The Company and its shareholders are bound by the main terms and time frames contained in the plan and a shareholding in Enagas, S.A. held by a company or group of companies must not exceed 35%. In order to comply with this requirement, Gas Natural Group is in the process of selling 65% of its shares in Enagas, S.A. as part of a Public offering.

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

Royal Decree 949/2001 which regulates third-party access to gas installations and establishes an integrated economic regime for the natural gas industry, has established the remuneration of regulated activities, general criteria for calculating and structuring tariffs, tolls and royalties, a cost-based tariff system and a settlement procedure. This Royal Decree is pending development through the appropriate ministerial order explained in Note 2m) above.

Enagas, S.A. has furnished, at 31 March 2002 and 2001 a guarantee of T€ 8,885 for the loan Banco Santander Central Hispano, S.A. has granted to Gasoducto Braga-Tuy, S.A

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

Gas transportation rights amount to 1,432,330,000 thousand therms for the period 2002 to 2020. All contracts include "ship or pay" clauses.

23. Subsequent events

23.1 The Ordinary General Shareholders' Meeting of Enagas, S.A. held on 26 April 2002 adopted, inter alia, the following resolutions:

- Approve the 2001 Enagas, S.A. Annual Accounts.
- Approve the distribution of a dividend from the net profit for 2001 of T€ 117,644, of which the Company had already paid an interim dividend of T€ 101,600 (Note 10.2).

(Expressed in thousands of euro)

23.2 The Extraordinary General Shareholders' Meeting of Enagas, S.A. held on 3 May 2002 adopted the following resolutions, inter alia:

— Reduce the Company's share capital in order to round off the par value of its shares at € 30, appropriating the amount of the reduction in the par value of the shares (T€ 604) to non-available reserves. Share capital will be reduced to T€ 358,101.

— Change the par value of the Company's shares from € 30 to € 1.5, i.e., dividing it by 20, and at the same time splitting the number of shares through their multiplication by 20, in other words, in the ratio 20 to 1, without changing the figure of total share capital. In accordance with said resolution, the Company's share capital will then be represented by 238,734,260 shares of € 1.50 each.

— Transformation of the certificates representing shares in Enagas, S.A. into book entries.

— Application for the official listing of all shares representing the share capital of Enagas, S.A. on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and their inclusion in the Spanish stock exchange network.

— Authorization to the Board of Directors to allow the acquisition of a maximum of 5% of its own shares within 18 months.

— Delegating to the Board of Directors powers to issue fixed interest rate bonds or debentures up to an amount of € 2,000 million.

— Delegating to the Board of Director powers to increase share capital by a maximum amount of € 179 million within five years.

23.3 The Board of Directors' Meeting of Enagas, S.A. held on 22 May 2002 authorized the renewal for one year of the credit lines which expire in 2002 as well as the extension of the limit of the said credit lines by 6 million euro.

23.4 After the preparation of the consolidated financial statements at 31 March 2002, the Company agreed to make termination payments totalling T€ 3,081.

24. Consolidated statement of source and application of funds for the three month periods ended March 31, 2002 and 2001

APPLICATIONS	31.03.2002	31.03.2001
Acquisition of fixed assets	38,372	31,444
Dividends	—	102,172
Reduction in creditors due after one year	75,467	201,737
Total applications	113,839	335,353
Excess of sources over applications (increase in working capital)	—	—

SOURCES	31.03.2002	31.03.2001
Funds generated from operations	60,116	37,417
Capital grants	20,709	22,675
Other reserves	—	154
Disposals of tangible fixed assets	1,665	4,216
Total sources	82,490	64,462
Excess of applications over sources (reduction in working capital)	31,349	270,891

(Expressed in thousands of euro)

Changes in working capital	31.03.2002 Increases	31.03.2002 Decreases	31.03.2001 Increases	31.03.2001 Decreases
	Thousands of euro			
Debtors	—	158,941	—	107,567
Creditors	122,064	—	—	173,735
Inventories	166	—	4,350	—
Current investments	6,298	—	5,656	—
Cash in hand and at banks	—	482	853	—
Prepayments	—	454		448
	128,528	159,877	10,859	281,750
Decrease in working capital for the three month periods ended March 31, 2002 and 2001	—	31,349	—	270,891

Funds generated from operations	31.03.2002	31.03.2001
	Thousands of euro	
Profit for the three month periods	35,788	16,113
Depreciation/amortisation	29,235	27,222
Deferred expenses	275	276
Deferred income	(5,796)	(4,034)
Net application of the provision for liabilities and charges	761	476
Disposals of tangible fixed assets—net	(147)	(2,636)
Funds generated from operations	60,116	37,417

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ENAGAS GROUP

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2001 and

UNAUDITED CONSOLIDATED PRO FORMA STATEMENT OF CASH FLOWS
For the year ended December 31, 2000
(Thousands of euro)

	Consolidated 2001	Consolidated Pro forma 2000
Results for the year (net profit)	117,844	54,434
Depreciation and amortization	111,308	107,244
Net deferred Expenses/Income	(24,504)	(23,970)
Profit /Losses on disposal of fixed assets	(5,925)	61
Net (Credit) Charges in provisions	(59,357)	4,713
Net cash provided by operating activities before working capital changes	139,366	142,482
Net changes in working capital:		
(Increase)/Decrease of debtors	(32,788)	(98,346)
(Increase)/Decrease of inventories	87,245	22
(Increase)/Decrease of creditors	288,903	(66,278)
(Increase)/Decrease of investments	720	(901)
(Increase)/Decrease of prepayments and accrued income	(220)	100
Net cash provided by operating activities	483,226	(22,921)
Cash flows from investing activities		
Disposal of fixed assets	77,385	88,618
Investments in fixed assets	(216,836)	(295,886)
Net cash used in investing activities	(139,451)	(207,268)
Cash flows from financing activities		
Other reserves	154	18,739
Increase (Decrease) in long term debt	(126,685)	684,025
Dividends	(214,240)	(478,521)
Net cash provided by (used in) financing activities	(340,771)	224,243
Net cash flow for the period	3,004	(5,946)
Cash at the beginning of year	1,098	7,044
Cash at the end of year	4,102	1,098

ENAGAS GROUP

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month periods ended March 2002 and 2001

(Thousands of euro)

	Three months ended	
	31.03.2002	31.03.2001
Results for the period (net profit)	35,788	16,113
Depreciation and amortization	29,235	27,222
Net deferred Expenses/Income	(5,521)	(3,758)
Profit/Losses on disposal of fixed assets	(147)	(2,636)
Net Charges/Applications in provisions	761	476
	60,116	37,417
(Increase)/Decrease in current assets (liabilities), net:		
(Increase)/Decrease of debtors	158,941	107,567
(Increase)/Decrease of inventories	(166)	(4,350)
(Increase)/Decrease of creditors	(122,064)	173,735
(Increase)/Decrease of current investments	(6,298)	(5,656)
(Increase)/Decrease of prepayments and accrued income	454	448
Net cash provided by operating activities	90,983	309,161
Cash flows from investing activities		
Sale of fixed assets	1,665	4,216
Investments in fixed assets	(38,372)	(31,444)
Net cash provided by (used in) investing activities	(36,707)	(27,228)
Cash flows from financing activities		
Increase/(Decrease) in long term debt	(54,758)	(179,062)
Dividends	—	(102,172)
Other	—	154
Net cash used in financing activities	(54,758)	(281,080)
Net cash flow for the period	(482)	853
Cash at the beginning of the period	4,102	1,098
Cash at the end of the period	3,620	1,951

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