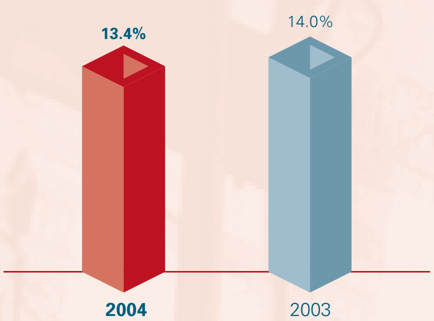
Annual Report 2004

gasNatural

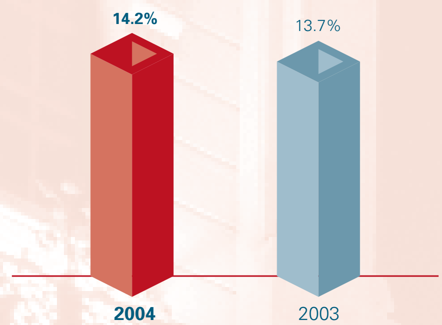
Annual Report 2004

Basic Figures

ROACE (1)



ROE



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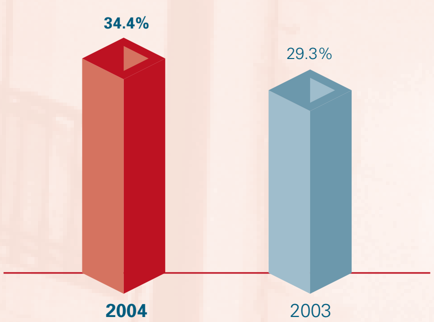
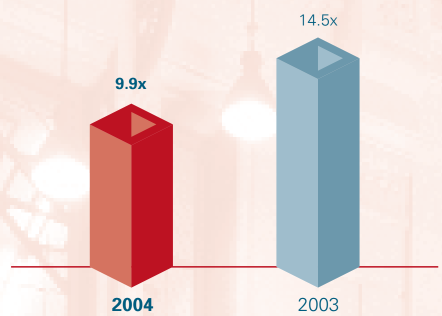
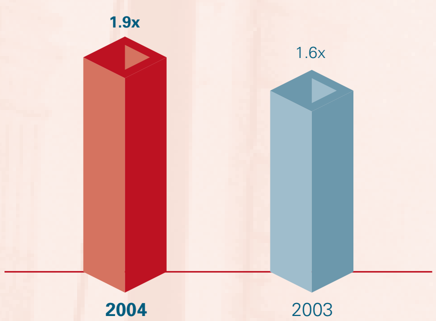


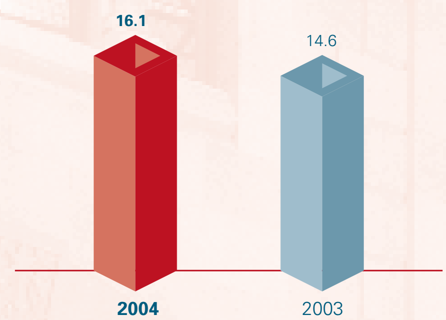
Ebitda/Net financial result (2)



Net debt/Ebitda



P/E



Stock and balance sheet information as at December 31, 2004

(1) The capital employed does not include work in progress or capital grants.

(2) Financial profit without considering exchange differences on the debt expressed in dollars in Argentina.

Operations

	2004	2003	Variation (%)
Gas sales (GWh)	**381,980**	352,705	8.3
Gas transportation (GWh)	**167,156**	148,739	12.4
Gas customers, in thousands	**9,565**	8,707	9.9
Gas distribution network (km)	**95,155**	85,905	10.8
Electricity produced (GWh)	**7,272**	4,324	68.2
Contracts per customer in Spain	**1.4**	1.3	7.7

Personnel

	2004	2003	Variation (%)
Number of employees	**6,697**	6,150	8.8

Financial (millions of euros)

	2004	2003	Variation (%)
Net sales	**6,265.8**	5,628.0	11.3
Ebitda	**1,362.5**	1,201.7	13.4
Ebit	**898.7**	799.0	12.5
Total investments	**1,525.2**	1,361.3	12.0
Cash flow	**1,003.6**	856.8	17.1
Net profit	**633.9**	568.5	11.5

Stock Information (euro/share)

	2004	2003	Variation (%)
Quoted price as of December 31	**22.76**	18.55	22.7
Book value	**10.37**	9.62	7.8
Cash flow	**2.24**	1.91	17.1
Net profit	**1.42**	1.27	11.5
Dividend	**0.71**	0.60	18.3

Dear Shareholders:

I am writing to you for the first time as Chairman of Gas Natural SDG in order to offer you the most significant results obtained in 2004, as well as the primary strategic courses of action which shall guide us over the next years.

It was an honor for me in the month of October 2004, to assume the responsibility bestowed on me by the Board of Directors at a moment in which the situation of our Company is determined by the deregulation of energy markets and growing pressure from the competition. The relevant position of Gas Natural Group, both in Spain and in the international markets, as well as our significant growth potential also comprehend important and exciting challenges. I hope that you will continue to put your trust in me as Chairman of the Group for the undertaking of these goals in order to continue along our path of success with solid and profitable results, which are, as you all well know, its most prominent characteristics.

Before presenting the Group results for 2004, allow me, Ladies and Gentlemen, to express on behalf of the Board of Directors of Gas Natural SDG and of myself our most sincere recognition to Mr. Antonio Brufau for his outstanding management as Chairman of the Company over the last seven years. We likewise wish him success in his new responsibility as Chairman of Repsol YPF.

During the previously mentioned period Gas Natural Group doubled both its customer portfolio and sales figures, becoming the utility which has registered the largest growth in new customers worldwide and consolidating itself as a multinational company with offices in nine countries, particularly in America, where it has strengthened its position as the number one gas operator in Latin America.

It is with great satisfaction that I highlight these important landmarks for you, as 2004 represented a particularly noteworthy year for our Group. Primarily because of the significant year-on-year growth at upwards of 850,000 customers, allowing us to finish up the year with a final figure of 9.6 million customers and total sales of approximately 382,000 GWh in our gas activity.

One of the most noteworthy circumstances for the year was the upward trend of the Group in Italy, where we bought out three gas companies, adding more than 250,000 new clients to our customer portfolio in the country. The purchase of the Brancato Group, the primary private gas operator in Sicily; the Smedigas Group, comprised of a distributor and a marketing company, both of which operate in Sicily; and Nettis Group, which does business in 24 municipalities in La Puglia, Calabria and Sicily, is the result of our international expansion policy and of our objective to strengthen our strategy within the Mediterranean countries.

Another important strategic event was the awarding of a project comprising the joint prospecting, production and marketing of liquified natural gas (LNG) in the region of Gassi Touil, in the eastern part of Algeria, to Gas Natural SDG and Repsol YPF. This means, for the first time, direct access for our Group to natural gas reserves to cover the growing demand of the energy markets where we operate

As far as Spain is concerned, I should like to highlight two points. Firstly, the importance that last summer's synchronization of the two 400 MW units at the Arrúbal combined cycle power station in La Rioja to the electrical grid has had for both Gas Natural Group and the Spanish electric power sector.

And secondly, within the framework of the deregulation of energy markets, the continued segregation of the regulated gas activity of Gas Natural SDG during 2004, which includes all of the Company's gas distribution assets, in the interests of its subsidiary company Gas Natural Distribución, as well as of the segregation of gas transport and its integration in the new subsidiary, Gas Natural Transporte.

These events and circumstances show, Ladies and Gentlemen, the energy of our new Group, which is successfully facing its new competitive environment by taking on new challenges, thus creating new lines of business and planning strategies to strengthen and consolidate its leadership position.

The prominent role played by Grupo Gas Natural in both the domestic and national energy spheres should today be considered from a perspective which goes beyond the simple business activity of the Group and our immediate economic interests. One of the primary objectives of the Group in this sense is to maintain sustainable growth and to ensure a correct and proper relationship with our environment.

Of particular significance, therefore, is the publication for the third consecutive year of the Report on Corporate Responsibility, which comprises those accomplishments carried out by our Group in this sphere, as well as the publication, now for the second time, of the Corporate Governance Report. Both publications represent significant advances in the adaptation of Gas Natural Group to the most exacting regulations regarding corporate social responsibility and good corporate governance.

Strategic courses of action

In this context, in 2004 we continued in the development of the 2004-2008 Strategic Plan with the main objective of consolidating Gas Natural Group as the leading company within the energy and services sector, clearly aimed at the end user.

The Plan is built on the following pillars: fostering integrated projects in the supply area, increasing the number of customers and broadening our multi-product offer, consolidating our presence in America and Europe and developing our power generation capacity. Invariably achieving the goals set out in the Plan will allow us to continue along the path of substantial growth, service and results we have set out on and provide our shareholders with increasing and sustained profitability.

Within the supply field we shall develop new supply sources, primarily based on liquified natural gas, through our participation in integrated projects such as the one we will carry out in Algeria together with Repsol YPF. We shall thus gain access to the entire value chain for the gas business, substantially improving our competitive advantage. This will allow the Group to hold a relevant percentage of our own gas in the long term, thereby improving our coverage in high price settings and increasing guarantees for flexible and efficient gas supply to our broad customer base.

As far as client numbers are concerned, we hope to maintain a strong growth rate and, in particular, retain the satisfaction and loyalty of our current customers. We shall continue strengthening our customer recruitment campaigns for gas distribution in Spain in a market which still holds a strong growth potential, where we expect to increase the ratio of contracts per customer to more than two.

The consolidation of the Group's presence in America is focused on increasing the number of customers throughout the entire period, and in Europe, through the further development of our traditional gas supply activities, we will consolidate our marketing presence in Italy and increase the number of distribution customers in the country. We also foresee the development of new projects in Portugal, and in France, where a marketing corporation has already been established.

As regards the generation of electric power, the Group will move forward with the construction of the foreseen combined cycle power stations and will promote cogeneration facilities with the aim of reaching a total power generation capacity of upwards of 5,800 MW in 2008 using combined cycle power stations and specially regulated power generation, chiefly renewable.

2004 Results

Consolidated net profits for 2004 amounted to 633.9 million euros, representing a growth of 11.5% over the previous year.

Gross operating results (Ebitda) reached 1,362.5 million euros, 13.4% higher than in 2003. Operating results (Ebit) grew by 12.5%, for a total of 898.7 million euros.

The year's results were boosted both by the growth of our distribution business in Spain, which continues to provide the highest percentage to the Group's Ebitda, and by the ongoing contribution of the Group's activities in America, a result of strong organic growth in the region, consolidation from the global integration of shares in Brazil, and of the results obtained in Puerto Rico which, unlike those of 2003, reflect the entire fiscal year.

Net turnover for our gas distribution business in Spain in 2004 amounted to 1,820.5 million euros, a lower figure than the previous year due to the continuous transfer of customers to the liberalized market. The Ebitda was valued at 725 million euros, representing a 9.8% increase over the previous year due to a growth in regulated revenue for the year, high efficiency in customer recruitment and an increase in distribution revenue not included in said remuneration.

The annual turnover of the Group's marketing activities in Spain reached 3,437.2 million euros, an increase of 4.8% over the total yield of 2003. This was due primarily to the growth in gas sales in the liberalized market, amounting to 192,574 GWh, and to the development of the multiutility activities of the Group throughout the year.

As far as the Group's electric power activity is concerned, net turnover for 2004 was 474.9 million euros, a result of the increase in sales to end customers. The energy generated and basically sold to the wholesale market surpassed 5,800 GWh, for a leap of 43.5% over the figure for 2003. Combined cycle generation checked in at 5,672 GWh, and sales of power, which include figures for more than 200,000 customers in the residential market, increased by 47%.

The international supply and transportation of gas, which includes gas supply for wholesale outside of Spain, sea transport management and the operation of the Maghreb-Europe gas pipeline, provided an annual turnover of 669.5 million euros, similar to the previous year's figure.

Within the international sphere, the Group's activities in America include gas distribution in Argentina, Brazil, Colombia and Mexico, as well as the activities of EcoEléctrica in Puerto Rico. Net turnover for transactions in America stood at 1,145.3 million euros, for a growth of 46.8%.

The Group's gas activity in Europe includes gas supply and distribution in Italy, where gas sales in the liberalized and regulated markets reached 9,827 GWh, and transport services (ATR) reached 40 GWh.

Total investments for the Group stood at 1,525.2 million euros in 2004, and were 65.8% self-financed. Tangible investments reached 946.3 million euros, 21.6% higher than those made in 2003 due to the ongoing development of grid expansion and the Group's plans to generate power through the use of combined cycles, in line with the provisions of the Strategic Plan. If we do not take financial investments into account, self-financing would have reached 97.4%. Divestitures totaled 310 million euros. The primary figure for intangible investments corresponds to the on-lease acquisition of two liquified natural gas carriers for a total of 176 million euros each.

Stock market performance

Following this succinct presentation and analysis of the primary results obtained by our Group over the last year, I would like to briefly summarize the performance of our stock for the year ending on 31 December 2004.

In a year in which the Spanish Stock Exchange closed out with a positive balance for the second consecutive year, and in which the Ibex 35 lead the upturn of the primary world Markets, Gas Natural SDG shares finished the year at 22.76 euros, for an increase of 22.7%. The ceiling for 2004 was registered on 29 December at 22.99 euros, and the minimum on 12 January, at 18.18 euros.

This favorable development of Gas Natural SDG results, together with the evolution of previous years allows us to increase the total dividend yet again, reaching 0.71 euros per share with a pay out (percentage of profits earmarked for dividends) of 50.2%. It should be pointed out that during 2004, Gas Natural SDG continued to be part of the prestigious FTSE4Good index and was included in the Dow Jones Sustainability Index, both indexes comprised by those companies with the greatest commitment to complying with corporate obligations.

This, together with the fact that Gas Natural SDG was the fifteenth most traded share on the continuous market in 2004, continues to prove, Ladies and Gentlemen, that our company's shares, in which you have placed your faith and confidence, represent a solid and profitable stock which, together with the growth potential of our Group, constitute a robust guarantee for the future.

I do not wish to conclude without expressing my appreciation and that of the Board of Directors to all those who make up Gas Natural Group in Spain, the rest of Europe, Morocco and America for their effort and enthusiasm. Their dedication and professionalism make the business plan which governs and motivates our Group a day-to-day reality.

And finally I would like to thank you, Ladies and Gentlemen, and in particular our principal shareholders, "la Caixa" and Repsol YPF, for the trust and support you have invariably provided us. This incentive allows us not only to offer you the results we have submitted here for your consideration, but also to successfully continue the development of natural gas in Spain, consolidate the growth and scope of our Group as a multinational company and achieve the service, profitability and sustainability goals which strengthen the outstanding position of Gas Natural as one of the most prestigious and recognized groups in the international energy market.

Salvador Gabarró Serra
Chairman of the Board of Directors

Most Significant Events in 2004

First Quarter

• The Gas Natural Group expands its educational offering with a new telematics activity “El gas natural, la energía del siglo XXI” on its website which allows students from different schools to work together on the same project.

• The Gas Natural Group enters the gas distribution market in Italy with the acquisition of the Brancato Group, the leading private gas operator on the island of Sicily. The Brancato Group, which is composed of three distributors, a natural gas supply company and two service companies, operates in 76 Italian cities serving 93,000 customers.

• The Chairman of the Gas Natural Group, Antonio Brufau, and the Chairman of Qatar Liquefied Gas Co. Ltd. (Qatargas), Abdullah Bin Hamad Al-Attiyah, signed a preliminary agreement for the long-term purchase of natural gas and the renewal of two medium-term agreements signed in 2001. The new long-term agreement, which comes into effect in January of 2005, calls for the purchase of 2 Bcm of natural gas per year for a period of 20 years.

• Gas Natural SDG sponsors the Second Edition of the “Azulejos de España” (“Tiles of Spain”) architecture and interior design awards organized by the Spanish Association of Ceramic Tile and Flooring Manufacturers (ASCER).

• CEG signs a supply agreement with the Termorío thermal power station, the largest one of its kind in South America, as well as an agreement for the purchase of natural gas with Petrobras.

• CEG signs two agreements with the National Weights and Measures Institute (INPM) for the research and measurement of the chemical composition of the gas distributed in Río de Janeiro, as well as the inspection of the company’s measuring equipment.

• The Gas Natural Group signs a collaboration agreement with the Madrid 2012 Foundation to support and promote Madrid’s candidacy to host the 29th Modern Era Olympic Games in 2012.

• Gas Natural Murcia and the Murcia Housing Development Association sign a collaboration agreement to provide gas and power to the homes developed by the association in the municipalities where the Gas Natural Group operates.

• Gas Natural México and the System for Integral Family Development (DIF) of Nuevo Laredo municipality sign an agreement for the application of a reduced rate plan for the elderly with limited incomes in Nuevo Laredo.

• Gas Natural ESP inaugurates a new rapid payment centre in the Bogota’s Siete de Agosto neighborhood, bringing to three the number of exclusive payment centers operated by the company in that city.

• Gas Natural SDG begins supplying its first customers in the La Granada municipality (Barcelona).

- Gas Natural SDG and the Valencia Municipal Transportation Company (EMT) sign an agreement for the supply of compressed natural gas to 15 of the company's city buses, plus the construction of a new natural gas filling station to supply the fleet of vehicles.

- The Secretary of State for Energy, Industrial Development and SMEs, José Folgado, and the Chief Executive Officer of the Gas Natural Group, Enrique Locutura, presided over the inaugural ceremony of a new cogeneration and purine treatment plant started up by the Gas Natural Group through its company La Energía in Tordomar, Burgos.

- Gas Natural Cantabria and the Cantabria Association of Home Builders and Developers (ACPV) sign a collaboration agreement to provide the homes built by the members of this association with all the necessary energy services.

- The Chief Executive Officer of the Gas Natural Group, Enrique Locutura, and the Greek Minister of the Economy, Nikos Christodoulakis, sign a preliminary agreement for the purchase of 35% of DEPA, Greece's public gas company.

- The Board of Directors of Gas Natural SDG agrees to propose to the General Meeting of Shareholders a 50% increase in the dividend and to pay a gross amount of 0.60 euros per share against fiscal year 2003 earning, of which 0.2125 euros were paid in January of 2004.

- Gas Natural Rioja starts to service its first residential customers in the Anguciana municipality.

- Gas Natural and the Navarra Builders and Developers Association (ACP) sign a collaboration agreement to provide the supply points necessary for the distribution of natural gas and/or electricity to all of the homes built by the member companies of this organization.

- Gas Natural SPS, along with other energy companies, forms the Energy and Gas Chamber of the State of São Paulo to establish associations and joint action projects in the area as well as the transportation and distribution of natural gas.

- Gas Natural ESP sponsors the First Social Responsibility Forum of Businesses in Bogotá for C.E.O.'s and business leaders, with the participation of national and international experts.

- Gas Galicia and the Concello de Cambados (Pontevedra) sign an agreement under which the company pledges to pay 1.5% of the gross annual earnings obtained by the municipality to cover fees for the use of the subsoil and public roads.

- Some 1,500 employees of the Gas Natural Group start their pilgrimage on the Road to Santiage in Roncesvalles (Navarra) as part of the Xacobeo 2004 celebrations.

- Gas Natural Andalucía begins supplying gas to the La Zubia and Cájar municipalities in the province of Granada.

Second Quarter

• The Gas Natural Foundation and the Regional Government of Navarra organize the seminar entitled "Savings, Efficiency and Regional Development" in Pamplona.

• Gas Natural México receives ISO 14001 certification from the Spanish Standardization Agency (AENOR) in recognition of the company's commitment to the environment.

• The Gas Natural Group holds it General Meeting of Shareholders in which it presents a new Strategic Plan for the period 2004-2008. With an estimated investment of 8,800,000,000 euros, the objective of the plan is to consolidate the Gas Natural Group as the leader in the energy and services sector as a clearly customer-oriented company. The General Meeting also approved a new set of regulations drafted in accordance with the corporate good governance standards.

• The Annual Corporate Good Governance Report for 2003 is sent to the National Securities Market Commission (CNMV).

• Gas Natural Andalucía begins supplying gas to Antequera (Málaga).

• The General Manager of Gas Natural BAN, Antoni Peris, ratifies the company's endorsement of the UN Global Agreement.

• The project entitled "The Path of Energy", sponsored by the Gas Natural Group, receives first prize to Communication Companies in the 14th Edition of the Energetic Excellence Awards sponsored by the Regional Government of the Generalitat de Cataluña.

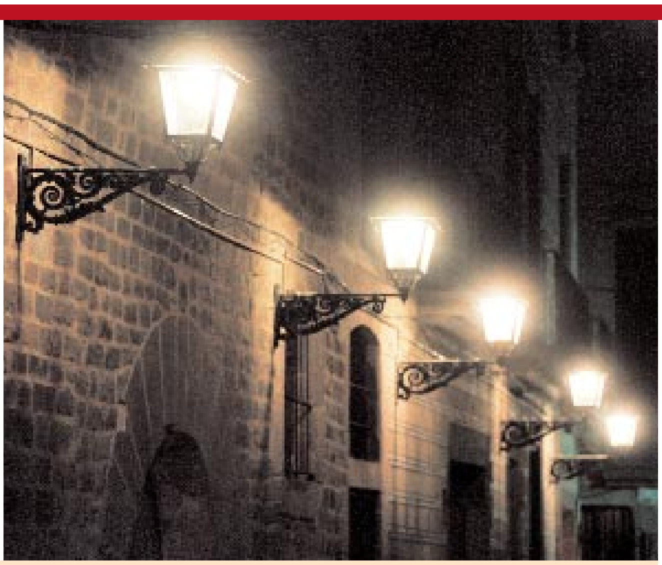
• Antoni Peris, General Manager of Gas Natural BAN, presents the fiscal year 2003 results at the Shareholders' Assembly, highlighting the addition of more than 16,000 customers and the company's contribution to the community through its social responsibility programs.

• Gas Natural México holds its General Meeting of Shareholders in which it approves the report of the Board of Directors on the company's operations and progress in 2003.

• The Strategy, Investment and Competition Committee of the Gas Natural SDG Board of Directors commences its activities by appointing an independent director, Carlos Losada, as its Chairman, in addition to the independent director, Santiago Cobo, and the proprietary directors Miguel Ángel Remón and Fernando Ramírez as committee members.

• Gas Natural Castilla-La Mancha starts to supply the community of Bargas (Toledo).

• The Conselleiro of Innovation, Industry and Trade of the Xunta de Galicia, Juan Rodríguez Yuste, and the Chief Executive Officer of the Gas Natural Group, Enrique Locutura, sign a collaboration agreement to bring natural gas to a total of 51,000 inhabitants of some of the most seriously affected municipalities of the *Prestige* oil spill.



- Gas Natural SDG begins supplying energy to the Alcanar and Ulldecona municipalities in the province of Tarragona.

- Gas Natural Castilla-La Mancha begins supplying natural gas to its first customers in the Olías del Rey municipality, Toledo.

- Gas Natural Castilla-La Mancha begins supplying the Alcarria town of Chiloeches and the Torrehierro industrial park in Talavera de la Reina, Toledo.

- Gas Natural SDG starts to supply its first customers in the Castellbell i el Vilar municipality in the Bagès region (Barcelona).

- The Managing Director of Gas Natural Castilla y León, Jesús López de Andrés, and the Chairman of the Science Museum Foundation and Mayor of Valladolid, Francisco Javier León de la Riva, sign a collaboration agreement in which the company undertakes to use the space ceded by the museum to create a didactic exhibit focusing on the formation and applications of natural gas.

- Gas Natural SDG celebrates the broadcasting of program number 3,000 of the TV3 program "The Environment" which it has sponsored since it began twelve years ago.

- Gas Galicia and the City of A Coruña sign a collaboration agreement to provide the Old City with natural gas.

- The Gas Natural Foundation and the Regional Government of Navarra sign a collaboration agreement for the development of social and educational measures to promote energy savings and efficiency.

- The Gas Natural Group signs an initial sponsorship agreement with the City of Barcelona and the Municipal Urban Landscape Institute to participate in the rehabilitation of the main facade of the Cathedral.

- Gas Natural Andalucía begins supplying gas to the Camas and Gines communities, Sevilla.

- Gas Natural Group updates the first Internal Code of Conduct for Stock Market related issues, adjusting point seven on Regulations regarding Treasury Stock Management.

- Gas Natural Rioja signs a collaboration agreement with the La Rioja Association of Construction, Development and Related Companies (CPAR) to provide the infrastructure for supplying gas and electricity to the homes built by the members of this association.

- The Chairman of Gas Natural, Antonio Brufau, is granted an audience by the Governor of Puerto Rico, Sila María Calderón, to discuss the company's strategic plans which call for an increase in the company's presence in Puerto Rico.

- Gas Natural SDG starts to supply its first domestic customers in the Guissona municipality in the province of Lleida.

- Gas Natural Rioja starts to supply natural gas to its first customers in the Arrúbal municipality, La Rioja.

Third Quarter

• The Managing Director of Procurement of the Gas Natural Group, Carlos Torralba, the Chairman of Qatar Liquefied Gas Co. Ltd. (Qatargas) and the Minister of Energy and Industry of Qatar, Abdullah Bin Hamad Al-Attiyah, sign an agreement for the purchase of 2 Bcm of natural gas per year for the next 20 years as well as the renewal through the year 2012 of two medium-term agreements signed in 2001 which were set to expire in 2007 and 2009, respectively.

• Gas Natural Andalucía and the Junta de Andalucía sign an agreement for incorporating natural gas distribution services into urban development and urban renewal projects.

• Gas Natural Andalucía starts to supply natural gas to its first customers in the Mijas and Benalmádena municipalities, Málaga.

• The Gas Natural Foundation, in collaboration with the University of the Basque Country, organizes a summer course at the Miramar Palace in San Sebastián entitled "Energy Efficiency: Technological Alternatives" dedicated to analyzing the most advanced technological alternatives for achieving greater energy efficiency.

• The Mayor of Valencia, Rita Barberá, and the Chief Executive Officer of the Gas Natural Group, Enrique Locutura, sign a collaboration agreement to improve the quality of life of families with minors in particularly difficult situations by installing gas in their homes.

• Gas Natural Soluciones and the Regional Government of La Rioja sign a collaboration agreement for the efficient management of energy consumption at all of the health care facilities controlled by the Department of Health.

• The Gas Natural Group is authorized by the Government of the State of Río de Janeiro to purchase Enron shares in CEG and CEG Rio, as a result of which the Group now possesses 54.2% of the shares in CEG and 72% of CEG Rio.

• The Chief Executive Officer of the Gas Natural Group, Enrique Locutura, is named First Vice Chairman of the European Association of the Gas Industry (Eurogas), a body which includes the sector's leading European companies and associations.

• The Gas Natural Group, through its subsidiary Gas Natural Internacional, applies to the Italian Government (Ministero delle Attività Produttive) for administrative authorization to build two regasification plants, one in Trieste, in the north, and the other in Taranto, in southern Italy.

• The Chief Executive Officer of the Gas Natural Group, Enrique Locutura, delivers to the President of Aldeas Infantiles SOS in Spain, Juan Belda, a donation of 18,600 euros raised in equal portion as part of a company-sponsored matching gift program. 1,500 Group employees participated in the pilgrimage along the Road to Santiago as part of the initiative entitled "Pilgrim, give what you can and take what you need".

• The Algerian state-owned company Sonatrach grants the consortium composed of Repsol YPF and Gas Natural SDG a hydrocarbon exploration block in the Gassi Chergui Ouest region in the western part of the Berkine Basin.

• The Energy Training Center (CFE), sponsored by the Gas Natural Foundation, inaugurates its activity with a "Basic Course for Energy Commercial Technicians", as part of an agreement signed by the Foundation with CONAIF.

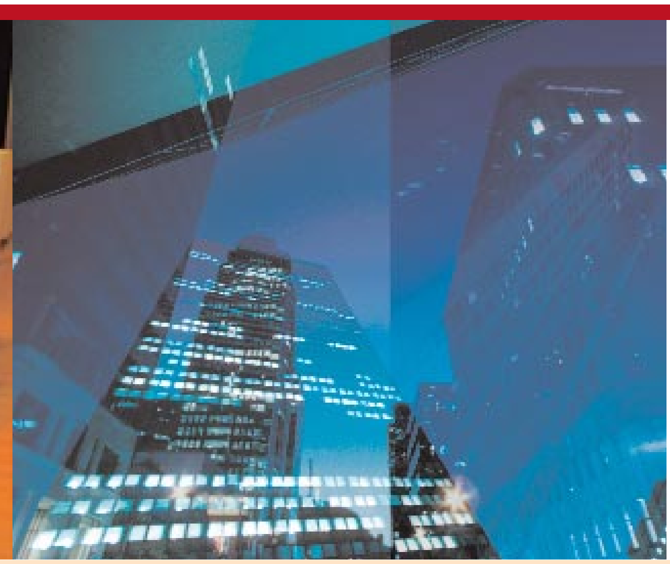
• Gas Natural SDG signs collaboration agreements with the Association of Management Companies of Housing Cooperatives (GECOPI) and Pryconsa to provide the homes built by these associations with natural gas.

• The Gas Natural Group signs an agreement for the purchase of the Smedigas Group composed of a distribution company and a sales gas company operating on the Italian island of Sicily.

• Gas Navarra commences the supply of natural gas to its first customers in the town of Liédena.

• The Chief Executive Officer of Gas Natural Group, Enrique Locutura, and the Chairman of Telefónica de España, Julio Linares, sign a collaboration agreement to carry out joint commercial actions in the residential market. The first project undertaken is the joint management of residential gas and electricity, as well as telephone line contracting in order to facilitate the arrangement of these services for customer.

• Gas Natural Castilla y León commences the supply of gas in Valencia de Don Juan, León.



• The Gas Natural Group synchronizes the first of two 400 MW generator units at the combined cycle power station built in Arrúbal (La Rioja) to the national electrical grid.

• The Gas Natural Foundation appoints Pedro A. Fábregas Director and enters a new stage with the objective of expanding its activities to new areas, such as installer training and the preservation of the historical heritage of the gas industry, while maintaining its specialization in environmental awareness.

• For the second year in a row in 2003, the Corporate Responsibility Report of the Gas Natural Group obtains the accreditation by the Global Reporting Initiative (GRI).

• The Gas Natural Group introduces a new service called "on line Invoice" which enables customers to consult their energy bills at the Virtual Office on the Gas Natural portal and thereby reduce the correspondence they receive at home.

• Gas Natural SDG joins the prestigious Dow Jones Sustainability Index (DJSI), which includes the world's best positioned companies in terms of compliance with corporate responsibility and sustainability standards.

• The Gas Natural Group closes its first direct wholesale gas operation in Korea with the deliver of a shipment of liquified natural gas (LNG) at the regasification terminal of the company Kogas in Incheon.

• Gas Natural México develops the CRESCA project, the objective of which is to strengthen the commitment of its collaborators to growth, responsibility and quality. This project calls for the creation of a new sales force, Elitte, and the establishment of a Sole Register of Collaborating Companies.

• The Gas Natural Group signs an agreement to buy the Italian gas group Nettis, which operators in 24 municipalities in the regions of La Puglia, Calabria and Sicily, serving 91,000 customers with sales of 1,100 GWh.

• Gas Natural SDG begins to supply its first domestic customers in the Campo de Criptana municipality, Ciudad Real.

• The Gas Natural Group ranks first in 2004 for reporting transparency by private companies in the ranking published by the economic weekly El Nuevo Lunes, and eighth in the ranking of annual reports and economic-financial documentation.

• The Gas Natural Foundation and the Junta de Andalucía organize the seminar entitled "The urbanization process, energy and the environment" coinciding with the celebration of the Land and Urbanization Fair in Sevilla (SURBAN).

• Gas Navarra begins to supply natural gas to its first customers in the Monteagudo and Tulebras municipalities.

• The Gas Natural Group obtains administrative authorization to build two combined cycle units of 400 MW each in La Plana del Vent, Tarragona.

• The Gas Natural Foundation, in collaboration with the Generalitat de Cataluña and the Cataluña Architects Association, organizes an environmental management seminar in Barcelona entitled "The urbanization process, energy and the environment".

• Gas Natural ESP inaugurates two new vehicular natural gas station in Bogotá, which brings the number of public service stations (EDS) in the city to 21, including two private ones.

• CEG inaugurates vehicular natural gas station number 300 in the state of Río de Janeiro.

Fourth Quarter

- The Gas Natural Group creates its own gas supply company to operate in France as part of its Strategic Plan for the period 2004-2008.

- Gas Natural Castilla-La Mancha begins to supply natural gas to its first customers in the Argamasilla de Alba municipality, Ciudad Real.

- The Gas Natural Group inaugurates the Castellfollit de la Roca-Ripoll gas pipeline measuring 41 kilometers in length, which connects the regions of Garrotxa and Ripollès y and reinforces the supply of gas in the province of Girona.

- Gas Natural SDG builds a 4 kilometer gas pipeline to bring energy to the municipality of Les Preses in the province of Girona where it has already begun to service the first customers.

- Gas Natural Castilla y León begins to supply gas to Santo Tomás de las Ollas in León.

- Gas Natural SDG receives the Garrigues-Expansión Seventh Environmental Award in the category of "Sustainable Environmental Management" for its participation in the "e+5 Program" sponsored by the Fundación Entorno for the environmental rating of the suppliers and contractors of large companies.

- The Councellor of the Environment of the Junta de Castilla y León, Carlos Fernández Carriedo, and the General Director of the Gas Natural Foundation, Pedro A. Fábregas, inaugurate the workshop entitled "Construction and the Environment: Criteria and Possibilities", held at the Housing Fair in Valladolid.

- The Gas Natural Group and the Junta de Andalucía sign an agreement for the development and expansion of natural gas networks and infrastructures in Andalucía with the goal of bringing natural gas to 50 new towns where this source of energy is not yet available.

- The Board of Directors of Gas Natural SDG accepts the resignation of Antonio Brufau after he is appointed to lead Repsol YPF, and unanimously agrees to appoint Salvador Gabarró as the new Chairman of the Board and Executive Committee.

- The Gas Natural presents the book entitled "The Legal Protection of Natural Spaces" at the University of Valencia, which highlights the importance of legal action and legislation to environmental preservation.

- The Gas Natural Group and Banco Sabadell sign a preliminary agreement for the purchase by the energy company of the shares held by the bank in several wind energy parks in Spain.

- The Gas Natural Group, through its subsidiary Gas Natural Electricidad, and Banco Sabadell, conclude the share purchase operation for the stake held by the financial institution in five Spanish wind energy parks located in Cataluña, Aragón, Galicia, Andalucía and Castilla y León.

- The Gas Natural Foundation, in collaboration with the Ministry of the Environment and the Spanish Federation of Municipalities and Provinces (FEMP), celebrates the fourth edition of the International Seminar on Climatic Change.

• Gas Natural SDG and Repsol YPF are awarded a contract for the joint exploration, production and marketing of liquified natural gas (LNG) in the Gassi Touil area, in eastern Algeria, following an agreement prompted by the Algerian government enterprise Sonatrach.

• Gas Natural Andalucía begins to supply natural gas to its first customers in El Rincón de la Victoria, Málaga.

• Gas Natural SDG signs an agreement with the Generalitat de Cataluña, the City Council and the company Ceràmica Sugrañes to supply gas to the ceramics company and for the implementation of gas supply to the future industrial area, "Mas Vell", located in Vallmoll, Tarragona.

• The Gas Natural Foundation organizes a seminar in Barcelona on the environmental management of animal waste in which the Generalitat de Cataluña, the university, the livestock sector and engineering companies put forth different solutions for recycling the livestock waste.

• The Board of Directors of Gas Natural SDG welcomes José Luis Jové as a new member of the Board and the Executive Committee as a proprietary director, and reduces from four to three the number of members of the non-delegated Committees.

• The Board of Directors of Gas Natural SDG agrees to pay a gross dividend of 0.27 euros per share against fiscal year 2004 profits, which amounts to a 27% increase over the interim dividend paid the year before.

• Gas Natural Castilla y León begins to supply natural gas to its first customers in Doñinos, Salamanca.

• Gas Natural Andalucía begins to supply gas to Mijas, Málaga.

• The Algerian Minister of Energy and Mines, Chakib Khelil, and the Chairmen of Gas Natural SDG, Salvador Gabarró, and Repsol YPF, Antonio Brufau, sign the most comprehensive agreement for an integral project involving the joint exploration, production and marketing of liquified natural gas (LNG) in the Gassi Touil area.

• The Gas Natural Group and the City of Vandellòs i l'Hospitalet de l'Infant sign an agreement to bring natural gas to this municipality in the province of Tarragona before 2008.

• The Chairman of the Gas Natural Group, Salvador Gabarró, presents the book entitled "Puerto Rico, Cultural and National Heritage" in the city of San Juan de Puerto Rico, in a ceremony attended by different Puerto Rican personalities.

• The Chief Executive Officer of the Gas Natural Group, Enrique Locutura, is named President of the European Association of the Gas Industry (Eurogas).

• Gas Natural receives an award from the Spanish Chamber of Commerce in Italy as the best Spanish company in that country.

• Gas Galicia begins to supply gas to Vilagarcía de Arousa, Pontevedra.

• Gas Natural SDG signs an agreement with the Xunta de Galicia for the development of innovative projects focusing on renewable energies.

• The Gas Natural Foundation organizes an environmental management seminar in Bilbao entitled "Transportation and the Kyoto Protocol".

• Gas Natural SDG signs a loan under a Club Deal arrangement for 600 million euros to finance the investment plan included in the 2004-2008 Strategic Plan.

• Gas Natural Castilla y León begins to supply natural gas to its first customers in the Fuensaldaña municipality, Valladolid.

• The Ministry of Industry, Commerce and Tourism published the ITC 102/2005 Decree which implements the specific pay system to remunerate the installations which allow the access to population groups so that the gas supply is made economically feasable.

Corporate Governance

The Gas Natural Group considers its good governance practices to be one of the most relevant aspects of the corporate responsibility policy which is the core of its business diligence policy. In this regard, the Gas Natural Group pays special attention to all of the actions which contribute to guaranteeing the transparency of company management, faithfully respecting not only the legislation in force but also internal regulations and codes of conduct approved by the competent governing bodies.

In addition to the information contained in this report, the Gas Natural Group also publishes an Annual Corporate Governance Rep ort which is available on the website of the Gas Natural Group, www.gasnatural.com. The Report offers complete detailed information on the company's corporate governance activities.

The company's main governing bodies are the Board of Directors, the Executive Committee, the Appointments and Remuneration Committee, the Strategy, Investment and Competition Committee, the Audit and Control Committee and the Management Committee.

	Board of Directors (At December 31, 2004)	**Executive Committee**	**Audit and Control Committee**	**Appointments and Remunerations Committee**	**Strategy, Investment and Competence Committee**	**Type of Director**
Chairman	Mr. Salvador Gabarró Serra	Chairman		Chairman		Executive
Vice President	Mr. Antonio Brufau Niubó	Member				Proprietary
Chief Executive Officer	Mr. Enrique Locutura Rupérez (*)	Member				Executive
Member	Mr. Enrique Alcántara-García Irazoqui			Member		Proprietary
Member	Mr. José Ramón Blanco Balín	Member		Member		Proprietary
Member	Mr. Santiago Cobo Cobo	Member			Member	Independent
Member	Mr. José María Goya Laza					Independent
Member	Mr. José Luis Jové Vintró	Member				Proprietary
Member	Mr. Emiliano López Atxurra					Independent
Member	Mr. Carlos Losada Marrodán	Member			Chairman	Independent
Member	Mr. Fernando Ramírez Mazarredo	Member	Member		Member	Proprietary
Member	Mr. Miguel Ángel Remón Gil		Chairman			Proprietary
Member	Mr. Leopoldo Rodés Castañé					Independent
Member	Mr. José Vilarasau Salat					Proprietary
Member	Mr. Gregorio Villalabeitia Galarraga		Member			Proprietary
Member	Caixa d´Estalvis de Catalunya Represented by Mr. José María Loza Xuriach					Proprietary
Member	Mr. Narcís Barceló Estrany (**)					Independent
Non-Director Secretary	Mr. Mariano Martín Rosado					
Non-Director Assistant Secretary	Mr. Felipe Cañellas Vilalta					

(*) On January 28, 2005, Mr. Enrique Locutura Rupérez was replaced by Mr. Rafael Villaseca Marco as Chief Executive Officer.
(**) Mr. Narcís Barceló Estrany passed away on June 19, 2004.

Management Committee

The Management Committee is the highest decision-making body at the executive level of the Gas Natural Group.

Subsequent to the close of fiscal year 2004, the company decided to remodel the Management Committee, which as from January 13, 2005 will be configured as follows:
(from left to right, from top to bottom)

Chief Executive Officer
Mr. Rafael Villaseca Marco

Managing Director of Electricity
Mr. José Luis López de Silanes Busto

Managing Director of Gas Spain
Mr. Juan Saurina Gispert

Managing Director International
Mr. Alberto Toca Gutiérrez-Colomer

Managing Director of Procurement
Mr. Carlos Torralba Gallego

Chief Financial Officer
Mr. Carlos J. Álvarez Fernández

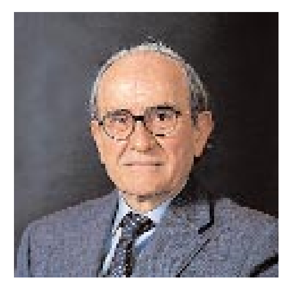
Corporate Manager of Planning
Mr. José Mª Egea Krauel

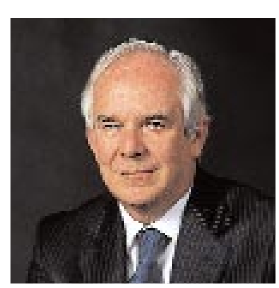
Corporate Manager of Human Resources
Mr. Francisco J. Gea Barberá

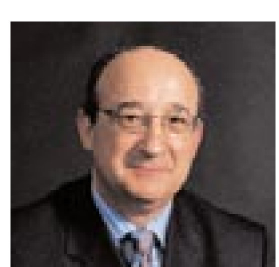
Corporate Manager of Shared Services
Mr. Antonio Llardén Carratalá

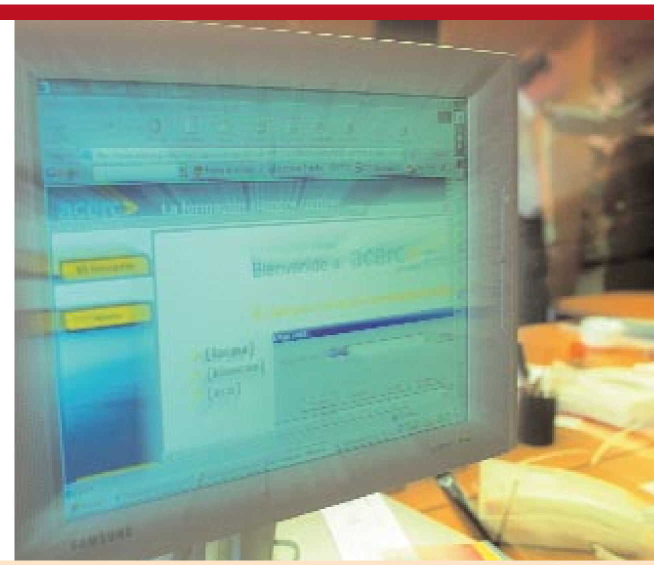
Corporate Manager of Legal Services
Mr. Mariano Martín Rosado







Human Resources

The human resources policy of the Gas Natural Group is designed to attain the commitment and motivation of all personnel, whom the company considers the most important factor of its success.

In this regard, the Group's primary accomplishments in the field of human resources for 2004 were designed to offer an attractive, participative and committed business project and to create a working environment conducive to professional development and integration.

Along these lines, in order to request the opinions of employees and manage the factors affecting the organizational climate more efficiently, in 2004 a number of Workplace Climate Studies were conducted in Argentina, Morocco, Mexico, Brazil and Colombia, the results of which helped to devise improvement plans with specific actions for each country.

The Objective-Based Management and Performance Evaluation Model were also redesigned, converting it into a single system for all companies of the Group. This new model, in keeping with the strategic objectives of the Group, is intended to be used as a management tool and is reviewable annually and subject to operating audits.

During 2004, the company continued to use the Competence Management Model geared toward the comprehensive management of human resources in connection with the hiring, training, evaluation, development, remuneration and organizational areas. The Model is based on the generic and technical competencies needed to conduct business, to meet the proposed objectives and to act in accordance with the Group's values.

Improvements were also made to the management systems that support the new Objective-Based Management and Performance Evaluation Model and the Competence Management System, integrating them into the SAP Human Resources module.

With regard to human resources development, Professional Development Programs (PDP) were offered to the employees covered under the agreement. For other groups, internal promotion and professional development was based on a selection process in which the specific professional requirements for each position are defined and different tests are conducted. In these cases, the results of the Competence Evaluation and the Objective-Based Performance Evaluation System are determining factors.

As far as personnel selection is concerned, the Group continued to apply systematic selection processes. These processes consisted of psychometric tests and interviews conducted by experts in personnel selection and the responsible parties of the hiring areas. The psychometric tests are commonly conducted using the e-Value computer tool which incorporates different tests that are specifically adapted to measure the corporate skills of the Gas Natural Group. Work started in 2004 on implementing this evaluation tool in Colombia and Mexico.

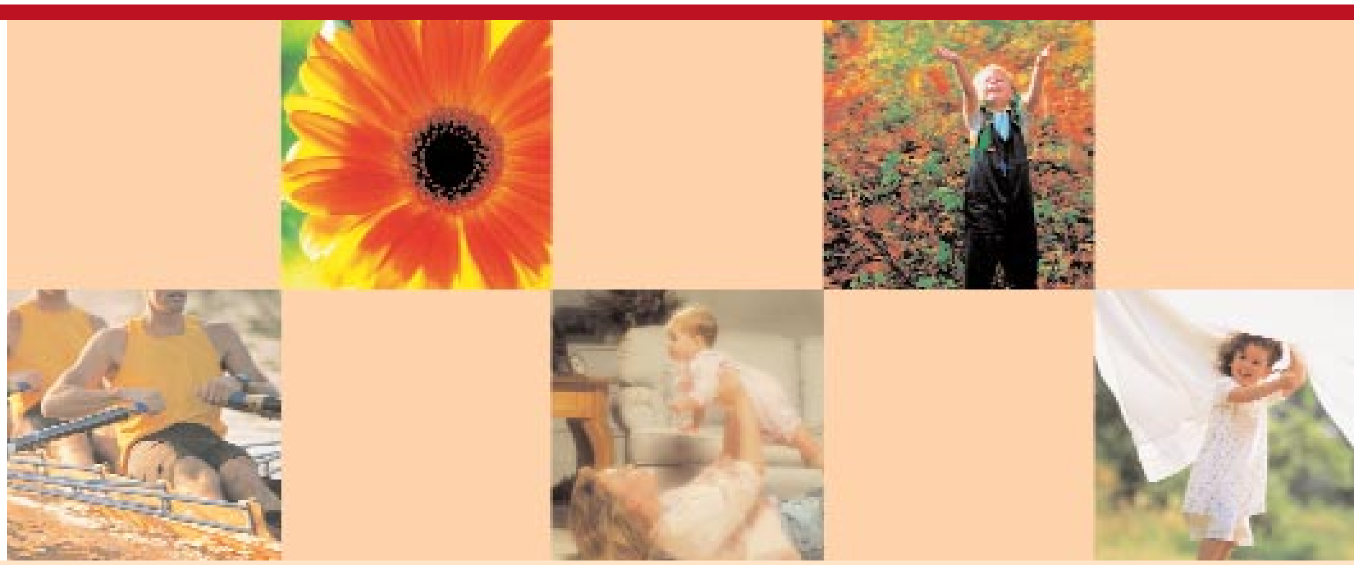
Training data for 2004

	Courses	Attendees	Hours	Training cost (euros)	Staff	Hours/ Employee	Spending per employee (euros)
Spain	1,450	12,896	133,690	1,872,514	3,572	37.42	524.22
Morocco	63	478	7,159	41,748	107	66.91	390.17
Argentina	232	1,895	15,227	57,250	635	23.97	90.15
Brazil	378	2,857	26,949	183,131	562	47.95	325.85
Colombia	127	2,313	19,796	145,071	583	33.95	248.83
Mexico	307	3,526	26,654	161,206	731	36.46	220.52
Puerto Rico	32	95	5,704	5,668	75	76.05	75.57
Italy	9	37	788	14,858	432	1.82	34.39
Total	**2,598**	**24,097**	**235,967**	**2,481,446**	**6,697**	**35.23**	**370.53**

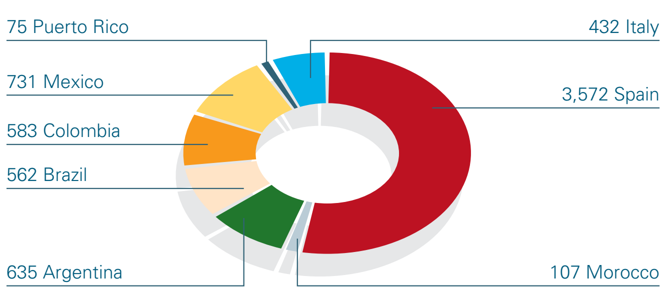
As in previous years, the 2004 Training Plan included both generic and specific actions as well as educational actions associated with the individual improvement plans of the group to which the competence model applies.

Throughout 2004, a total of 2,598 courses were offered and attended by more than 5,800 employees, some of whom participated in more than one training event, bringing the total number of attendees to more than 24,000.

The 2004 Training Plan included different educational formats: in person, on line and mixed (a combination of the first two), in order to guarantee the most effective training adapted to employees' needs. Through the Acerca platform, which works with the Group's Intranet, applications were received for training courses and employees could consult all available training information. All of the courses and electronic manuals scheduled in 2003 were maintained, plus additional new training actions which were immediately accessible.

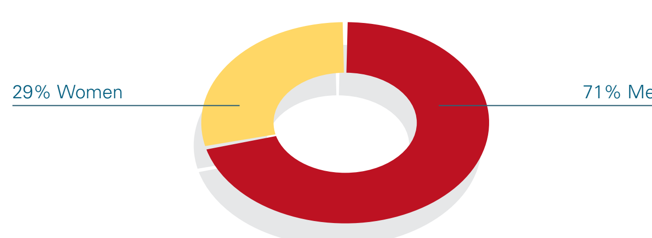


Breakdown of Staff by Country



Total: 6,697

Breakdown of staff by Sex



During 2004, the Group encouraged the international exchange of professionals between the different countries where the Group operates. These actions fostered the intercultural approach of the companies which is part of the international growth strategy reflected in the Group's Expatriate Policy.

Along these lines, special emphasis was placed on professional exchanges in Europe, due to business growth in the Italian market and the international dimension of different projects. The Group continued to encourage intercultural learning and the international dimension of different projects.

The annual Internal Communication Plan was reinforced with the development of the corporate portal for employees, NaturalNet, which works like an interactive communication channel. New contents were added during 2004 which included an employee mailbox, opinion channel, thematic channel and bulletin board.

A Code of Conduct for the Gas Natural Group was also defined and drafted. The new definitions of Mission, Vision and Values were the starting point for this project, which applies to all company employees. The Code is presented as a guide which facilitates the application of the Group's principles and values to the daily activities of employees, customers, shareholders, suppliers and the company in general. In drafting the Code, the Group took into account the basic principles included in the UN Global Agreement which focuses on improving the human rights and working conditions of the most underprivileged employees and protecting the environment.

Collective bargaining agreements were signed in 2004 by Gas Natural Cantabria and Gas Natural Andalucía.

At the international level, collective agreements were signed by the company's subsidiaries in Monterrey, Nuevo Laredo and Distrito Federal in Mexico, by Gas Natural ESP and Gases de Barrancabermeja in Colombia and by CEG and Gas Natural SPS in Brazil.

In the area of Human Resources Management, the SAP PA module was implemented for comprehensive payroll management in all Latin American companies.

The Environment

Throughout 2004 the Gas Natural Group maintained its commitment to preserving the environment, placing special emphasis on the protection of the environment during the performance of its activities.

In this regard, the Gas Natural Group invested more than 42 million euros in different activities directly related to environmental protection and restitution.

Among other things, these funds were used to conduct a total of 46 Environmental Impact Studies in Spain and Latin America. Another example would be the reforestation project to recover 10,000 square meters of degraded land in Petropolis (Brazil).

The Environmental Management systems of 10 gas distribution companies in Spain and Metragaz, a transportation company in Morocco, all part of the Gas Natural Group, are certified according to UNE-EN-ISO 14001. In 2004, Gas Natural México joined the group of certified companies.

One of the main objectives of the Environmental Management System was to reduce energy and water consumption at the Group's facilities. To facilitate tracking and resource efficiency, a set of panels called "Energy Mirrors" were installed in some of the company's buildings in Madrid and Barcelona. The panels displayed the historical and current energy consumption values and enabled users to track their evolution and compare them with target values. Telemeasuring systems were also installed in these buildings to measure energy consumption and to enable energy managers to make decisions intended to improve energy efficiency.

The Group also continued its policy of cutting down on the use of paper and increasing the use of recycled paper, as well as decreasing water usage in buildings and plants and increase waste management.

On a different front, in 2004 the Group continued to promote distributed power generation projects, particularly for newly planned industrial areas. The Group also applied these concepts to its own facilities.

Along these same lines, a gas microturbine was installed at the Montigalà building in Badalona (Barcelona) to produce electric and thermal energy to cover the building's own energy needs and also to heat a nearby municipal school.

The Group continued to promote cogeneration projects, such as the one to be installed in the future headquarters of Gas Natural in Barcelona. In addition to providing the building with energy, the plant will also supply the Hospital del Mar, the Biomedical Research Park in Barcelona, different offices of the Pompeu Fabra University, the Oceanographic Institute and a hotel currently under construction.

In 2004, the Group commenced a project to install a last generation fuel battery in one of its buildings on Avenida de América, in Madrid. This is a high efficiency electrical unit which will satisfy the energy needs of the building using an advanced tri-generation system.

The Gas Natural Group is a pioneer company in taking advantage of natural gas to generate electric power. Therefore, for the last few years it has focused on the development of combined cycle technology as the best option for producing electricity due to its high output and low environmental impact.

In 2004, the Group produced electricity in Spain at combined cycle power stations in San Roque (Cádiz), Sant Adrià de Besòs (Barcelona) and Arrúbal (La Rioja). On the international front, power production was primarily focused at the power station in Puerto Rico.

Along these lines, the Group was involved in numerous projects which position the power stations close to large electricity consumers in order to achieve maximum energy efficiency. The idea of the new combined cycle power stations at the Port of Barcelona and Málaga came out of this decision

Another way of improving energy efficiency during electricity production is through cogeneration. The Group participates in numerous cogeneration plants through its company La Energía.

In order to further promote sustained development, the Gas Natural Group maintained its commitment to creating and implementing measures designed to reduce the emission of greenhouse effect gases following the guidelines of the Kyoto Protocol and associated Community Directives. In this regard, the Group controlled the gas emissions generated by the transportation and distribution of gas, the generation of power and other activities.

In 2004, the Group conducted a study of the noise emissions generated during each one of the installation phases of a gas distribution network, as well as Regulation and Measuring Stations (ERM) and Regulation Cabinets in compliance with regulatory stipulations.

Finally the Gas Natural Group is a participant in the World Bank's Community Development Carbon Fund. This Carbon Fund was designed to carry out projects related to the development of productive processes, habits, education and health of the planet's most disadvantaged people.

Technological Innovation

Following the guidelines set out in the Group's Strategic Plan, the main activities in the area of technological innovation focused on the search for high efficiency energy solutions, the strengthening of applications based on the integration of natural gas and renewable energy in the development of new energetic vectors such as hydrogen, all with a view toward positioning the Gas Natural Group as a company which is seriously committed to compliance with the terms of the Kyoto Protocol.

In this regard, some of the most significant actions of the Gas Natural Group in 2004 included the development of facilities based on distributed power generation, such as the installation of a microturbine in the Gas Natural building in Montigalà in Badalona (Barcelona). This facility became operational in mid-2004 and operated continuously for more than 4,000 hours in 2004, supplying power to the building and also satisfying all of the building’s heating needs and those of the “Planes i Casals” pre-K and primary school next to it using the heat recovered from exhaust gases.

Along these same lines, a project was drafted to incorporate a distributed power generation system in the building housing the new headquarters of the Gas Natural Group, currently under construction. The project is characterized by the fact that it incorporates a distributed power generation system that satisfies the energy needs not only of the building pertaining to Gas Natural, but all those of the other buildings pertaining to public institutions located in the vicinity, with a constructed surface area of more than 300,000 m^2, including the Hospital del Mar and the new Biomedical Research Center of Barcelona. Part of the installations for this group of buildings will be located in the building which formerly housed the gas factory in La Barceloneta.

Furthermore, in the field of high efficiency comprehensive energy solutions, it should be noted that the Group is working with the Barcelona Energy Agency to recover and assess the thermal energy which can be obtained in the form of cold, from the liquid natural gas regasification process at the Port of Barcelona terminal

With regard to renewable energy, during 2004 the Natural Gas Group endeavored to introduce these technologies into its business sphere. These efforts materialized in the acquisition of wind parks, the construction of photovoltaic installations and the design and dissemination of solutions which, in response to the concerns voiced by public bodies, integrate the generation of hot water using solar power supplemented by natural gas. By the same token, this solution also guarantees lower emission levels of the types of gases which add to the greenhouse effect.

Furthermore, natural gas is taking up its position, following the energy policy guidelines of the European Union, as a transportation fuel. Our country has serious difficulties limiting the polluting emissions in this sector, which represent more than one-third of all emissions. In this regard, new projects are underway to achieve a greater penetration of natural gas in the automotive industry, such as the possibility of using liquid natural gas for vehicles traveling long distances and hybrid solutions using natural gas and hydrogen, the results of which will undoubtedly become apparent in the years to come.

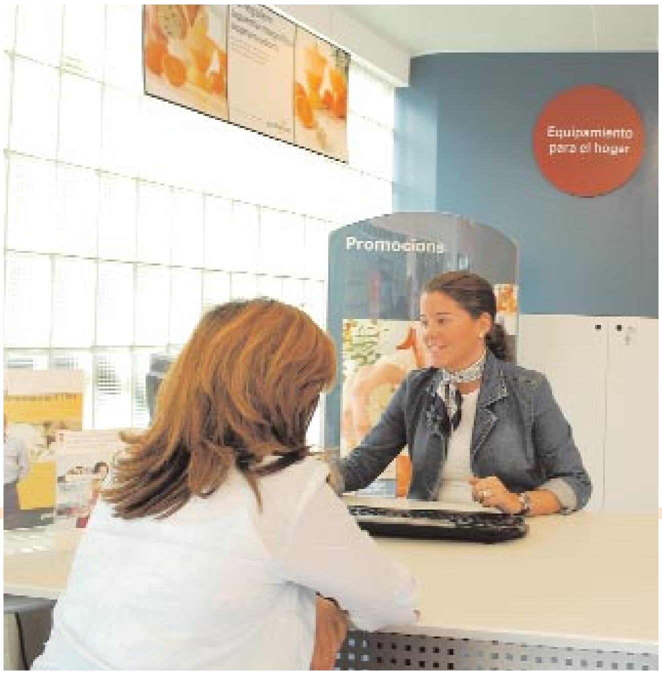
In order to promote this application, in 2004 the first semi-public plant for fueling lightweight vehicles using natural gas was built. The plant will start to provide fuel for its own fleet of vehicles starting in the first quarter of next year.

The Gas Natural Group also continued its work on the study of hydrogen as an energy solution in our country. In this regard, special mention should be made of the natural gas reformation plant located at the facilities of the Municipal Transport Company of Madrid (EMT), which was launched in March of 2003 and continues to provide hydrogen to the four buses equipped with fuel batteries and which operate in Madrid on an experimental basis as part of a European demonstration program. Also noteworthy is the agreement signed at the end of 2004 with the Xunta de Galicia to produce hydrogen in a wind park during off-peak hours and use it to generate power during peak hours, thereby creating an ideal, fully sustainable power generation cycle.

From the point of view of new product development to foster the use of natural gas in households, work is underway on a new stove which would offer the same features as electric vitroceramic stovetops, but would incorporate numerous advantages such as: lower primary energy consumption and consequently lower emission levels, the possibility of cooking independently of the electrical supply, maintaining the quality of the air inside the home by evacuating combustion products to the outside directly.

In the area of transportation and gas distribution, work continued on the introduction of new materials to improve safety standards and quality of service at prices which are competitive enough to survive within the actual framework of competition.

Finally, the Gas Natural Group participated in numerous technical and scientific dissemination forums sponsored by business and educational institutions including the Fourth International Seminar on Climatic Change, the Spanish Managerial Association, the Universities of the Basque Country and Menéndez Pelayo and the Spanish Energy Club.



Quality

The Gas Natural Group is firmly committed to providing its customers with excellent quality products and services and converting the company into a leader in quality in the sectors where it operates.

To do so, the company has designed a Strategic Quality Plan for the period 2004-2008 with certain objectives and a Director Plan which is particularly focused on the need to improve the quality of service perceived by customers by encouraging a serious commitment by internal personal and Group collaborators.

During 2004, with improved quality being a key element in all of the company's actions, diverse quality improvement projects were implemented.

One of the projects undertaken in 2004 was the preparation of a guide to systematize the methodology applied to improvement projects.

Furthermore, as established in the Strategic Quality Plan, in 2004 the Internal Audit Department scheduled various data quality audits. These projects are part of a Data Quality Audit Systemization Program and are included in the Internal Audit Plans approved by the Audit and Control Committee of Gas Natural SDG.

In 2004, the Group also developed the "Q" Project to quantitatively evaluate the quality of collaborators and suppliers of goods and services.

Work also began on redefining the management model with the different types of collaborators related to the Expansion Sales Network and Gas Natural Services in order to ensure their commitment to the quality of the service provided to customers.

Furthermore, in order to strengthen the commitment of all staff members of the Gas Natural Group to the quality and continuous improvement objectives, quality indicators in keeping with the Group's strategic objectives were incorporated into the Objective-Based Management System.

The Group has likewise begun the preparation of an inventory of corporate business and support processes, which will allow them to measure process yield and associated quality. They have also commenced integration of the different Quality data bases with the aim of creating a single point of access to this environment.

Along these lines, quality assessments were expanded and a new system of quality indicators in keeping with the strategic objectives of the Quality Plan was developed and implemented.

The Group continued working on the implementation and development of a quality system based on ISO 9001:2000. In 2004 the certification process for Metragaz (Morocco) and Gas Natural Informática was initiated with the aim of incorporating them into the quality system in 2005. Likewise, the Gas Natural BAN, CEG and CEG Rio companies have ISO-certified systems for some of their most relevant processes.

Finally, the Group also systematized a process of periodic self-assessment based on the model of the European Foundation for Quality Management (EFQM), conducting a pilot test in one of the Group's Corporate Directorates with the purpose of deploying it in the rest of the business lines and corporate areas.

e-Business

During 2004, the Gas Natural Group paid special attention to the activities of the e-Business area, activities which are intended to facilitate the relationship and communications between the different groups which are the interested parties in the company's activities. In doing so, the Group applies agile, economic and globally accessible technology to create spaces for making contacts and interacting.

During 2004, the activity deployed through the Group's portals and website, calculated based on the pages served, increased 80% over the previous year's figures.

In this regard, the transactions carried out by customersdirectly on the Gas Natural Portal, the goal of which is to facilitate customer relations via the Internet, increased threefold over the year before, with 2.2 times the number of registered customers. A total of 35 million pages were served, which represents an increase of fifteen million pages compared to those served the year before. Thanks to the Portal dynamics, it was possible to monitor the different campaigns and launches of the Group's products and services in a synchronized fashion.

At the same time, the Virtual Office continued to facilitate on-line operations by customers, and with the implementation of the "on line invoice" service, consumers can now access their billing information at any time without the need for hard copies. Also during 2004, customers registered on the portal continued to receive an electronic newsletter with the latest news and information on the products and services offered by the Group.

The credit cards requested and activated by customers increased 2.8 times in comparison to the year before.

During 2004, the implementation of the e-Mobile Portal made it possible to offer greater support to the company's field personnel, thereby achieving greater efficacy, productivity and quality in processes and field work, which in turn had a positive effect on customer service.

The corporate website continues to be one of the institutional communication platforms with different specialized groups and areas such as shareholders and the media. In 2004, a new legal information space for shareholders and investors was added, in compliance with the laws governing information transparency for companies listed on the stock exchange.

Likewise, the Installer Portal continued to pursue its objective of becoming the Internet reference for the provision of services to professionals and installation companies in the energy and services sectors. During 2004, the number of registered installers increased by 30% over the year before and the number of pages served increased by 77%.

The Gas Natural Group continued to reinforce its relationship with product and service providers through e-Sourcing tools, on line negotiations by auction and e-Procurement, through the Supplier Portal. During 2004, with a volume of auctioned purchases similar to that of the previous fiscal year, the savings obtained increased by 79%.

Finally, on the internal corporate portal, NaturalNet, new spaces were enabled to foster the communication of subjects of interest to employees. To this end, new items such as a catalogue of Infoplus products and services, a new space on cost reduction and improved efficiency and access to the new Objective-Based Management System were introduced. The most notable innovation was the deployment of NaturalNet in Latin America and Italy, making the portal available in all of the countries where the Group operates.

Social Commitment

During 2004 the Gas Natural Group maintained its collaboration commitment to society through its sponsorships and social action activities and by strengthening the activities of the Gas Natural Foundation.

The policy for the assignment of resources to social and cultural projects focused on those which generate the greatest value for society and reinforce the commitment of the Gas Natural Group toward positive integration in the environment where it operates.

In this regard, the Group is placing increasing emphasis on the social projects sponsored by associations and foundations, particularly those related to children's education, help for the homeless and the elderly, and collaboration with initiatives which focus on helping disabled people to enter the labor market.

The investment to finance 206 cultural and social action projects during 2004 was 13.27 million euros, 12.75 million euros of which were allocated to programs in Spain and the rest to initiatives in the different Latin American countries where the Group operates.

Sponsorships

The sponsorship actions carried out by the Group in Spain and Latin America in 2004 were focused for the most part on activities related to classical music, plastic arts and publications.

One of the highlights was the collaboration of the Gas Natural Group in the organization of 16 concerts offered in seven different cities with more than 26,000 attendees.

One of the most notable activities of this kind sponsored by the Gas Natural Group in 2004 was its collaboration with the Xunta de Galicia on the activities to celebrate the Jubilee Anniversary of Santiago de Compostela. In 1999 the Group, which operates in all of the autonomous communities intersected by the Way of St. James, organized the first pilgrimage, inviting its employees in Spain to participate. The successful event drew high levels of participation. Therefore, on the occasion of the new Jubilee Year, the Group organized a similar project in which nearly 1,500 people participated.

One of the most noteworthy activities sponsored by the Gas Natural Group in Colombia in 2004 was the signing of an agreement with the authorities of Bogotá to support the cultural initiatives at the Jorge Eliécer Gaitán Municipal Theater, the Bogotá Modern Art Museum, the Botero Museum and the Casa de la Moneda.

Within the framework of the Fourth Book Fair in El Zócalo, "The City: An Open Book", Gas Natural Mexico organized the round table discussion entitled: "Reflections on Natural Gas in the Federal District".

Social Action

The Group paid special attention to the development of pedagogical programs for schoolchildren geared toward familiarizing them with saving energy and protecting the environment. In Spain, more than 68,500 students participated in these programs.

Throughout 2004, the Group participated on collaboration projects with NGOs such as the Red Cross, Cáritas, Children's Villages, Femarec, Tallers de Catalunya and the Emigration Foundation.

The Gas Natural Group also started to develop diverse volunteer program initiatives. Along these lines, the donations of the employees of Gas Natural who participated in the Way of St. James pilgrimage were matched 100% by the company and donated to the non-profit organization Aldeas Infantiles (Children's Villages). The slogan for this initiative was: "Pilgrim, give what you can and take what you need".

Along these lines, Gas Natural BAN continued its volunteer program to build the skills of young unemployed, at risk people.

Likewise, in Argentina and Colombia, work on the program entitled "Natural Gas in School" continued.

In Brazil, the main actions of the Group focused on occupational training for disadvantaged groups. The projects entitled "Swimming for Everyone," which teaches children in the poorest communities of the state of Rio de Janeiro to swim, and the program entitled "Minor Apprentices", in collaboration with the Institute for the Education of the Deaf, are examples of these actions.

The Group also collaborated on the program entitled "Dividend for Colombia" which grants scholarships to at risk children and young people who are no longer in the formal education system due to the economic crisis or displaced as a result of violence.

Gas Natural Foundation

In 2004 the Natural Gas Foundation entered a new phase with the objective of extending its activities to new areas such as installer training and the preservation of the historical heritage of the gas industry, without setting aside its specialization in environmental awareness issues.

In this regard, the Foundation maintained its working philosophy based on the organization of seminars, sponsorship and publishing activities, as well as extending its presence in the different Spanish autonomous communities where the Group operates. Also in 2004 it continued to carry out actions in Argentina, Colombia and Morocco and to develop new approaches in Mexico.

Courses and Seminars

During 2004, the Foundation organized thirteen seminars with the collaboration of central, regional and local government officials in addition to domestic and international experts from the higher education and business worlds.

These seminars, held in different Spanish cities, addressed issues such as sustainable construction, energy saving and making urban develop and the environment compatible. The speeches of the speakers at these seminars were published on the Foundation's website.

Furthermore, in collaboration with the Ministry of the Environment and the Spanish Federation of Municipalities and Provinces (FEMP), the Foundation organized the Fourth International Seminar on Climatic Changes in Madrid entitled "Climatic Change: the Moment of Truth".

Publications

The Foundation continued its efforts in the area of environmental dissemination in 2004 with the publication of two pedagogical documents on the use of natural gas and hydrogen as a fuel for the automotive industry. It also promoted the publication and distribution of two books on transportation and the legal protection of the environment as part of the collection entitled "Technical Guides to Energy and the Environment".

In order to foster environmental education, the Gas Natural Foundation published several fact sheets with recommendations on environmental protection which were distributed to the Group's customers along with their consumption bills.

Along these lines, the Group distributed among cities with more than 2,000 inhabitants a CD Rom published by the Foundation on environmental legislation and jurisprudence and free access to the specialized portal, Ambientum.

Collaboration Agreements

Throughout 2004, collaboration agreements were signed with different organizations and public bodies, in addition to those already existing in diverse Autonomous Communities. Thanks to the agreement signed with the Junta de Castilla y León, work commenced on signposting for the Picos de Europa Regional Park (León).

Agreements were also signed with the Communities of Navarra and La Rioja to develop energy saving and environmental protection policies and programs. The sponsorship of the itinerant exhibit entitled "Live City", organized by the Community of Madrid and FIDA (Foundation for Environmental Research and Development), was extended.

The Foundation also signed different research agreements and collaborated actively in the summer course entitled "Alternative Fuels" organized by the University of Burgos. It also participated in the seminars organized by the "Centre de Referéncia en Materials Avançats per a l'Energia" (CeRMAE) entitled "New Materials for the Energy of the Future".

International Activities

The Foundation was likewise active in 2004 in numerous activities on the international front.

In Argentina, Gas Natural BAN, with the support of the Gas Natural Foundation, continued its work on the "First Exportation Program" which, since its implementation in 2001, has provided consultancy services to more than 10,000 companies in different sectors. The goal of the program is to provide technical training and specialized foreign trade advice to small and medium Argentine companies to boost their exporting capacity. This program, which has received numerous awards during its lifetime, was presented to the UN in collaboration with the prestigious business school ESADE as a case study of the application of the principles of the Global Agreement.

The volunteer program sponsored by the Foundation continued, as did the collaboration between Gas Natural BAN and the Latin American Environmental Science Forum (FLACAM) in support of the "Post-graduate Program".

In Colombia, the Foundation continued its pedagogical work through the program entitled "Little Scientists", the objective of which is to reinforce the learning of scientific concepts and attitudes among primary schoolchildren through innovative educational methods.

In Mexico, the Foundation and Gas Natural México implemented a project to improve relations with collaborating companies to improve the company's image and position.

In Morocco, the Foundation continued to support the activities of the Autistic Children's Education Center, "Institut Lalla Maryem pour enfants autistes à Tanger" and organized a "National Autism Seminar" in honor of the International Day of Disabled Persons.

Financial-Economic Management

During 2004, the Gas Natural Group continued with the implementation of its new financial-economic management at its international locations in order to establish a unified management system for all of the companies of the Group and all business areas in compliance with the International Financial Reporting Standards (NIIF).

The new financial-economic management model of the Gas Natural Group was designed to adapt easily to new requirements as they arise with the growth of the company's activities and the addition of new business areas. Furthermore, it has been developed with the aim of being more customer- and results-oriented.

It encompasses transactional financial-economic systems, management by activity line, management control systems and the entire management staff.

One of the most significant changes involved is the setting up of shared service centers for accounting, administration and treasury functions. These shared service centers are intended to take advantage of economies of scale and reduce costs. They also make it possible to standardize processes and data, improve service quality, and apply the best practices and the latest technology available.

The new management model is based on the Gas Natural Group's Systems Plan which calls for a unified financial-economic system for the entire Group using standard technology (SAP), eliminating the complementary systems in place at the present time and the internal systems of certain group companies.

As part of the incorporation of this new model, the Group has implemented the SAP R/3 Enterprise module which supports the financial-economic and purchasing functions. A new documentation center has also been designed and implemented to gather documental information using a scanner and special software. The information is then filed as a digital image using a document manager and automatically recorded in SAP R/3.

Some other new management systems have also been implemented (SAP SEM and SAP BW) which facilitate the organization of key information needed by the Group's executive staff to make decisions.

With the new model implemented in Spain and Morocco, in 2004 it was implemented in Mexico, Italy and Argentina, followed by Colombia and Brazil.

Also in 2004, the information systems were adapted to make the accounting and management information more readily available as stipulated in the International Financial Reporting Standards (NIIF).

The conversion project required the adaptation of transactional information systems (SAP R/3 Enterprise) to enable them to support both Spanish and international accounting standards, as well as the adaptation of consolidation (SAP ECCS) and reporting (SAP BW) systems for the preparation of Financial Statements.

Internal Audit

The Gas Natural Group carries out its internal auditing activities as an independent and objective evaluation function. The Internal Audit Department reports directly to the Audit and Control Committee of Gas Natural SDG.

The basic mission of the internal audit activity is to contribute to the achievement of the strategic objectives of the Gas Natural Group and to collaborate with its members to effectively comply with its responsibilities. To do so, it conducts continuous and systematic reviews in all areas of the Group of the efficacy and efficiency of the established internal control systems in each one of the processes, which includes the evaluation of controls and risks. It also reviews the standard application of the Group's Regulatory System in all areas of action, such as compliance with established quality standards and procedures.

The objectives, rules of operation, powers and responsibilities of the Internal Audit Department, as well as the methodology used to prepare the Annual Internal Audit Report, are established in the Internal Audit General Regulations approved by the Gas Natural Group's executive management. In addition, the internal audit activity is carried out in accordance with International Standards for Internal Auditing Practice.

In general, the Internal Audit Plans are prepared on the basis of the Group's Strategic Plan, the risks areas included on the Group's Risk Map and related processes, the result of previous audits and executive management's proposals. The method used to identify and control the Group's risk is described in the Annual Corporate Governance Report.

The management of the Group's internal audit function is geared toward the continuous improvement of the presentation of auditing services by applying policies based on quality management and measurement and fostering the creation of a qualified staff through internal rotation, training, continuous evaluations and professional development within the Group.

In this regard, in 2004 an Internal Audit Corporate Intranet was designed. The objective of this computer tool is to improve the efficacy and efficiency of the performance of the internal audit function in all geographic and business areas of the Gas Natural Group. Furthermore, part of the internal audits are in the process of obtaining or have already obtained Certified Internal Auditor (CIA) status, the internationally-recognized certification which certifies excellence in the provision of internal audit services.

The functions of the Audit and Control Committee and its principal activities in 2004 are included in the Annual Report on the Activities of the Audit and Control Committee, which will be part of the documentation to be presented by the Board of Directors of Gas Natural SDG at the General Meeting of Shareholders.

The Internal Audit Plan of the Gas Natural Group for 2004 was approved by the Audit and Control Committee at its meeting held on December 19, 2003.

In compliance with the Plan, during the period from January 1, 2004 to February 25, 2005 (date on which the Annual Accounts are prepared), the personnel responsible for Internal Audits participated in seven meetings of the Audit and Control Committee to report on the level of execution of the Internal Audit Plan and the main conclusions, risk and control evaluations and recommendations included in the Internal Audit Reports.

The Audit and Control Committee was also informed at these meetings of the level of implementation by the audited units of the corrective measures contained in the Audit Reports and particularly those proposed by the Committee itself. Additionally, the 2005 Internal Audit Plan was presented for its approval.

The main processes reviewed by the Internal Audit Department in 2004 were those related to commercial areas (primarily, the liberalized market), Supplies, Finance, Quality, Investments and Awarding and Procurement of Goods and Services.

Consolidated Economic Analysis

The Gas Natural Group earned consolidated net profits of 633.9 million euros in fiscal year 2004 which represents an 11.5% increase over the year before.

The gross operating profit (Ebitda) in fiscal year 2004 were 1,362.5 million euros, 13.4% more than the year before.

The operating profit (Ebit) were also up by 12.5% to 898.7 million euros.

These results were fueled by the growth in the distribution business, which continues to be the business area that contributes the highest percentage to the Group's Ebitda, which grew by 9.8% compared to the year before.

The results were also driven by the progressive contribution of the activities of the Gas Natural Group in America derived from organic growth in the region, by the consolidation of stakes in Brazil through global integration and by the fact that the results for Puerto Rico, unlike 2003, refer to the entire fiscal year.

These aspects offset the lower contribution of the gas marketing and supply activities and that of electric power as well.

Financial results

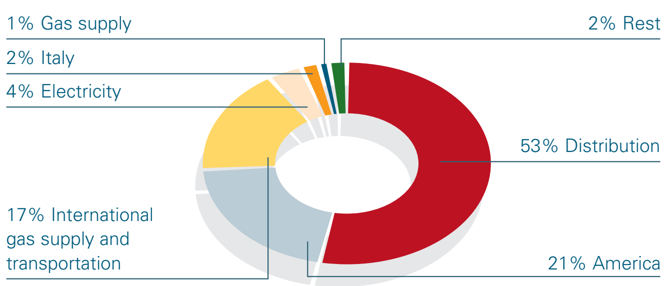
The net financial expense was 140.5 million euros compared to 57.7 million euros the year before. This was due primarily to the different performance of exchange rates in Argentina from one year to the next, to the higher net cost of financial debt due to an increase in the financial debt and to the interest on the financial leases of liquified natural gas (LNG) tankers included under the caption entitled "Other financial (expenses)/income".

The caption entitled "Exchange differences in Argentina" reflects the exchange rate differences recorded by Gas Natural BAN affecting the company's financial debt contracted in dollars. This effect, unlike the year before, is negative due to the unfavorable performance of the Argentine peso (1 dollar/2.96 Argentine pesos as opposed to 1 dollar/2.91 Argentine pesos at the end of fiscal year 2003), although the amount is not significant.

Net leverage increased during the year by 704.4 million euros, due primarily to the Group's investment efforts and in particular the financial investment for the acquisition of stakes in certain companies and the inclusion of those stakes, and hence of the net debt, in the Group's consolidation perimeter.

The net financial debt of the Group on 31 December 2004 was 2,573.6 million euros, bringing the leverage ratio to 34.4% compared to 29.3% at the end of the previous fiscal year.

Contribution to Ebitda by Activity



The financial debt denominated in dollars, excluding that of Argentina, refers basically to EMPL, the company that manages the Maghreb-Europe gas pipeline and to EcoEléctrica, whose economic magnitudes are also formulated in this currency.

The net debt in Argentine pesos and Moroccan dirham is included under the heading of other currencies.

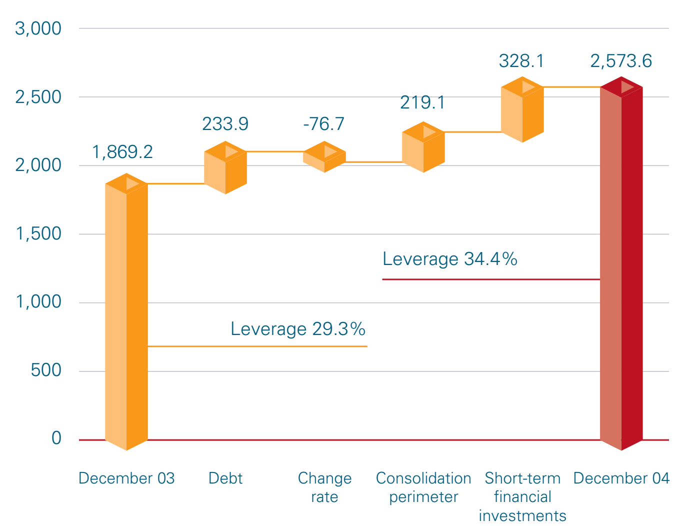
On December 20, 2004 Gas Natural SDG signed a loan under a Club Deal arrangement in the amount of 600 million euros for seven years in order to restructure its bank debt, improve costs and extend repayment periods. The initial drawdown of the loan was 300 million euros.

Results of companies recorded using the equity method

The main items under this caption refer to the results of the minority shareholdings in gas distribution companies in Spain (Gas Aragón and Gas Natural de Álava) and the consolidation by the equivalence method of the results of Enagás in which Gas Natural SDG held a 26.1% stake as at December 31, 2004.

During this period, the Group ceased to consolidate by the equity method the stake in Gas de Euskadi as a result of the merger by absorption by Naturcorp Multiservicios, as a result of which the stake in this company is now less than 20% and is not represented on the Board of Directors.

Evolution of net financial debt



Breakdown of net financial debt by currency

(Millions of euros)

	31/12/04	%
EUR	1,225.2	47.6
USD	683.7	26.6
MXN	317.0	12.3
BRL	226.3	8.8
USD – Argentina	102.4	4.0
COP	17.1	0.7
Others	1.9	0.1
Total net financial debt	**2,573.6**	**—**

Financial results (Millions of euros)

	2004	2003
Cost of net financial debt	(160.7)	(119.8)
Exchange differences in Argentina	(2.3)	25.2
Rest of exchange differences, net	3.0	(0.1)
Capitalized interest	14.8	4.9
Other financial (expenses)/revenues	4.7	32.1
Net financial result	**(140.5)**	**(57.7)**

Credit rating of Gas Natural SDG

Agency	Long term	Short term	Outlook
Moody's	A2	P-1	Stable
Standard & Poor's	A+	A-1	Stable

Breakdown of goodwill in consolidation
(Millions of euros)

	31/12/04
Puerto Rico	140.8
Italy	134.4
Brazil	131.3
Spain	34.2
Mexico	28.7
Total	**469.4**

The results referring to the minority stakes in companies in 2004 are 58 million euros compared to 61.1 million euros in 2003. This variation is due primarily to the decrease in the stake in Enagás and the non-inclusion of the results of Naturcorp Multiservicios in 2004. The contribution of Enagás to the results through the equivalence method in fiscal year 2004 is 55 million euros.

Goodwill in consolidation

The amortization of the goodwill in consolidation was 17.8 million euros and refers to the amortization of the goodwill funds generated by the acquisition of stakes in Puerto Rico, Brazil, Italy, Mexico and different companies in Spain.

The goodwill in consolidation pending amortization as at December 31, 2004 was 469.4 million euros.

Extraordinary results

The net extraordinary result for fiscal year 2004 was 125.4 million euros compared to losses of 7.1 million euros in 2003. This increase was due primarily to the disposal of 12.5% of Enagás during the fiscal year. In 2003, the Group disposed of a 2.3% stake in Enagás. Gas Natural SDG must reduce its stake in Enagás to 5% prior to December 31, 2006. The stake held in Enagás as at December 31, 2004 was 26.1%.

Minority interest

The main items under this caption refer to the results of the stakes held by minority shareholders in EMPL (72.6% controlled by the Gas Natural Group), in the subgroup of associated companies in Colombia (59.1% owned), in Gas Natural BAN (50.4% owned), in Gas Natural México (86.8% owned) and in the Brazilian companies CEG (54.2% owned) and CEG Rio (72.0% owned), as well as other distribution companies in Spain.

The minority interest expense in 2004 was 55.9 million euros. The decline in the contribution by Argentine affiliates was offset by an increase in the contribution of other American affiliates and in particular by the inclusion of Brazilian affiliates as of July 1, 2004.

Corporate income tax

The amount of Corporate Income Tax for the fiscal year was 234 million euros, which reflects a tax rate of 25.3% as compared to 22.5% the year before. The difference in this regard is due primarily to the deductions taken, the results of the companies carried by the equivalence method, the tax credits pending compensation and the application of different tax rules to the companies whose business is conducted in territories other than Spain.

Breakdown of investments by type

(Millions of euros)

	2004	2003	%
Tangible assets	946.3	778.3	21.6
Intangible assets	65.0	489.9	(86.7)
Financial investments	494.7	85.3	—
Others	19.2	7.8	—
Total investments	**1,525.2**	**1,361.3**	**12.0**

Investments

Cash flow amounted to 1,003.6 million euros, which was 17.1% higher than the year before. The higher growth in comparison to the net profit was due primarily to higher depreciation allowances and lack of gains on the positive exchange rate in Argentina.

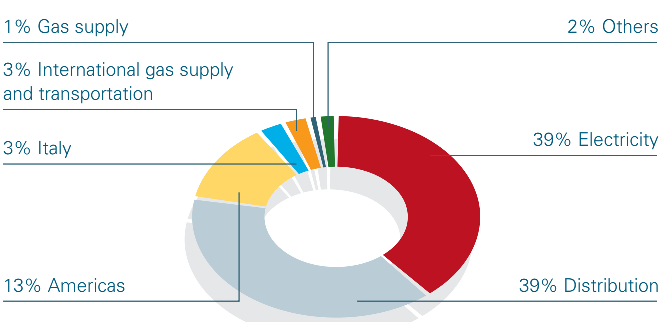
Investments totaled 1,525.2 million euros, with a self-financing rate of 65.8%. However, if financial investments are not considered, the self-financing rate would be 97.4%.

The disposals during fiscal year 2004 totaled 310 million euros compared to 109.5 million euros in 2003.

Breakdown of capital expenditure by activity
(Millions of euros)

	2004	2003	%
Distribution	368.3	375.6	(1.9)
Gas supply	8.9	9.1	(2.2)
Electricity	373.5	231.4	61.4
International gas supply and transportation	24.9	30.2	(17.5)
Americas	127.2	119.2	6.7
Italy	25.7	0.4	—
Others	17.8	12.4	43.5
Total capital expenditure	**946.3**	**778.3**	**21.6**

Tangible capital expenditure by activity



The growth on financial investments was due to the acquisitions in Italy and the increase in the stakes held in the Group's companies in Brazil, which together accounted for 88.5% of the total figure. The rest was due to the acquisitions of stakes in wind energy companies and the acquisition of minority stakes in gas distribution companies in Spain.

Furthermore, the higher intangible asset investments in 2003 referred to the acquisition through a financial lease arrangement of two methane tankers valued at 176 million each.

The investments in tangible fixed assets for the period totaled 946.3 million euros, an increase of 21.6% which was due primarily to the continuous activities to expand the gas distribution network and Group's power generation plans using combined cycles.

39% of the investments in tangible assets in 2004 referred to the electric power business and more specifically to the end of the construction of the combined cycle power stations in Arrúbal (800 MW) and the development of three combined cycle units in Cartagena (1,200 MW).

The investment in the gas distribution business in Spain, which accounts for 39% of the total, was used primarily to attract new customers with the implementation of more than 2,800 kilometers of new distribution network during 2004, an 8% increase over the year before.

Also noteworthy were the investment projects in gas pipelines and antennas for extending the gas distribution network to different communities.

The investment in tangible assets in America was 127.2 million euros with an increase of 6.7%. The decrease in Mexico due to the devaluation of the Mexican peso against the euro and the slowdown in the construction of networks in Mexico DF were offset by investments in Brazil which became the investment hot spot for the region, motivated by the perimeter change, accounting for 50.4% of the total, followed by Mexico with 32.3% of the total.

The international supply and transportation of gas accounted for 2.6% of the Group's tangible asset investments and was allocated for the most part to the completion of the work to expand the capacity of the Maghreb-Europe gas pipeline.

The net tangible and intangible fixed asset investments increased by 221.7 million euros in the last quarter of 2004, to a figure of 7,338.4 million euros as at December 31, 2004.

This amount includes work in progress valued at 850.8 million euros, 708.4 million of which refers to the electric power business and 73.6 million euros to America.

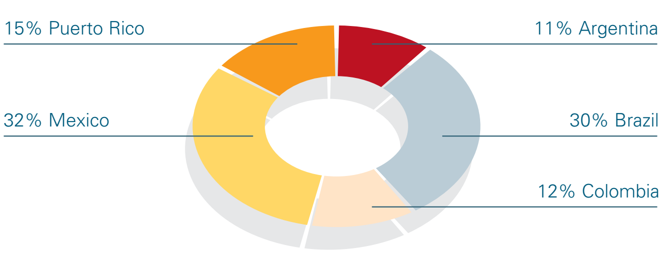
The gas distribution business represents 45.7% of the Group's tangible and intangible assets, while the electric power accounts for 15.8% of the total.

The combined tangible and intangible assets in America account for 19.1% of the Group's total.

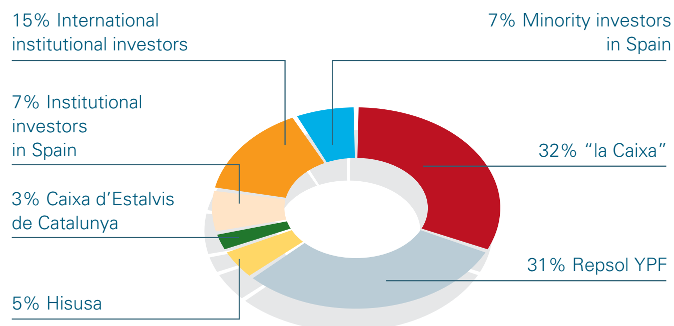
Net tangible and intangible fixed assets
(Millions of euros)

	31/12/04	%
Distribution	3.356.0	45.7
Gas supply	8.3	0.1
Electricity	1,160.1	15.8
International gas supply and transportation	833.9	11.4
Americas	1,402.5	19.1
Italy	356.4	4.9
Others	221.2	3.0
Total net tangible and intangible assets	**7,338.4**	**—**

Tangible and intangible asset in America



Shareholder structure of Gas Natural SDG



Stock Market Information

The Spanish Stock Exchange ended the year on a positive note for the second year in a row, despite the sharp increase in oil prices and the appreciation of the euro against the dollar which had a negative effect on the Euro zone.

The Ibex 35 led the rise of the world's leading stock exchanges with an appreciation of 17.4%, closing at 9,080.8 points. As in the year before, the annual high was reached during the last session of the year with 9,118.8 points and the annual low of 7,538.7 points occurred on August 13.

Gas Natural SDG shares ended the year at 22.76 euros with a gain of 22.7%, higher than that registered by the Ibex 35. The annual high of 22.99 euros was recorded on December 28 and the annual low of 18.18 euros on January 12.

The number of Gas Natural SDG shares traded during 2004 was 259 million, with an effective traded volume of 5,170 million euros and a daily average of one million shares and 20.6 million euros of effective volume. This makes Gas Natural the fifteenth most frequently traded security on the continuous market in 2004.

The stock market capitalization of Gas Natural SDG as at December 30, 2004 was 10,191 million euros, placing it in eleventh position in the Ibex 35 ranking with a weight of 1.78%.

Pursuant to stock market law, the Technical Advisory Committee of the Sociedad de Bolsas agreed, effective July 1, 2004, to reduce the participation of Gas Natural SDG on the Ibex 35 from 80% to 60% of its stock market capitalization value.

Gas Natural SDG stocks are also traded on the FTSE Eurotop 300 and the Dow Jones Stoxx 600 and on the Dow Jones Stoxx Utilities index with a weight of 1.1%.

This year, Gas Natural SDG continued to trade on the FTSE4Good and was also included on the Dow Jones Sustainability Index, both of which are composed of companies with a serious commitment to the fulfillment of their corporate responsibility obligations.

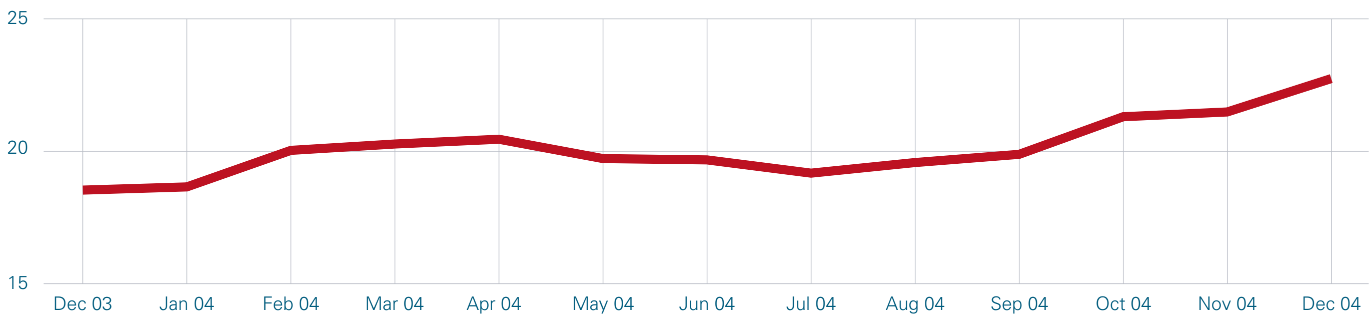
The shares of Gas Natural BAN, the distribution company of the Gas Natural Group in Argentina, ended the fiscal year at 1.83 pesos, down by 19.4%. The annual high and low was 2.65 pesos and 1.27 pesos, respectively. The number of shares traded during 2004 was 10.8 million. The Merval index, representative of the Buenos Aires Stock Exchange, ended the year with a gain of 28.3%.

The shares of Enagás, S.A. ended the year at 12.20 euros per share, a revaluation of 41.9%, coinciding with the annual high. The annual low was 8.19 euros. The traded volume was 2,416.2 million euros and the daily average was 9.6 million euros. The Technical Advisory Committee of the Sociedad de Bolsas agreed to increase the participation of Enagás on the Ibex 35 from 60% to 80% of its stock market capitalization value effective January 1, 2005.

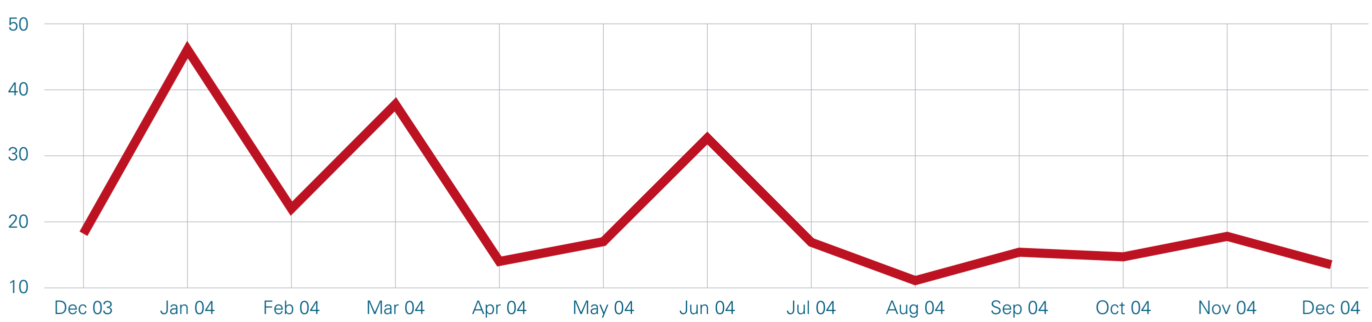
According to the information obtained at the last General Meeting of Shareholders held on April 14, the number of shareholders in Gas Natural SDG was estimated to be approximately 40,000.

The main shareholders in Gas Natural SDG as at December 31, 2004 were "la Caixa" with 32%, Repsol YPF with 30.8%, Holding de Infraestructuras y Servicios Urbanos, S.A. (Hisusa) with 5% and the Caixa d'Estalvis de Catalunya with 3%.

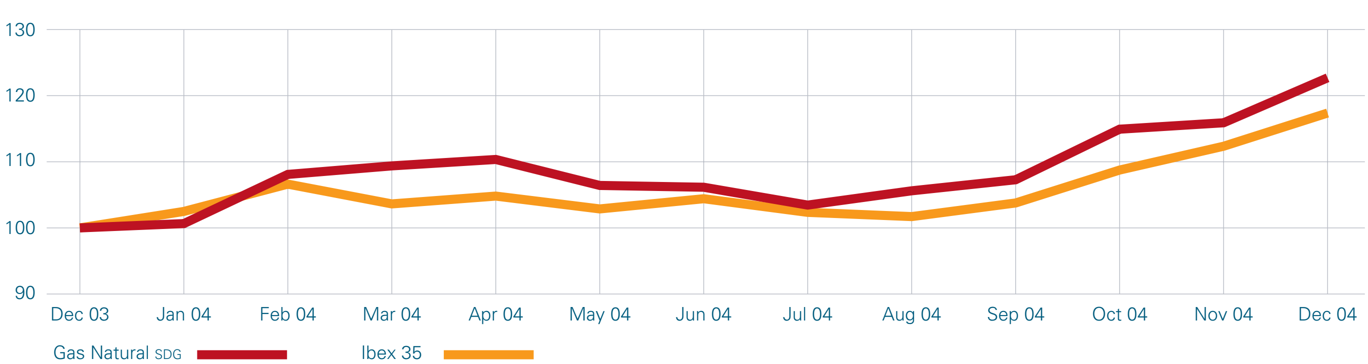
Gas Natural SDG share price (Monthly close, in euros)



Number of shares traded (Monthly figures, in millions)



Performance of Gas Natural SDG versus Ibex 35



Distribution

The gas distribution business includes the remunerated gas distribution activity, regulated-rate sales and secondary transport as well as non-remunerated distribution activities (meter rentals, customer connections, etc.) in Spain.

The net sales from the gas distribution business in Spain during 2004 were 1,820.5 million euros, a figure that is down from the year before due primarily to the progressive shifting of customers to the liberalized market.

Ebitda was 725 million euros, an increase of 9.8% over that reported the year before. This growth was due to the annual increase in the regulated remuneration, the efficiency in client capturing and the distribution not included in the remuneration.

A higher depreciation figure than that of the year before and higher working capital provisions pushed the operating profits up by 11%.

Sales from the regulated gas activity in Spain, which encompasses the distribution and regulated-rate sales of gas and third party network access (TPA) totaled 127,065 GWh, an increase of 1% over the year before.

Gas sales in the residential and industrial markets were down by 9.7% and 38.3% respectively due to the progressive shifting of customers to the Group's supply company and other supply companies as a consequence of the complete deregulation of the market which took place on January 1, 2003. As a result of this, third party network access services were up by 21.2% compared to the year before, and services carried out by the Group's companies were up by 19.3%.

Gas sales for the generation of electric power decreased by 9.4% basically due to the start-up of new power stations which are supplied from the liberalized market.

More than 2,800 kilometers were added to the distribution network during the fiscal year, bringing the total to 37,534 kilometers as at December 31, 2004, which represents a year-on-year increase of more than 8%.

As far as the number of customers, the Gas Natural Group maintained high rates of growth with the addition of 326,146 customers in Spain in 2004, which is 5.8% higher than the increase in 2003. With these results, the Group achieved its goal for 2004 of increasing the number of customers by more than 325,000.

As at December 31, 2004, the figure for gas distribution customers in Spain was 4,808,000, an increase of 7.3% over the client base at the end of 2003.

Distribution. Results
(Millions of euros)

	2004	2003	%
Net sales	1,820.5	1,934.7	(5.9)
Ebitda	725.0	660.0	9.8
Ebit	472.0	425.2	11.0

Distribution. Main aggregates

	2004	2003	%
Gas activity sales (GWh)	127,065	125,814	1.0
Gas sales	51,449	63,437	(18.9)
Residential*	31,204	34,540	(9.7)
Industrial	12,678	20,541	(38.3)
Power companies	7,567	8,356	(9.4)
Gas transportation /TPA	75,616	62,377	21.2
Distribution network (km)	37,534	34,701	8.2
Change in gas customers ('000)	326	308	5.8
Gas customers ('000) (as at 31/12)	4,808	4,482	7.3

* Customers <4 bar, which also includes commercial and small industrial customers.

Gas Supply

This caption refers to the gas supply activities on the liberalized market in Spain as well as the supply of gas to other distributors and sales companies in Spain and the sales of related products and services.

The supplies of gas to other distributors correspond to the supplies delivered to Enagás for the regulated gas distribution market.

The net sales from the marketing activity in 2004 were 3,437.2 million euros, which represents an increase of 4.8% over the year before.

Ebitda decreased by 77.9% compared to the same period the year before. This variation in Ebitda from the gas marketing activity in Spain is the consequence of a reduction in unitary margins due primarily to the deregulation of this market and the consequential increase in competition.

The Group's gas sales on the liberalized Spanish market in 2004 were 192,574 GWh, which represents an increase of 11.3% compared to the year before. Of those sales, 27,892 GWh were used to generate power in combined cycle plants, 40% in the Group's own combined cycle plants.

Gas sales also include sales to more than 1,088,000 customers on the liberalized residential market.

The gas supplied to suppliers outside the Group in 2003 included the sale of 26,758 GWh for 25% of the Algerian contract which expired on December 31, 2003. The gas supplies to suppliers outside the Group in 2004 totaled 43,173 GWh under medium and long term gas supply agreements.

The gas supplied to distributors outside the Group refers to the supply of gas to Enagás for the regulated gas distribution market. The decrease in these sales is a result of the progressive shifting of customers from a regulated to a liberalized gas distribution market.

With regard to the Group's multiutility activities, in 2004 more than 208,000 gas maintenance agreements were added, bringing the total number of contracts in force as at December 31, 2004 to more than 1,140,000.

The Group also continued developing new products and services, supported by both off-line and on-line marketing channels. As at December 31, 2004, the Group had 114 franchised centers and 1 owned center, in addition to 758 associated centers, all of which together make up a powerful and unique marketing network in Spain.

As at December 31, 2004 the contracts for additional products and services other than gas, including financial services and power sales, totaled more than 1,725,000 with an increase of 35.2% compared to the contracts in force on December 31, 2003. This brought the ratio of contracts per customer in Spain to 1.4, in line with the strategic objective of reaching 2 contracts per customer by the year 2008.

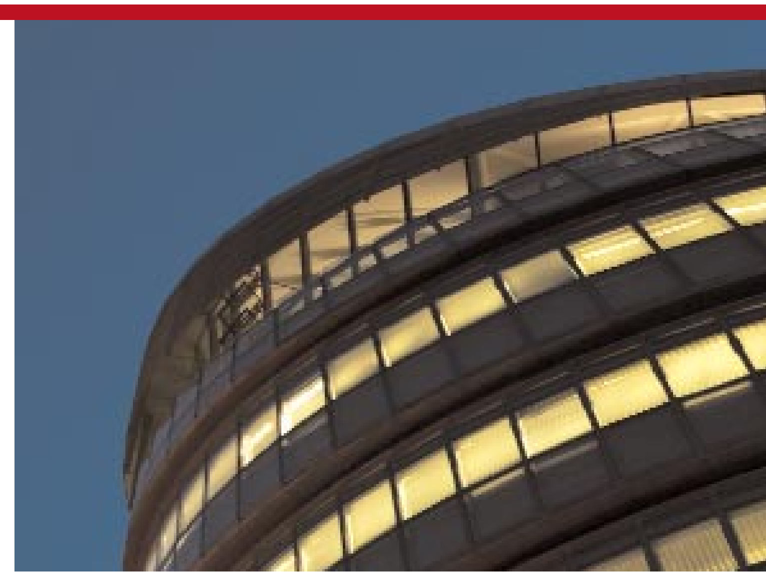
The marketing activity also made it possible to increase the number of households of gas heating by 38,529 and equipment sales by 57.224, including more than 13,100 air conditioning installations.

Gas supply. Results
(Millions of euros)

	2004	2003	%
Net sales	3,437.2	3,278.8	4.8
Ebitda	13.5	61.1	(77.9)
Ebit	2.9	53.3	(94.6)

Gas supply. Main aggregates

	2004	2003	%
Gas sales (GWh)	192,574	173,063	11.3
Supply	138,972	111,155	25.0
Wholesales:	53,602	61,908	(13.4)
Suppliers outside the Group	43,173	43,909	(1.7)
Distributors outside the Group	10,429	17,999	(42.1)
Multiutility contracts (as at 31/12)	1,727,147	1,277,608	35.2
Contracts per customer (as at 31/12)	1.4	1.3	7.7



Electricity

This caption includes the power generation activities in Spain, power trading on the wholesale market, cogeneration and the sales of electric power on the liberalized Spanish market.

The net sales from the power business in 2004 totaled 474.9 million euros, due to the increase in sales to end customers.

Ebitda for 2004 totaled 51.2 million euros with operating profits of 34.1 million euros, down by 7.7% and 11.9%, respectively, due to the low pool prices compared to the year before and the power marketing efforts on the residential market, although considerable recovery was seen in the last quarter.

The energy produced and basically sold on the wholesale market in 2004 totaled 5,802 GWh, which was 43.5% higher than the year before.

Power generation using combined cycles totaled 5,672 GWh. This generated energy, measured at power station terminals, represented a coverage ratio of 119% of the power sold by the Group.

The percentage of equivalent hours of full load operation exceeded 83% for this fiscal year.

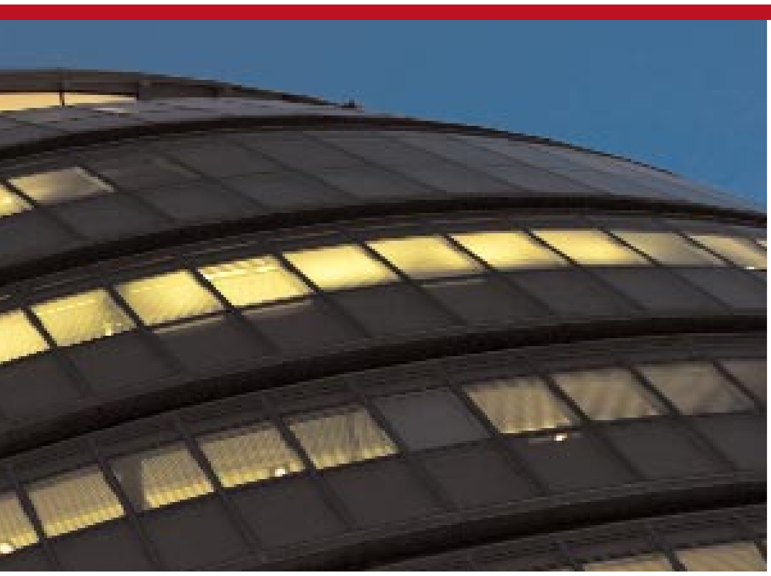
Power sales, which included sales to more than 200,000 customers on the residential market, increased by 47%.

The Group also continued during 2004 with the construction of the 1,200 MW combined cycle power station in Cartagena (Murcia). The total estimated investment is 600 million euros and the plant is scheduled to be commercially operational in the first quarter of 2006. Once this plant becomes operational, it will be one of the largest combined cycle power generation facilities in Spain and will produce the equivalent of 4% of total peninsular demand at this time.

With regard to the combined cycle power station in Arrúbal (La Rioja), one of the 400 MW units became commercially operational in January of 2005, while the second unit began its marketing activities in March 2005.

Consequently, during the first quarter of 2005 the Gas Natural Group had 1,600 MW of power generation facilities using combined cycles plus 2,000 MW under construction and an additional 1,200 MW in the advanced stages of permit processing, including those in Málaga and Barcelona, all in keeping with the goal of reaching 4,800 MW with combined cycle power generation stations by fiscal year 2008.

At the end of September 2004, the Group obtained government permission to build the two combined cycle units of 400 MW each in La Plana del Vent (Tarragona).



Electricity. Results
(Millions of euros)

	2004	2003	%
Net sales	474.9	372.5	27.5
Ebitda	51.2	55.5	(7.7)
Ebit	34.1	38.7	(11.9)

The Gas Natural Group acquired from the Banco Sabadell the latter's stake in five wind energy parks located in Cataluña, Aragón, Galicia, Andalucía and Castilla y León, with a combined installed power totaling 138 MW (51 MW attributable).

The contribution of this technology to the power generating capabilities of the Gas Natural Group accounted for more than 24 GWh from the time it was incorporated in the month of November 2004.

With regard to the approval of the National Plan for the Assignment of Emission Rights (PNA), the Gas Natural Group takes a positive view of the government's efforts on this complex issue and believes that, in general, it is consistent with the position defended by the Group and with the need to foster a renewal of power generation facilities in order to make them more efficient and less contaminating.

The PNA includes a total of 3,600 MW for the combined cycles of the Gas Natural Group, assigning them a total of 14.12 million tons of CO_2 for the period from 2005-2007. For the remaining 1,200 MW included in the Group's Strategic Plan for 2008, emission rights will be requested to be charged against the amount reserved for new players.

The PNA is a superb opportunity to significantly reduce emission, comply with the Kyoto Protocol and at the same time stimulate real competition in power generation, enabling new operators such as the Gas Natural Group to develop under the same conditions as the traditional players.

Electricity. Main aggregates

	2004	2003	%
Electricity sales (GWh)	4,457	3,023	47.4
Residential	657	13	—
Industrial	3,800	3,010	26.2
Electricity generated (GWh)	5,802	4,042	43.5
CCGT	5,672	3,964	43.1
Wind[1]	24	—	—
Cogeneration[1]	106	78	35.9
Contracted electricity (GWh/year)	4,942	3,550	39.2
Installed capacity (MW)	874	815	7.2
CCGT	800	800	—
Wind[1]	51	—	—
Cogeneration[1]	23	15	53.3

[1] Attributable

International gas Supply and Transportation

The international gas supply and transportation includes gas supplies for sale on a wholesale basis outside of Spain, the management of sea transport and the operation of the Maghreb-Europe gas pipeline.

Net revenues from the international transportation and wholesale sales of gas in 2004 were 669.5 million euros, a figure that was similar to 2003.

Ebitda amounted to 230.9 million euros, i.e. slightly less than in 2003. The decline was due fundamentally to translating EMPL's accounts during consolidation since, although the volume transported increased by 13.6% and the company's Ebitda in dollars rose by a similar percentage, the impact in euros was a decline of approximately 11.8 million euros. Higher amortisation due to the two ships held under financial lease led to Ebit of 188.7 million euros, down 5.7% on 2003.

89.1% of gas sales came from the supply of gas on the American market under medium term agreements. The rest are spot operations on international markets.

The total volume of the gas transportation activity in Morocco handled by the companies EMPL and Metragaz was 115,637 GWh in 2004, representing an increase of 13.6%. Of this amount, 87,386 GWh were transported for the Group through the company Sagane and 28,251 GWh for the Portuguese company Transgas. Transportation services for Portugal were down 1.1% compared to the year before.

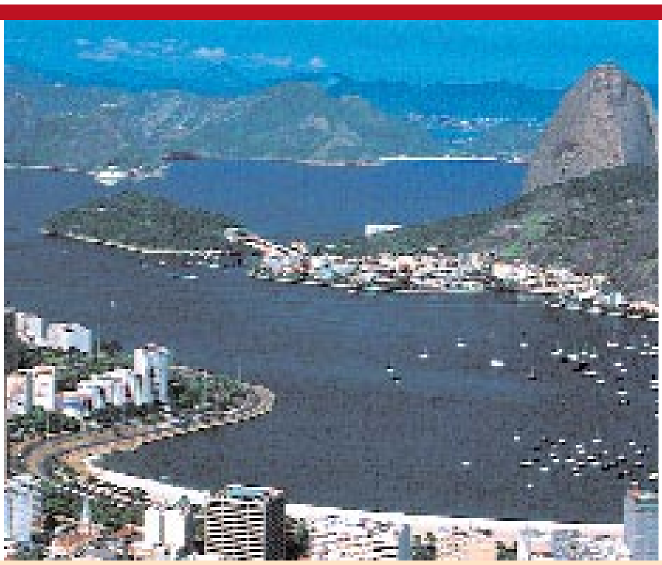
The increase in the capacity of the Maghreb-Europe gas pipeline to 136,000 GWh was completed and operational as of January 2005, enabling the gas from the new gas supply agreement with Algeria to be transported.

International gas supply and transportation. Results
(Millions of euros)

	2004	2003	%
Net sales	669.5	668.8	0.1
Ebitda	230.9	233.2	(1.0)
Ebit	188.7	200.2	(5.7)

International gas supply and transportation. Main aggregates (GWh)

	2004	2003	%
Gas supply	36,033	29,929	20.4
Gas transportation (Portugal)	28,251	28,568	(1.1)



Americas

The activities of the Gas Natural Group in the Americas include gas distribution in Argentina, Brazil, Colombia and Mexico as well as the activities of EcoEléctrica in Puerto Rico.

Net sales from the business in the Americas in 2004 totaled 1,145.3 million euros, an increase of 46.8%.

Ebitda was 291.1 million euros, which represents an increase of 81.6%. Thanks to a lower volume of amortizations and working capital provisions compared to the year before it was possible to double the operating profits which totaled 211.9 million euros.

When comparing these results with those of the previous fiscal year it is important to bear in mind the following aspects:

- The change in the consolidation perimeter in Brazil and the fact that Puerto Rico's figures covered an entire year represented a contribution of 77.8 million euros to Ebitda compared to the year before.

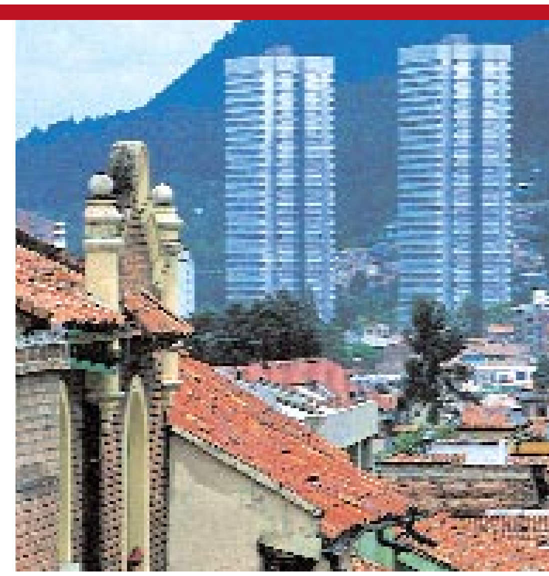
- The impact of converting to euros the different currencies used in the financial statement of Latin American countries, primarily the Mexican and Argentine pesos, with average interest rate fluctuations of 14.9% and 11%, respectively, compared to the year before. The overall effect of the American currencies taken as a whole resulted in a decrease of approximately 12.6 million euros in Ebitda compared to the year before.

Americas. Results
(Millions of euros)

	2004	2003	%
Net sales	1,145.3	780.1	46.8
Ebitda	291.1	160.3	81.6
Ebit	211.9	92.8	—

Americas. Main aggregates

	2004	2003	%
Gas activity sales (GWh)	155,346	140,934	10.2
Gas sales	92,097	83,140	10.8
Residential	30,769	29,931	2.8
Industrial	35,801	33,849	5.8
Electricity companies	10,515	6,395	—
Automotion	15,012	12,965	15.8
Gas transportation / TPA	63,249	57,794	9.4
Distribution network (km)	54,120	51,204	5.7
Change in gas customers ('000)	280	317	(11.7)
Gas customers ('000) (as at 31/12)	4,505	4,225	6.6



Ebitda in the Americas, by country

If these aspects are not considered, the Ebitda in America grew by 44.4% as a result of the maturity of the gas distribution business in Mexico, Brazil and Colombia.

The stagnation of operations in Argentina, the incorporation of Puerto Rico's activities and the increased stake in the Group's Brazilian companies modified the contributions of each one of the countries to the Group's Ebitda in America. Brazil is therefore the country which contributed the highest percentages to the Group's Ebitda (26%) followed by Mexico (23%).

Net financial debt in America as at December 31, 2004 totaled 889.2 million euros and included loans denominated in dollars in the amount of 329.6 million dollars taken out by EcoEléctrica and 142.6 million in Argentina, which experienced a reduction of 37.6 million dollars compared to December 31 2003.

Gas sales activities in America, which include sales of gas and third party network access (TPA), totaled 155,346 GWh, an increase of 10.2%.

The notable increase of 10.8% in gas sales was due primarily to the sharp increase in gas sales for power generation in Brazil, while residential sales were affected by higher winter temperatures in Argentina. In 2004, the consolidation of the automotive market continued, with an average increase of 15.8%.

The distribution network was extended by 2,916 kilometers in the last twelve months. With a total of 54,120 kilometers as at December 31, 2004, the year-on-year increase was close to 6%.

The number of gas distribution customers as at December 31, 2004 reached 4,505,000. The Group maintained high levels of growth, gaining 280,000 new customers over the last twelve months, which is in keeping with its strategic objective of adding more than 1.6 million customers to its customer base in America during the period 2004-2008.

Americas. Main physical aggregates by country

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	66,911	37,232	9,746	41,457	155,346
Change vs. 2003 (%)	5.3	25.5	16.6	5.3	10.2
Distribution network (km as at 31/12)	20,930	4,236	14,656	14,298	54,120
Change vs. 2003 (km)	356	683	838	1,039	2,916
Gas customers ('000 at 31/12)	1,257	691	1,495	1,062	4,505
Change vs. 2003 ('000)	27	44	124	85	280

With regard to the activities of the Gas Natural Group in America during 2004, the following aspects are noteworthy:

- Argentina consolidated its marketing reactivation with an increase in the number of new customers. Residential sales decreased slightly due to higher winter temperatures, while in the large users market the shifting of customers to the third party access service continued, resulting in an increase of 11.6% in this activity line. Gas sales for the automobile sector continued to increase, driven by the competitiveness of gas natural prices compared to other fuels, with a growth rate of 11%.

- Gas sales in Brazil increased by 25.5% with significant growth in all markets, where the reactivation of the power generation market was notable.

  Additionally, on July 16, 2004, once all of the suspensive conditions were met, the Group acquired the stake held by Enron in the companies CEG and CEG Rio, following which the Group's stake in these two companies was 54.2% and 72%, respectively. As of July 1, 2004 they were consolidated by global integration (from January to June they were carried by proportional consolidation). With this acquisition, the Group will have long term control over an area with a high growth outlook.

  Regarding the aforesaid acquisition of Enron's shares, Petrobras has expressed its intention to exercise its purchase option on 12.4% of CEG Rio once it obtains the required authorizations.

- The rhythm of growth was intense in Colombia, with double digit growth figures in all markets, favored by the country economic reactivation. The number of customers increased by 9%, despite an average penetration in distribution areas of more than 85%. Furthermore, the approval of a new regulatory framework for the next five years calls for regulated-rate increases which are in keeping with the Group's own estimates.

- Mexico likewise experienced growth of 5.3% and was negatively affected by a slowdown in attraction of new customers in Mexico DF and the high level of saturation in Monterrey, the main distribution area to date.

- Finally, plans continued for the Gas Natural Group to step up its activities in Puerto Rico.

As far as the electric power generation activity in America is concerned, EcoEléctrica generated a total of 2,940 GWh (the energy attributable to the Group is 1,470 GWh) with load factor in excess of 66%, figures which were affected by the scheduled maintenance shutdown of one of the turbines in early 2004.

Italy

Italy. Results
(Millions of euros)

	2004	2003	%
Net sales	211.5	48.8	—
Ebitda	31.4	3.0	—
Ebit	18.3	3.0	—

Italy. Main aggregates

	2004	2003	%
Gas sales activity (GWh)	9,867	3,136	—
Gas sales	9,827	3,136	—
Residential	1,151	—	—
Industrial	7,437	2,180	—
Electricity companies	1,239	956	29.6
Gas transportation/TPA	40	—	—
Distribution network (km)	3,501	—	—
Gas customers ('000) (as at 31/12)	252	—	—

The results shown under this caption refer to the gas supply and distribution business in Italy.

In 2004, the Brancato Group was acquired in the first quarter and the Smedigas Group and the Nettis Group were acquired in the third quarter, adding them to the gas supply business already being carried out through Gas Natural Vendita.

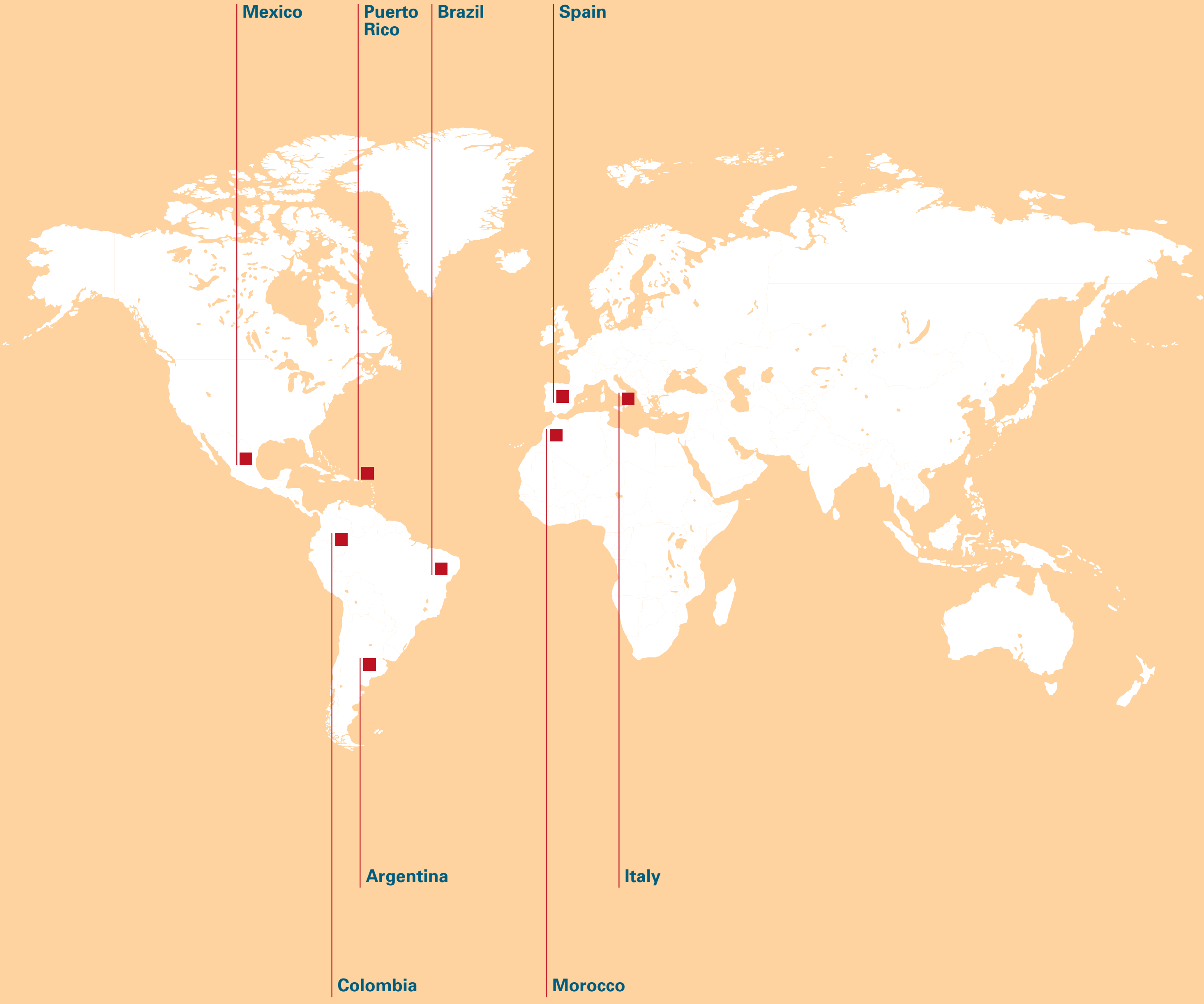
Italy's operations as a whole contributed 31.4 million euros, or 2.3% of the total to the Group's Ebitda and included non-recurrent and high margin operations carried out by the marketing company in the first quarter of 2004.

Gas sales in Italy totaled 9,827 GWh and distribution services (TPA) totaled 40 GWh.

In July 2004, the Gas Natural Group filed a request with the Italian government (Ministero delle Attività Produttive) for authorization to build two regasification plants in Italy.

The projects presented by the Gas Natural Group are located in Trieste in the north and Taranto in the south of the Italian peninsula. The characteristics of the two projects are similar, both calling for two 150,000 m^3 tanks with an annual regasification capacity of 8 Bcm.

More than 600 million euros will be invested in the construction of each one of the plants and the gas pipelines associated with them. If the authorization to build them is obtained, the goal would be to have the plants up and running in the year 2009.


Mexico
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AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS (*)

To the Shareholders of Gas Natural SDG, S.A.

We have audited the consolidated annual accounts of Gas Natural, SDG, S.A. and its Group companies, consisting of the consolidated balance sheet as at December 31, 2004, the consolidated 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 Gas Natural SDG, S.A. Our responsibility is to express an opinion on the consolidated 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 consolidated 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 Gas Natural SDG, S.A. have presented, for comparative purposes only, for each item of the consolidated balance sheet, the consolidated profit and loss account and the consolidated statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2004. Our opinion refers exclusively to the consolidated annual accounts for 2004. On March 2, 2004, we issued our audit report on the 2003 consolidated annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for the year 2004 appearing on pages 62 to 109 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its Group companies at December 31, 2004 and the consolidated 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 consolidated Directors' Report for 2004 appearing on pages 110 to 115 contains the information that the Directors of Gas Natural SDG, S.A. consider relevant to the consolidated companies' position, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the consolidated annual accounts for 2004. Our work as auditors is limited to checking the Director's Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the group companies' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Miguel Alfocea Marti
Partner

March 4, 2005

(*) A free translation of the report on the 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 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79031290

PwC-039

Consolidated Balance Sheet of the Gas Natural Group

(in thousand euros)

Assets	31.12.04	31.12.03
Fixed assets	**7,977,796**	**7,021,199**
Start up costs	7,262	5,796
Intangible fixed assets (Note 3)	1,116,551	1,154,071
Intangible fixed assets	1,531,885	1,491,447
Accumulated amortisation	(415,334)	(337,376)
Tangible fixed assets (Nota 4)	6,221,794	5,152,307
Land and buildings	197,337	157,327
Technical installations and machinery	7,778,328	6,677,545
Other fixed assets	161,450	119,382
Payments on account and fixed assets under construction	850,735	408,837
Provisions and accumulated depreciation	(2,766,056)	(2,210,784)
Investments (Note 5)	632,189	709,025
Investments in companies consolidated by the equity method	302,469	435,201
Long-term investments	101,190	41,296
Commercial Loans	111,501	113,633
Other loans	123,550	124,695
Provisions	(6,521)	(5,800)
Consolidation goodwill (Note 6)	**469,417**	**208,258**
Deferred expenses (Note 7)	**423,681**	**410,257**
Current assets	**2,465,948**	**2,368,868**
Inventories (Note 8)	263,721	317,893
Debtors	1,895,498	1,432,549
Trade debtors	1,593,811	1,236,815
Due from companies consolidated by the equity method	224,343	121,981
Other debtors	183,765	165,022
Provisions	(106,421)	(91,269)
Current asset investments (Note 9)	184,165	496,730
Cash and banks	90,158	105,690
Prepaid expenses	32,406	16,006
Total assets	**11,336,842**	**10,008,582**

Consolidated Balance Sheet of the Gas Natural Group

(in thousand euros)

Liabilities	31.12.04	31.12.03
Shareholders' equity (Note 10)	**4,643,150**	**4,307,599**
Share capital	447,776	447,776
Reserves of the parent company	3,109,352	2,992,035
Reserves of consolidated companies	1,072,574	876,256
Foreign currency translation adjustments	(499,573)	(481,772)
Profit (loss) attributed to the parent company	633,921	568,456
Interim dividend	(120,900)	(95,152)
Minority interest (Note 11)	**256,519**	**211,826**
Deferred income (Note 12)	**414,995**	**297,499**
Capital grants	158,272	53,863
Other deferred income	256,723	243,636
Provisions for liabilities and charges (Note 13)	**265,160**	**230,963**
Provisions for pensions and related obligations	17,043	—
Other provisions	248,117	230,963
Long-term creditors (Note 14)	**3,087,333**	**2,848,721**
Financial loans	2,124,568	1,936,073
Other creditors	962,765	912,648
Short-term creditors (Note 14)	**2,669,685**	**2,111,974**
Financial loans	723,321	535,500
Trade creditors	1,382,949	1,116,558
Other non-trade creditors	508,563	424,386
Accrued expenses	54,852	35,530
Total liabilities	**11,336,842**	**10,008,582**

Notes 1 through 23 to the Consolidated Annual Accounts form an integral part of these consolidated Balance Sheets.

Consolidated Profit and Loss Account of the Gas Natural Group

(in thousand euros)

Debit	2004	2003
Expenses (note 16)		
Cost of sales and other external costs	4,227,696	3,771,091
Staff costs	245,994	227,706
Wages, salaries and related expenses	182,139	166,450
Social Security	63,855	61,256
Charge for depreciation and amortisation of fixed assets	442,695	380,246
Variation in trade provisions	21,131	22,383
Other operating expenses	554,856	512,351
Operating profit	**898,697**	**799,032**
Financial expenses	210,864	177,712
Exchange losses	13,350	47,396
Goodwill amortisation (Note 6)	17,841	5,253
Profit from ordinary activities	**798,350**	**797,151**
Extraordinary expenses	57,914	99,327
Net extraordinary profit	**125,441**	**—**
Consolidated profit before tax	**923,791**	**790,013**
Corporate income tax (Note 15)	234,030	177,532
Consolidated profit for the year	**689,761**	**612,481**
Profit /(loss) attributed to minority interests (Note 11)	55,840	44,025
Net profit for the year attributable to the parent company	**633,921**	**568,456**

Consolidated Profit and Loss Account of the Gas Natural Group

(in thousand euros)

Credit	2004	2003
Income (Note 16)		
Net turnover	6,265,848	5,628,043
Own work and other costs capitalised	41,197	28,216
Other operating income	84,024	56,550
Dividend income	1,989	4,129
Other financial income	67,718	90,706
Exchange gains	14,033	72,557
Net financial expense	**140,474**	**57,716**
Share in profits of companies consolidated by the equity method	57,968	61,088
Profit on disposal of fixed assets	171,057	52,321
Extraordinary income	12,298	39,868
Net extraordinary loss	**—**	**7,138**

Notes 1 through 23 to the Consolidated Annual Accounts form an integral part of these consolidated Profit and Loss Accounts.

Notes to the Consolidated Annual Accounts of the Gas Natural Group for the year ended 31 December 2004

Note 1. Bases of presentation of the consolidated annual accounts, consolidation principles and regulatory framework

a) Bases of presentation

The accompanying consolidated annual accounts have been obtained from the accounting records of Gas Natural SDG, S.A. and its Group companies, whose individual annual accounts have been formulated by their respective Administrators, and have been prepared in accordance with the Spanish General Accounting Plan, current legislation in force and the provisions of the Spanish Companies Act, in order to present a true and fair view of the net worth, financial position and results of the Group.

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of Gas Natural SDG, S.A. which make up the Gas Natural Group (hereinafter the Group) corresponding to 2003 were approved by the General Meeting of Shareholders on 14 April 2004.

Those corresponding to 2004, which have been formulated by the Board of Directors, shall be, as well as those of the Group companies, submitted for approval to their respective Ordinary General Meetings of Shareholders. It is expected that they will be approved without any modifications.

Note 1-c to these accounts carries the effect of the changes in the consolidation scope of the Group, including the acquisitions and disposals of companies, and changes in Group holdings which give rise to changes in the consolidation methods used. The variations in consolidated balances at the beginning of the year are carried under Consolidation scope in the different Notes to these annual accounts.

The changes in the opening balances of the foreign companies arising from the evolution of interest rates are carried under Translation differences in the different notes to the Accounts.

All the companies in the Group close their year on 31 December.

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

In order to facilitate comparison of the figures from year to year there has been a reclassification in the 2003 profit and loss account of euros 20,768 thousand from net extraordinary profit to profit from the disposal of fixed assets.

b) Consolidation principles

The Annex lists those companies either directly or indirectly owned by Gas Natural SDG, S.A. included in the consolidation scope.

The consolidation has been carried out as follows:

- Full consolidation for Group companies over which there is effective control.
- Proportional consolidation for multi-group companies jointly managed with other parties.
- Equity method for companies where there is a significant influence, but there is no majority of voting rights or joint management with other parties.
- The shareholding of minority shareholders is shown under “Minority interests” on the liabilities side of the consolidated balance sheet and their share in the profit of consolidated subsidiary companies is carried under “Profit attributable to minority interests” in the consolidated profit and loss account (See Note 11).
- Transactions between companies included in the consolidation scope.

All accounts, transactions and significant profits between fully consolidated companies and profit from operations with associated companies have been eliminated from the consolidation process.

In respect of proportionally consolidated companies, the debits and credits, income and expenses and profit from operations with other Group companies have been eliminated proportionately to the investment of Gas Natural in their share capital.

- Homogenisation of criteria.

  In investee companies where accounting criteria and policies differ from those followed by the Group, these have been adjusted in the consolidation, where their effect has been significant, in order to present consolidated financial statements based on homogeneous accounting policies.

- Conversion of financial statements in foreign currency.

  For the purposes of preparing the accompanying consolidated financial statements, the financial statements of the investee entities denominated in foreign currency are translated into euros. The translation criteria for assets, rights and liabilities are the year-end exchange rate, for share capital and reserves the historical exchange rate and for income and expenses the average exchange rate for the period in which they accrue.

  The difference in the resulting exchange rate, after deducting the part of the same corresponding to minority interests and which is shown under "Minority Interests", is carried under "Foreign currency translation adjustments" in the accompanying consolidated balance sheets (See Note 10).

  The companies that use accounting criteria with inflation adjustments follow the accounting policies in force in their respective countries, i.e. Colombia and Mexico, which consist in stating non-monetary assets and liabilities by taking into account the inflation rate between the date of the company's addition of the assets and the year end. The effect of the inflation rate for the year on monetary assets and liabilities is carried under Other financial income and the figures adjusted for inflation are converted into euros by applying the year-end exchange rate method described in the preceding paragraphs.

c) Consolidation scope and comparability

The main variations in the consolidation scope in 2004 have been:

- Decrease in the shareholding in Enagás, S.A. from the sale of 12.51% of the interest, leaving a shareholding of 26.13% at the year end.

- The following companies have been fully consolidated: Gas Natural Transporte SDG, S.L. (100%), Gas Natural Distribución SDG, S.A. (100%), Gas Natural Puerto Rico, Inc. (100%), and Gas Natural Commercialisation France S.p.a.S. (100%). The following companies have been proportionally consolidated: AECS Bellvitge, A.I.E. (50.0%) and Sociedad de Tratamiento La Andaya, S.L. (45.0%). Gas Natural de Álava, S.A. (10.0%) has been consolidated by equity accounting.

- Sociedad de Gas de Euskadi, S.A. has been excluded from the consolidation as a result of the takeover merger of Sociedad de Gas de Euskadi, S.A., Naturcorp Multiservicios, S.A.U., Gas Figueres, S.A.U., Donostigas, S.A.U. and Gas de Asturias, S.A.U. by Naturcorp I, S.A., which has changed its registered name to Naturcorp Multiservicios, S.A. The shares held in Sociedad Gas de Euskadi, S.A., have been swapped for a 9.39% shareholding in Naturcorp Multiservicios, S.A.

- During the year the following companies have been acquired in Italy:

  In January 2004 all the shareholdings in Gea, S.p.A., Gas, S.p.A., Agragas, S.p.A., Normanna, S.p.A., Gas Natural Servizi e Logistica, S.p.A. (formerly Soreco, S.p.A.), Congas, S.p.A. and Gas Fondaria, S.p.A. were acquired through Gas Natural Distribuzione Italia, S.p.A. and Gas Natural Vendita, S.p.A.

  In August 2004 Gas Natural Internacional SDG, S.A. acquired all the shares in Smedigas, S.p.A. and Smedigas, S.r.L.

In September 2004 Gas Natural Internacional SDG, S.A. acquired the entire shareholding of Nettis Impianti, S.p.A. This company holds all the share capital of Nettis Gestioni, S.p.A., Nettis Gas Plus, S.p.A., Impianti Sicuri, S.r.L., Società Consortile di Metanizzazione A.r.L. and SCM Gas Plus, S.r.L.

All the Italian companies are fully consolidated.

- In July 2004 the shareholding in Companhia Distribuidora de Gás do Rio de Janeiro, S.A. (CEG) increased to 54.2% and in CEG Rio, S.A. to 72.0%. These companies, which were proportionally consolidated are now fully consolidated.

- Gas Natural Corporación Eólica, S.L. was incorporated. Through this company the entire interest in Sinia XXI, S.A. was acquired in November 2004. This company holds shares in Corporación Eólica de Zaragoza, S.L. (65.6%), fully consolidated, Explotaciones Eólicas Sierra de Utrera, S.L., (50.0%) and Montouto 2000, S.L. (49.0%), which are proportionally consolidated. It also holds a 26,0% interest in Enervent, S.A. and 20.0% of Burgalesa de Generación Eólica, S.A., which are consolidated by equity accounting.

- The shareholding in Gas Natural Cegas, S.A. increased in April by 9.3%.

- In October and December all the shareholdings in the electrical distributors Distribución Eléctrica Navasfrías, S.L. and Electra de Abusejo, S.L., which are fully consolidated, were acquired.

- In November 50,0% of Central Térmica La Torrecilla, S.A. was acquired. This is a project to build a combined cycle plant. This company is proportionally consolidated.

- The shareholding in Serviconfort Colombia, S.A. has increased up to 100%.

- As a result of the capital increases, in which the minority shareholders did not participate, there has been an increase in the shareholding in Gas Natural Murcia SDG, S.A. by 0.15%.

- Other operations that have taken place during the year are:

  In July 2004 there was a merger between Comercializadora de Metrogas, S.A. de C.V. and Servicios de Energía de México, S.A. de C.V., with the winding up of the latter.

  There was a takeover merger in December 2004 of Gas Natural Trading SDG, S.A. by Gas Natural Aprovisionamientos SDG, S.A.

  In June 2004 Proinvergas, S.A. ESP was eliminated from the consolidation scope after being wound up.

  In November 2004 Equipos y Servicios, S.A. was wound up.

The most important effects of the changes in the consolidation scope during the year have been as follows:

	Companies acquired in Italy	**Increases in brasilian companies shareholding and change in consolidation method**	**Wind farms acquisition**	**Total**
Intangible and tangible assets net	341,240	130,763	36,992	508,995
Consolidation goodwill	137,587	106,534	23,560	267,681
Deferred expenses	—	28,230	746	28,976
Working capital	(19,092)	(15,217)	1,478	(32,831)
Minority interest	—	34,944	950	35,894
Provisions	4,949	15,772	122	20,843
Deferred income	99,631	—	591	100,222
Long-term financial creditors	19,095	68,803	58,853	146,751
Other long-term creditors	29,869	12,561	—	42,430

d) Regulatory framework

Spain

The legal framework for the regulation of the natural gas industry in Spain is The Hydrocarbons Act, Law 34/1998 of 7 October, which introduced competitive mechanisms into the industry and a new market model. The most noteworthy points of these regulations are as follows:

- The idea that the gas industry is a public service is suppressed, while still considering it as an activity in the public interest. Regassification and liquefaction installations, storage, transport and distribution of natural gas require administrative authorisation, and can be undertaken freely when undertaken for own consumption and the construction of direct lines.

- Regulated activities (regassificaiton, transport, storage, distribution and systems management) are differentiated from non-regulated activities (commercialisation and added services).

- Regulated and non regulated activities in the industry must be legally separate.

- The law defines the main characteristics of the agents in the industry: haulers, distributors and sellers.

- The access of third parties to the installations of the Basic Pipeline Network and distribution is guaranteed under the technical and economic conditions set down. The price for the use of the installations is set by the tolls adopted by the Government.

- The law lays down a schedule for the de-regulation of the natural gas market by consumption levels, and defines the main characteristics of the customers that qualify.

Afterwards, in June 2000, the Spanish government adopted a Royal Decree Law that included various measures designed to foment de-regulation and competition in the Spanish gas market. Thus:

- The calendar for opening the natural gas market for commercialisation was moved forward to 2003. As from 2003, any customer will be able to choose his natural gas supplier.

- Furthermore, until 1 January 2004, 25% of the gas contracted with Algeria through the Maghreb-Europe oil pipeline must be assigned, by auction, to non-Group natural gas commercial companies, assigning the rest to Enagás, S.A. to meet the needs of the regulated market. In application of the Ministerial Order of 29 June 2001 and in accordance with the Resolution of the public tender auction for adjudication, sales to non-Group commercial companies began in November 2002 and ended in December 2003.

In order to allow entry of other operators into the share capital of Enagás, S.A., which is the company designated as the technical manager of the system and owner of the high pressure pipeline network in Spain, no company or group of companies can own more than 35% of Enagás, S.A. On 31 August 2001 the Government's Delegated Commission on economic affairs adopted the Action Plan for the diversification of the shareholding structure of Enagás, S.A., whereby both the company and its shareholders are obligated by the substantive terms and conditions of such Plan. The Administrative Tax Measures and Social Order Act, Law 62/2003, of 30 December, reduced the maximum shareholding of a company or group of companies in the technical manager of the system to 5%, and set the deadline for reaching this percentage at 31 December 2006.

Pursuant to The Hydrocarbons Industry Act, Law 34/1998, Royal Decree 949/2001, which regulates third party access to gas installations and lays down an integrated economic system for the natural gas industry, stipulates:

- the remuneration of regulated activities

- the general criteria for determining and structuring rates, tolls and levies

- a rate system based on costs and

- a payment procedure.

On 15 February 2002 the Ministry of the Economy adopted three Ministerial Orders on rates, tolls and levies and remuneration of the regulated activities in the Spanish gas industry, which were published on 18 February in the Official State Gazette. These orders stipulate the remuneration to be paid throughout 2002 by all the companies engaged in regassification, storage, transport or distribution activities in Spain, as well as the formulae and updating criteria for remuneration in future years.

Order ECO/2692/2002, of 28 October, regulates the payment procedures for the remuneration of activities regulated in the natural gas industry and the payments with specific destinations, and has established the information system that the companies must use. The agent responsible for carrying out these payments will be the General Directorate of Energy and Mining Policy as proposed by the National Energy Commission.

Royal Decree 1434/2002, of 27 December, regulates the transport, distribution, commercialisation, supply and authorisation procedures of natural gas installations as well as the relations between gas companies and consumers both in the regulated and de-regulated market. Furthermore, it sets down the procedures required for residential customers to access the de-regulated market, as well as the changes between sellers, making it possible, as from 1 January 2003, for any consumer to freely choose his gas supplier.

On 17 January 2003 and 19 January 2004 the Ministry of the Economy promulgated the updates of the above-mentioned Ministerial Orders on rates, tolls and levies for application throughout 2003 and 2004, respectively.

Royal Decree 1716/2004, of 23 July, which regulates the obligation to maintain minimum security reserves and diversify supplies of natural gas, stipulates:

- The obligation to maintain minimum security reserves equal to 35 days of confirmed sales to transporters and sellers.

- The obligation to diversify the supplies for transporters and sellers, so that the sum of the supplies from a single country does not exceed 60%.

Latin America

- In Brazil, Colombia and Mexico there are stable regulatory and pricing frameworks that set down the procedures and processes needed for periodical rate and distribution margin reviews. The rate review is carried out every five years through the filing of the respective rate reports with the regulators.

- In Argentina, as a result of the 2001 economic crisis, there was a freezing and Pesoisation of rates. It is expected that in 2005 there will be an updating of rates and that the basis will be set for establishing a stable payment systems to distributors that is similar to the one that was in place before the crisis, and based, as in other countries, on the appropriate payment of the assets.

- The pricing cases of the Companhía Distribuidora de Gás do Rio de Janeiro, S.A. (CEG) in Brazil, Gases de Barrancabermeja, S.A. ESP and Gas Natural de Oriente, S.A. ESP in Colombia and Comercializadora de Metrogas, S.A. de C.V. in Mexico have been resolved favorably. The case of CEG Rio, S.A. in Brazil is still pending resolution, which is expected to take place in the first quarter of 2005. As for Gas Natural São Paulo Sul, S.A., the first five-year revision has not taken place. This is expected sometime during 2005 and 2006.

Italy

In Italy there has been a process of de-regulation of the natural gas market so that all customers are currently eligible and access of third parties to the state pipeline network is regulated by entry-exit transport rates. There is also an obligatory legal separation of the operators from the transport system, as well as certain limits to the maximum supply and commercialisation percentages in order to boost competition and the entrance of new operators.

Note 2. Accounting policies

The most significant accounting policies applied by the group in the preparation of the 2004 consolidated annual accounts are as follows:

a. **Start-up costs.** These correspond to the costs of incorporation, establishment and increases in share capital, and are amortised over a five-year period.

b. **Intangible fixed assets.** The elements of intangible fixed assets are recorded at the cost of acquisition or the cost of production. These costs are amortised over a five-year period. If necessary, provisions are set up for depreciation to cover possible declines in value.

   This account carries the assets acquired under long-term finance leases, which are recorded at the current value of the future payments plus the purchases option on the asset and are amortised on a straight-line basis over their useful lives.

   Administrative concessions granted by the State and other public bodies, as well as regassification, operations and fuel management contracts are amortised over the term of the concession and the contracts.

   If necessary, provisions for depreciation necessary to cover possible decline in value are set up.

c. **Tangible fixed assets.** Tangible fixed assets are recorded at cost of acquisition or cost of production, except for the revaluation of assets resulting from the updating of balance sheets made in 1996 and the merger operation carried out prior to 1991. In those countries where current accounting policies do so require, tangible fixed assets are stated at acquisition or valuation price adjusted by inflation. (See Note 1-b).

   The immobilised, non-extractable gas needed for exploiting underground natural gas storage facilities is recorded as tangible fixed assets and depreciated as from the date it is brought into use over the lesser of the useful life of the underground storage facilities or over the life of the concession.

   The financial costs corresponding to the financing of infrastructure projects are capitalised as additional costs of tangible fixed assets when the period of construction exceeds one year.

   The costs of repairs and improvements of assets are capitalised only when these produce an increase in the capacity, productivity or the useful life of the asset. Where applicable, the net book value of replaced assets is deducted.

   Conservation and maintenance costs are expensed in the consolidated profit and loss account when incurred.

   The cost of work conducted by the Group on tangible fixed assets (own work and other costs capitalised) corresponds to the direct cost of production.

   Provisions are raised against the accounting value of fixed assets no longer used in the Group's productive activities as considered necessary.

   Depreciation is calculated systematically using the straight-line method, over the estimated useful life of the respective assets. Value increases resulting from revaluations are depreciated over the remaining useful life of the related assets.

The depreciation rates applied, using the straight-line method, are as follows:

	Years of useful life
Buildings	33-50
Technical installations (pipeline network)	20-30
Technical installations (combined cycle electricity plants)	25
Other technical installations (wind farms)	20
Other technical installations and machinery	8-20
Tooling and equipment	3
Furniture and fittings	10
Computer equipment	4
Vehicles	6

Assets received by the company without consideration have been recorded at their market value within tangible fixed assets and are taken to the profit and loss account as income over the depreciation period of the respective assets using the straight-line method. During this period, deferred income is carried under Deferred income in the consolidated balance sheet.

d. **Investments.** Investments are stated on the consolidated balance sheet at their cost of acquisition, less, if necessary, the provisions required to reflect any loss in value.

Shareholdings in companies consolidated by equity accounting are recorded on the basis of the net book value of such companies.

e. **Consolidation goodwill.** The difference between the acquisition cost of the investee companies and the net book value of the Group's holding in those companies as at the date of acquisition adjusted for applicable acquisition adjustments, is recorded in the consolidated financial statements as goodwill, and is amortised over the period during which these investments are expected to be recovered, subject to a maximum of 20 years.

The Group annually analyses the recoverability of these assets and, accordingly, as a result of this analysis, at 31 December 2004, no problems have come to light.

f. **Deferred expenses.** Payments accruing in future years are recorded as Deferred expenses and are expensed in the corresponding year.

This account carries the difference between the value of the assets acquired under long-term finance leases and the total of the outstanding payments plus the purchase options. These costs are depreciated using a financial method throughout the term of the leases.

g. **Inventories.** These are stated at the average cost of the purchases or production resulting in the same or lower than market value.

The requisite provisions are made to cover the obsolescence of materials.

h. **Trade and non-trade debtors and creditors.** Payables and receivables originating from operations, whether or not arising from the normal course of trade, are recorded at their nominal value and are classified as short term or long term depending on whether or not these become due within one fiscal year.

Consumption of uninvoiced gas and electricity supplied or generated are included as Trade debtors.

Provisions for potential bad debts are made as considered appropriate.

Credit lines are shown at the amount actually drawn down.

i. **Reserves of fully consolidated companies, proportionally consolidated companies and companies accounted for using the equity method.** These reserves reflect the difference between the book value of the investment in consolidated companies and the net book value of such companies.

j. **Conversion of financial statements in foreign currency.** Financial statements in foreign currency included in the consolidation scope have been converted to euros applying the year-end exchange method. Profit and loss account transactions denominated in foreign currency have been translated to euros using the monthly average exchange rate. Translation differences are included under Capital and reserves on the consolidated balance sheet.

The exchange rates against the euro of the main currencies of the Group companies at 31 December 2004 have been as follows:

	31 December 2004
US dollar	1.354
Argentinian peso	4.006
Brazilian real	3.594
Colombian peso	3,183.122
Mexican peso	15.100
Moroccan dirham	11.196

k. **Minority interests.** This account reflects the interests of minority shareholders in the shareholders' equity of fully consolidated companies at 31 December 2004.

l. **Deferred income.** Non-refundable capital grants are stated at the amount granted and amortised over several years on a straight-line basis in proportion to the useful life of the asset they finance.

Other deferred income relates basically to income in consideration for new connections and branch lines and income from the extension of the pipeline network undertaken by third parties and expensed during the period of depreciation of the related asset.

m. **Provisions for pensions and related obligations.** Company obligations in respect of supplementary pension payments are covered by the establishing of employment system Pension Plans, insurance contracts and provisions.

Pension and employment system plans:

These are defined contribution plans for retirement and to insure disability and death benefits of members, as per current regulations on pension plans and funds, covering Group commitments with current personnel affected. Under the agreement, the company has recognised certain economic rights for past service wich are fully paid and undertakes to make payments averaging between 2.85% and 7,5% of applicable salaries, according to the group to which the workers belong. Annual contributions to cover commitments accrued by the Group in respect of the pensions plans are expensed each year.

Insurance contracts:

All other commitments for future payments contracted by the Group with its employees in relation to the payment of pension supplements for retirement, widowhood and disability, as per the benefits agreed by the entity, have been outsourced through the formalisation of single premium insurance contracts in accordance with Royal Decree 1588/1999 of 15 October, which enacts the Regulations on the instrumentation of company pension commitments.

Provisions for other commitments:

The Group also has certain commitments to make future payments, basically Companhía Distribuidora de Gás do Rio de Janeiro, S.A. (CEG). This accrued liability is covered in accordance with actuarial studies based on the projected credit unit method.

n. **Provision for staff restructuring.** As per current labour legislation, the Group must settle severance payments on employees, under certain conditions, whose contracts have been rescinded. The estimated costs are expensed in the year in which the decision is made and carried under Extraordinary expenses and loss in the consolidated profit and loss account.

o. **Other provisions.** Liability obligations, both probable or definite, are shown within provisions for liabilities and charges. These provisions are made as and when such circumstances arise, on the basis of the total estimated liability.

p. **Corporate income tax.** Corporate income tax expense is calculated based on the profit for the year before tax, increased or reduced by the permanent differences and deducting the allowances and deductions to which the Group is entitled.

Deferred tax assets are only recorded when there are no doubts as to their future recoverability.

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

However, out of prudence, the Group only records the profit realized at the year end, insofar as the foreseeable risks and losses that may arise are recorded as soon as they are known.

As from February 2002, with the coming into force of the new regulatory framework for the gas industry in Spain (see Note 1-d), a procedure has been legislated for settling the re-distribution amongst companies in the industry of the income from tolls, levies and rates net of amounts allocated for specific destinations, cost of acquisition of gas and remuneration of the regulated supply activity, so that each company receives the income that has been recognised in respect of its regulated activities. The estimate of these settlements accrued at 31 December 2004 pending payment by the National Energy Commission are recorded as more income in the amount accrued or as less income in the amount obtained that corresponds to other companies.

At the date of the formulation of these annual accounts no definitive settlement has been published for 2002, 2003 and 2004. However, it is not expected that significant differences affecting these accounts will arise in relation to the estimations made. In any case, the Ministerial Order of 28 October 2002 regulating the payment procedures stipulates that the deviations coming to light as a result of the application of the payment procedures between final net income payable and the remuneration credited each year, will be taken into account in the calculation of rates, tolls and levies of the following two years.

Sales of electricity based on the Regulations governing the Electricity Production Market that comply with the mandate of the Electricity Industry Act, Law 54/1997 of 27 November, are stated in accordance with actual consumption.

Income from the extension of the pipeline network carried out by third parties is taken to profit and loss on a straight-line basis during the period of depreciation of the fixed assets related thereto. During this time they are stated as Deferred income on the liabilities side of the consolidated balance sheet.

The amounts received in consideration for new connections and branch lines are taken to profit and loss on a straight-line basis during the related depreciation period. During this time they are stated as Deferred income on the liabilities side of the consolidated balance sheet.

The amounts received in consideration for preferential rights on gas supplies are taken to results as they accrue.

r. **Exchange differences.** Receivables and payables denominated in foreign currencies are converted to euros by applying the rate of exchange in effect at the date of each operation.

At year end, balances in foreign currency are adjusted at the rate in effect at that date or at the hedged rate.

Exchange difference resulting from the valuation at the year end of foreign currency payables and receivables are classified on the basis of the year in which they mature and the currency. To such purpose, the currencies that are officially convertible, even though they may be different, are grouped together.

The net exchange gains of each group are held under liabilities on the consolidated balance sheet as Deferred income, unless exchange losses have been expensed for the corresponding group in prior years, in which case the exchange gains are taken to profit and loss for the year up to the limit of the net exchange losses expensed in prior years.

Exchange losses for each group are expensed for the year.

Exchange gains deferred in prior years are take to profit and loss in the year in which they fall due or the respective receivables and payables are cancelled in advance or to the extent that the exchange losses are recognised in each homogenous group in an equivalent or greater amount.

Unrealised exchange differences resulting from specific financing operations undertaken to hedge exchange risk on investments in investee companies denominated in foreign currencies are carried in the consolidated balance sheet under "Foreign currency translation adjustments".

s. **Share in profits of companies accounted for using the equity method.** This account reflects the interest of the Group in the post tax profits for the year of companies consolidated using the equity method.

t. **Operations with financial derivatives.** It is Group policy to use these instruments only for hedging operations designed to eliminate or significantly reduce financial and operational risks. Opened Operations of this type at year end and their accounting are described in Note 21.

u. **Environment.** Expenses arising from business activity addressed to the protection and improvement of the environment are expensed in the year they are incurred. Fixed assets investments made to minimise environmental impact and protect and improve the environment are capitalised.

Note 3. Intangible fixed assets

The amounts and movement in intangible fixed assets during 2004 have been as follows:

	Balance at 01.01.04	Additions	Disposals	Translation differences	Consolidation scope and reclassifications	Balance at 31.12.04
Research and development expenses	18,505	2,610	(269)	(74)	184	20,956
Patents, trademarks, licenses, etc	818,239	800	(27)	(44,451)	13,699	788,260
Computer software applications	205,239	50,060	(2,357)	(18)	5,922	258,846
Assets acquired under finance leases	353,046	66	—	(64)	(409)	352,639
Other fixed assets	96,418	11,465	(1,205)	(18)	4,524	111,184
	1,491,447	**65,001**	**(3,858)**	**(44,625)**	**23,920**	**1,531,885**
Accumulated amortisation	(337,376)	(87,293)	3,349	15,254	(9,268)	(415,334)
Net balance	**1,154,071**					**1,116,551**

Concessions, patents, licenses, trade marks and similar assets include the costs for obtaining the exclusive rights of use of the Moroccan part of the Maghreb-Europe pipeline up to 2021, and thereafter renewable, as well as the acquisition of public gas distribution for 93 districts in the state of Sao Paulo, Brazil, for a period expiring in 2030, and renewable for another 20 years.

Assets acquired under finance leases carries the acquisition of two cryogenic vessels to transport liquid natural gas (LNG) with a capacity of 138,000 m^3 each, which were brought into use in 2003 for a term of 20 years, along with a euros 85,000 thousand purchase option on each vessel.

Other fixed assets includes the cost of acquisition of the exclusive regassification, operating, maintenance and fuel management contracts at the installations of Ecoeléctrica L.P., Ltd. in Puerto Rico.

The most significant item included in increases this year relates to the rights to the use of the underground structures and installations of the deposits of Marismas, which was purchased from Petroleum Oil & Gas España, S.A.

Note 4. Tangible fixed assets

The movements in tangible fixed assets during 2004 have been as follows:

	Balance at 01.01.04	Additions	Disposals	Translation differences	Consolidation scope and reclassifications	Balance at 31.12.04
Land and buildings	157,327	8,533	(856)	41	32,292	197,337
Technical installations and machinery	6,677,545	459,683	(28,254)	(43,375)	712,729	7,778,328
Other fixed assets	119,382	13,511	(4,070)	(625)	33,252	161,450
Payments on account and fixed assets under construction	408,837	464,617	(9,578)	656	(13,797)	850,735
	7,363,091	**946,344**	**(42,758)**	**(43,303)**	**764,476**	**8,987,850**
Provisions	(3,540)	(7,037)	2,348	—	—	(8,229)
Accumulated depreciation:						
Buildings	(44,557)	(4,739)	100	(599)	(18,328)	(68,123)
Technical installations and machinery	(2,084,265)	(334,925)	20,930	8,639	(199,804)	(2,589,425)
Other fixed assets	(78,422)	(14,007)	3,902	452	(12,204)	(100,279)
Sub-total	**(2,210,784)**	**(360,708)**	**27,280**	**8,492**	**(230,336)**	**(2,766,056)**
Net balance	**5,152,307**					**6,221,794**

Payments on account and fixed assets under construction include the investments made in combined cycle electricity plants that mainly relate to the Arrúbal (La Rioja) projects, which have begun commercial operations in 2005, and to the Cartagena (Murcia) project, which is expected to begin operating by the first quarter of 2006.

This account also includes the investments made in the extension of the Maghreb-Europe oil pipeline, which began operating in 2005.

At the end of 2002, the construction of the Group's new head office in Barcelona was begun, through Torre Marenostrum, S.L., a company incorporated together with Inmobiliaria Colonial, S.A. The construction of the building is expected to be completed in the second half of 2005. The company has a lease agreement on its current head offices in Avda. Portal de l'Àngel, Barcelona, until June 2005, extendible for 30 months.

The non-recoverable gas in the Marismas storage facilities acquired from Petroleum Oil & Gas España, S.A. for euros 7,132 thousand has been carried under Technical installations and machinery.

The movement of tangible fixed assets incorporated by virtue of the revaluation of fixed assets is as follows:

Amount at 1 January 2004	**135,947**
Retirements	(619)
Charge to depreciation for the year	(14,726)
Balance at 31 December 2004	**120,602**

The revaluation of fixed assets under Royal Decree Law 7/1996 of 7 June, on revaluation of balances, will have an effect of euros 14,108 thousand on the charges to depreciation of fixed assets in 2005.

Tangible fixed assets includes the net revaluation in 1991 resulting from the takeover merger and partial spin off operation of the companies Catalana de Gas, S.A., Gas Madrid, S.A. and Repsol Butano, S.A. totalling euros 10,597 thousand, held under Land and buildings.

Financing costs during the year for infrastructure projects during their construction have amounted to euros 14,835 thousand, totalling, as an increase in gross tangible assets, euros 83,643 thousand.

Tangible fixed assets include fully depreciated assets in use totalling euros 554,265 thousand.

Provisions cover the possible contingencies that could arise from the temporary idleness of productive assets.

It is Group policy to contract insurance policies considered necessary to cover tangible fixed assets against all possible risks.

At 31 December 2004 the Group has investment commitments totalling euros 585,522 thousand, basically for the construction of combined cycle electricity generating plants.

Note 5. Investments

The breakdown of investments and their movement during the year has been as follows:

	Balance at 01.01.04	Increases	Decreases	Translation differences	Consolidation scope and reclassifications	Balance at 31.12.04
Holdings in companies consolidated by the equity method	435,201	57,968	(154,710)	—	(35,990)	302,469
Long-term investments	41,296	16,118	(1,138)	1,565	43,349	101,190
Commercial loans	113,633	3,862	—	1,993	(7,987)	111,501
Other loans	124,695	32,151	(23,314)	(2,827)	(7,155)	123,550
Provisions	(5,800)	(114)	601	(74)	(1,134)	(6,521)
	709,025	**109,985**	**(178,561)**	**657**	**(8,917)**	**632,189**

Shareholdings in companies consolidated by equity accounting includes the holding of 26.13% in the Enagás Group.

In 2004 the Group sold 12.51% of Enagás, S.A. The operation was undertaken as per the provisions of the Twentieth Additional Provision of the Hydrocarbons Act, Law 34/98 of 27 October, modified by the Administrative, Tax and Social Order Measures Act, Law 62/2003 of 30 December, which states that no individual or legal person can have a direct or indirect holding of more than 5% of the share capital or voting rights in the above-mentioned entity. The bringing into line of the holdings with the provisions mentioned above must be undertaken within three years as from 1 January 2004, through the transfer of shares or, as the case may be, the preferential subscription rights.

The shares of Enagás, S.A. are listed on the continuous market and form part of the Ibex 35. At the 2004 year end the quoted price per share is euros 12.20.

Furthermore, this account also carries the holdings in Sociedad de Gas Aragón, S.A., Gas Natural de Álava, S.A., Kromschroeder, S.A., Torre Marenostrum, S.L., Enervent, S.A. and Burgalesa de Generación Eólica, S.A.

As a result of the merger of Sociedad de Gas de Euskadi, S.A., Naturcorp Multiservicios, S.A.U., Gas Figueras, S.A.U., Donostigas, S.A.U. and Gas de Asturias, S.A.U., through the takeover of the above by Naturcorp I, S.A., which has changed it registered name to Naturcorp Multiservicios, S.A., the shares held in Sociedad Gas de Euskadi, S.A. have been swapped for a 9.39% shareholding in Naturcorp Multiservicios, S.A. The increase in the long-term investments account is the result of the reclassification of the shareholding in Naturcorp Multiservicios, S.A., which prior to the merger mentioned above was Sociedad Gas de Euskadi, S.A., classified under Shareholdings in companies consolidated by equity accounting.

The most significant investments carried under Long-term investments are as follows:

	Registered Office	**% shareholding of Group**	**Activity**
Naturcorp Multiservicios, S.A.	Bilbao	9.39	Gas distribution

Commercial loans mainly carry the loans for the sale of long-term financed gas and heating installations.

Other loans basically hold an amount of US dollars 10 million to be received from Repsol YPF, S.A. in consideration for the granting of a preferential right for certain gas supplies in Brazil. It also includes euros 60,027 thousand in deposits and guarantee deposits and balances with Public Administrations for euros 37,736 thousand.

Note 6. Consolidation goodwill

The movement in this balance during the year has been as follows:

Balance at 1 January 2004	**208,258**
Additions	279,093
Translation differences	(93)
Amortisation	(17,841)
Balance at 31 December 2004	**469,417**

The Consolidation goodwill generated by the acquisition of foreign companies is stated in euros at the exchange rate in effect when generated.

When goodwill arises from the purchase of holdings by foreign companies of the Group, they are recorded in local currency and the variations in exchange rates are reflected under Translation differences.

The increase in goodwill during the year is basically the result of the acquisition of the Italian companies and the increase in the shareholding in Companhia Distribuidora de Gás do Rio de Janeiro, S.A. (CEG) and in CEG Rio, S.A. and for the acquisition of Sinia XXI, S.A.

As a result of the above-mentioned acquisitions positive differences have arisen on first consolidation in the comparison between cost of acquisition and net book value at the date of acquisition of the shareholdings, which total euros 319,934 thousand. As per the Rules for the Formulation of the Consolidated Annual Accounts, a part of this difference has been added to the value of certain assets of the acquired company this year in the total amount of euros 40,841 thousand.

The breakdown of the consolidation goodwill by country as at 31 December 2004 is as follows:

Italy	134,396
Brazil	131,288
Puerto Rico	140,766
Mexico	28,724
Spain	34,243
	469,417

Note 7. Deferred expenses

The composition of this balance at 31 December 2004 is as follows:

	Balance at 1.1.04	Increases	Decreases	Translation differences	Consolidation scope and reclassifications	Balance at 31.12.04
Deferred expenses from debt	3,016	—	(600)	—	—	2,416
Financial expense from finance leases	391,674	—	(31,248)	—	747	361,173
Other depreciable expenses	15,567	18,548	(995)	1,484	25,488	60,092
	410,257	**18,548**	**(32,843)**	**1,484**	**26,235**	**423,681**

Deferred expenses arising from debt carries the discounting and expenses related to the long-term debt of euros 525,000 thousand issued by Gas Natural Finance, B.V. in 2000.

The expenses arising from finance leases relate to the deferred financial expense from the long-term lease agreements for two cryogenic vessels for transporting liquid natural gas (LNG).

Other depreciable expenses basically carries the costs generated by the programs for the conversion of manufactured gas installations to natural gas in Brazil.

Note 8. Inventories

The breakdown of inventories at 31 December 2004 is as follows:

	Cost	Provision for depreciation	Net
Natural gas and liquid natural gas	204,581	—	204,581
Raw materials and other inventories	59,506	(366)	59,140
	264,087	**(366)**	**263,721**

Inventories of natural gas include gas inventories deposited in the subterranean storage facilities in Gaviota (Vizcaya) and Serrablo (Huesca), as well as the gas inventories in the Poseidón gas field (Cadiz).

On 26 August 2004, Royal Decree 1716/2004, of 23 July, came into force. The decree regulates the obligation to maintain minimum reserves of natural gas and defines those subject to the same and the minimum reserve volumes. In this respect, the Natural Gas Group complies with the minimum reserves laid down by the aforementioned decree through the Spanish Group companies.

Note 9. Short-term investments

The breakdown of this balance at 31 December 2004 is as follows:

	Balance at 31.12.04
Short-term time deposits and investments	97,631
Other loans	79,866
Others	6,668
	184,165

Short-term time deposits and investments includes the investments in financial products and fixed income securities totalling euros 51,835 thousand and short-term term deposits of US dollars 62 million.

Other loans basically hold the loans for the short-term financed gas and heating installations, as well as US dollars 10 million receivable from Repsol YPF, S.A. on 1 January 2006 in consideration for the granting of a preferential right for gas supplies in Brazil.

The average yield of the short-term time deposits and investments has been 2.93% in 2004.

Note 10. Shareholders' equity

The breakdown of share capital and reserve accounts at 31 December 2004 and their movement during the year has been as follows:

	Balance at 1.1.04	**Distribution of 2003 results**	**2004 Results**	**Translation differences**	**Others**	**Balance at 31.12.04**
Share capital	447,776	—	—	—	—	447,776
Reserves of parent Company	2,992,035	117,317	—	—	—	3,109,352
Legal reserve	89,706	—	—	—	—	89,706
Statutory reserve	67,850	—	—	—	—	67,850
Revaluation reserve	225,475	—	—	—	—	225,475
Merger reserve	379,915	—	—	—	(379,915)	—
Reserve for redenomination in euros	755	—	—	—	—	755
Voluntary and other reserves	2,228,334	117,317	—	—	379,915	2,725,566
Reserves in consolidated companies	876,256	182,474	—	—	13,844	1,072,574
Foreign currency translation adjustments	(481,772)	—	—	(17,801)	—	(499,573)
Profit for the year	568,456	(568,456)	633,921	—	—	633,921
Interim dividend	(95,152)	95,152	(120,900)	—	—	(120,900)
	4,307,599	**(173,513)**	**513,021**	**(17,801)**	**13,844**	**4,643,150**

Share capital

The share capital of Gas Natural SDG, S.A. is made up of 447,776,028 shares with a par value of 1 euro each, all subscribed and fully paid up and recorded as a book entry. All shares have the same voting and distribution rights.

By resolution of the Ordinary General Meeting of Shareholders held on 30 April 2002, the Board of Directors was authorised to increase the share capital by up to euros 223,888 thousand within a period of five years, by means of one or more share issues, to be paid in cash, without having to obtain further authorisation. In addition, the Board was authorised by resolution of the same Ordinary General Meeting of Shareholders to issue company bonds, not convertible into shares, representing debt, bonds, promissory notes, mortgage-backed or guaranteed bonds to a maximum of euros 1,000 million, within a period of five years.

Furthermore, by virtue of a resolution of the Ordinary General Meeting of Shareholders of 14 April 2004, the Board of Directors was authorised to acquire for consideration, within a period of no more than eighteen months, at one or more times, fully paid own shares, up a maximum of 5% of share capital, setting the minimum and maximum price of such acquisition.

All the shares of Gas Natural SDG, S.A. are listed on the four Official Stock Exchanges of Spain and traded on the continuous market and form part of the Ibex 35.

The quoted share price at the 2004 year end is euros 22.76. Furthermore, the 159,514,583 shares, 49% of the share capital of the Group company Gas Natural BAN, S.A., are listed on the Buenos Aires Stock Exchange (Argentina).

The most significant holdings in the share capital of Gas Natural SDG, S.A. as at 31 December 2004 are as follows:

	Shareholding %
Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	32.057
Repsol YPF, S.A.	30.847
Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)	5.000
Caixa d'Estalvis de Catalunya	3.026

On 28 January 2005 "la Caixa" informed the National Securities Commission that its indirect shareholding in Gas Natural SDG, S.A. was 33.06%.

Legal Reserve

In accordance with the Spanish Companies Act, 10% of the profit for the year must be allocated to the legal reserve until this reserve reaches 20% of share capital. The legal reserve can be used to increase share capital in the part of the balance exceeding 10% of the capital increased. Except for this purpose, and unless the reserve exceeds 20% of share capital, it can only be used to offset losses, provided that there are no other distributable reserves with sufficient funds to do so.

Statutory Reserve

In accordance with the articles of association of Gas Natural SDG, S.A., 2% of net profit for the year must be allocated to the statutory reserve until it reaches at least 10% of share capital.

Revaluation reserve

The revaluation reserve has been accepted by the Tax Authorities and is not distributable. The balance can be used to offset accounting losses, for capital increases or, as from 31 December 2006, allocation to freely available reserves. This reserve, in the case of subsidiary companies, is recorded under Reserves in consolidated companies.

Merger reserve

By virtue of the resolution of the General Meeting of Shareholders of 14 April 2004, the merger reserve generated in 1991, as a result of the takeover merger and partial spin off of Catalana de Gas, S.A., Gas Madrid, S.A. and Repsol Butano, S.A., has been transferred to voluntary reserves.

Euro redenomination reserve

As per the provisions of the euro Act, Law 46/1998, a non-distributable reserve was set up for the redenomination into euros of the company’s share capital.

Reserve in consolidated companies

The Reserve in consolidated companies at 31 December 2004 corresponds to:

Reserves in fully and proportionally consolidated companies:		324,943
Gas Natural Castilla y León, S.A.	70,692	
Gas Natural Cegas, S.A.	42,303	
Gas Natural Cantabria SDG, S.A.	22,330	
Gas Navarra, S.A.	21,809	
Desarrollo del Cable, S.A.	18,814	
Gas Natural Comercializadora, S.A.	28,440	
Gas Natural Castilla-La Mancha, S.A.	14,104	
Sagane, S.A.	17,235	
Other companies	89,216	
Reserves in companies consolidated by equity method		103,210
Consolidation adjustments		644,421
		1,072,574

Foreign currency translation

These reserves correspond to the difference between the assets and liabilities of Group companies stated in foreign currency and converted at the year-end exchange rate and their shareholders’ equity stated at the historical exchange rate.

The translation differences in the financial statements of Group companies denominated in foreign currency at the exchange rate in effect at 31 December 2004 are:

Companies in Argentina	(116,556)
Companies in Brazil	(201,391)
Companies in Mexico	(87,898)
Companies in Colombia	(57,101)
Others	(36,627)
	(499,573)

Dividends

The Ordinary General Meeting of Shareholders adopted a resolution on 14 April 2004 to increase the dividend by 50% and pay a total of euros 0.60 per share against 2003 results, of which euros 0.2125 were already paid on 12 January of this year and the remaining euros 0.3875 per share on 1 July 2004.

The Board of Directors of Gas Natural SDG, S.A. on 26 November 2004 agreed to distribute an interim dividend against 2004 results of euros 0.27 gross per share, totalling euros 120,900 thousand, paid as from 11 January 2005.

At the date of the adoption of the resolution on the interim dividend Gas Natural SDG, S.A. had the necessary liquidity to distribute such dividend, in accordance with the requirements of Articles 194.3 and 216 of the Spanish Companies Act.

The proposed distribution of 2004 results that the Board of Directors of Gas Natural SDG, S.A. will propose to the General Meeting of Shareholders for their approval is as follows:

Results for the year	
Profit and loss	670,216
Distribution	
To voluntary reserves	352,295
Dividend	317,921

Note 11. Minority interests

The movement in this account during the year has been as follows:

Balance at 1 January 2004	**211,826**
Additions:	
Share in results for the year	55,840
Adjustments for inflation and others	2,628
Contributions	862
Variations in shareholdings and consolidation scope	29,378
Translation differences	2,534
Decreases:	
Distribution of 2003 profit	(26,533)
Distribution interim dividend 2004	(20,016)
Balance at 31 December 2004	**256,519**

The increases have arisen mainly from the share of profit for the year of Group companies in Colombia and from Europe Maghreb Pipeline, Ltd. (EMPL), and from the impact of the fully consolidation of the companies in Brazil.

Decreases carry the effect of the pay out of dividends basically by Europe Maghreb Pipeline, Ltd. (EMPL).

The breakdown of the Minority interests balance at 31 December 2004 by companies is as follows:

	Holding in share capital and reserves	Share of the profit for the year	Total
Europe Maghreb Pipeline, Ltd.	10,155	16,961	27,116
Gas Galicia SDG, S.A.	14,140	523	14,663
Gas Natural Castilla y León, S.A.	8,014	1,336	9,350
Argentina sub-group	18,628	5,800	24,428
Colombia sub-group	78,752	15,613	94,365
Mexico sub-group	29,644	3,598	33,242
Brazil sub-group	30,522	9,344	39,866
Others	10,824	2,665	13,489
	200,679	**55,840**	**256,519**

Note 12. Deferred income

The movement for the year in this balance has been as follows:

	Balance at 1.1.04	Increases	Decreases	Translation differences	Consolidation scope	Balance at 31.12.04
Capital grants	53,863	13,570	(9,533)	—	100,372	158,272
Assets received for no consideration	30,412	—	(427)	(2,525)	—	27,460
Income from new connections and branch lines	112,837	26,691	(8,471)	(780)	(1,137)	129,140
Income from third parties for re-routing of pipeline	67,762	14,195	(4,741)	(158)	—	77,058
Other income	32,625	3,521	(10,450)	(895)	(1,736)	23,065
	297,499	**57,977**	**(33,622)**	**(4,358)**	**97,499**	**414,995**

The increase in Deferred income is basically due to the increase in income from new connections and branch lines and the increase in capital grants because of the consolidation of the Italian companies that were acquired. Other income includes the consideration for the granting of preferential rights mentioned in Note 5.

Note 13. Provisions for liabilities and charges

The pension provision at 31 December 2004 and its movements for the year has been as follows:

Balance at 1 January 2004	**—**
Consolidation scope and reclassifications	15,542
Charges for the year	462
Payments and commitments	(72)
Translation differences	1,111
Balance at 31 December 2004	**17,043**

The balance of Other provisions at 31 December 2004 corresponds mainly to provisions for probable liabilities in relation to identified contingencies.

The movement of Other provisions during the year has been as follows:

Balance at 1 January 2004	**230,963**
Charges for the year	34,917
Applications and cancellations	(17,763)
Balance at 31 December 2004	**248,117**

Charges for the year basically carry the provisions for future risks and human resources.

Applications and cancellations hold the application of provisions set up for staff restructuring.

Note 14. Long-term creditors

Loans and borrowings

The detail of short and long-term loans and borrowings at 31 December 2004 is as follows:

	Long term	Short term	Total
Debentures and other negotiable securities			
Principal in euros	528,098	—	528,098
Principal in other currencies	26,374	942	27,316
Interest accrued	—	29,119	29,119
Loans due with financial institutions			
Principal in euros	538,170	222,586	760,756
Principal in US dollars	795,748	80,133	875,881
Principal in other currencies	236,178	349,688	585,866
Other loans			
Principal in euros	—	9,620	9,620
Principal US dollars	—	—	—
Principal in other currencies	—	31,233	31,233
	2,124,568	**723,321**	**2,847,889**

Debentures and other negotiable securities relate basically to the debt issued by Gas Natural Finance, B.V. based on the euro Medium Term Notes program, guaranteed by Gas Natural SDG, S.A.

The breakdown by currencies of the financial debt at 31 December 2004 and their relative weight against the total is as follows:

		%
Euros	1,327,593	46.6
US dollars	761,884	26.8
US dollars – Argentina	113,997	4.0
Mexican pesos	320,007	11.2
Others	324,408	11.4
Total financial debt	**2,847,889**	**100.0**

The financial debt denominated in US dollars, excluding the debt of Argentina, relates basically to Europe Maghreb Pipeline, Ltd. (EMPL), the company that manages the Maghreb-Europe oil pipeline, and to Ecoeléctrica L.P., Ltd., which economic figures are also denominated in US dollars.

The current credit qualification of Gas Natural SDG, S.A. is as follows:

	l/t	s/t	Perspective
Moody's	A2	P-1	Stable
Standard & Poor's	A+	A-1	Stable

The Group financing is divided approximately 56.7% at a fixed interest rate and 43.3% at a variable rate. The variable rates have been pegged at reference rates (LIBOR or EURIBOR, mainly), plus a differential. The average net interest rate of the Group has been 5.9%.

At the year end, the Group has credit lines not drawn down in financial entities totalling euros 1,147,900 thousand.

The repayment periods of long-term financial debt are as follows:

Year 2006	177,940
Year 2007	356,263
Year 2008	174,472
Year 2009	277,893
More than 5 years	1,138,000
	2,124,568

Other creditors

This balance includes euros 684,374 thousand for the financing of two cryogenic vessels acquired under a finance lease. Furthermore, it also includes the long-term Public Administrations balance of euros 125,924 thousand, euros 99,324 thousand of which relate to long-term deferred tax liabilities for the sale of the shareholding in Enágas, S.A. (see Note 15).

Other non trade debts

Other short-term debts includes the interim dividend for the year of euros 120,900 thousand. It also includes the balances with Public Administrations, outstanding remunerations and short-term payable balances relating to the financing of two cryogenic vessels acquired under finance leases.

Note 15. Tax situation

The consolidated tax Group represented by Gas Natural SDG, S.A., Parent Company, has been taxed since 1993 under the Consolidated Tax Regime, as per the Special Group Company Tax Regime regulated by Law 4/1995, which involves the joint calculation of the Group's tax results and the pertinent deductions and tax credits.

In 2004, the Consolidated Tax Group, in addition to Gas Natural SDG, S.A., is made up of the following companies: Gas Natural Castilla y León, S.A., Gas Natural Cegas, S.A., Gas Natural Castilla-La Mancha, S.A., Compañía Auxiliar de Industrias Varias, S.A., Gas Natural Informática, S.A., Equipos y Servicios, S.A., Gas Natural Servicios SDG, 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 Cantabria SDG, S.A., Gas Natural Murcia SDG, S.A., Desarrollo del Cable, S.A., Gas Natural Electricidad SDG, S.A., Gas Natural Comercializadora, S.A., Gas Natural Aprovisionamientos SDG, S.A., Gas Natural Trading, SDG, S.A., Gas Navarra, S.A., Gas Natural Rioja, S.A., Gas Natural Distribución Eléctrica, S.A., Gas Natural Soluciones, S.L., Invergas Puerto Rico, S.A., Sociedad de Tratamiento Hornillos, S.L., Gas Natural Distribución SDG, S.A., Gas Natural Transporte SDG, S.L. and Gas Natural Corporación Eólica, S.L.

The other companies in the consolidation scope are taxed individually.

The Corporate income tax is calculated on the basis of economic or accounting profit obtained from the application of generally accepted accounting principles, which does not necessarily coincide with taxable profit, or the tax assessment basis.

The reconciliation between book profit for the year and taxable income is as follows:

Consolidated profit before tax		**923,791**
Permanent differences:		**(61,976)**
Individual companies	(180,868)	
Consolidation adjustments	118,892	
Timing differences:		**(150,237)**
Provisions	(53,879)	
Other differences	(96,358)	
Previous taxable income		**711,578**
Offset of tax loss carryforwards from prior years		(27,350)
Taxable income		**684,228**

Permanent differences in the individual companies carry, as the most significant item, the gains from the sale of 12.51% of Enagás, S.A.

In accordance with Additional Provision 14 of the Corporate Income Tax Act, Law 43/1995 of 27 December, in the wording set down in Law 24/2001 of 27 December, the profit obtained in 2002 from the Public Offer of Shares of Enagás, S.A. and the profit from the sale of shareholding in the same company in 2003 and 2004 has not been included in taxable income for corporate income tax purposes, and will not be included until the assets and rights obtained from the sale have been re-invested are transferred or written off the balance sheet in the amounts set down as follows:

Year of sale	Amount obtained from the sale	Amount reinvested	Termination of reinvestment period
2002	917,098	539,799	2005
2003	38,859	—	2006
2004	292,418	—	2007
Total	**1,248,375**	**539,799**	

The reinvestment has been made in secondary infrastructure transport and distribution of natural gas in Spain, having been undertaken both by the Company itself and the other distribution companies in the Tax Group, by virtue of article 89 of Law 43/95.

At 31 December 2004 euros 34,787 thousand, the amount obtained from the sale, of all the assets transferred in 2001, have been re-invested in secondary transport and natural gas distribution infrastructural assets in Spain, which are set down in the provisions of the Third Transitory Provision of Law 24/2001.

The permanent consolidation differences relate to the write off charged for non-deductible goodwill, the reversal of non-deductible provisions and the consolidation adjustments to the shareholding sale operations mentioned above.

Deductions applied in 2004 have totalled euros 47,082 thousand and withholdings and payments on account total euros 121,070 thousand. Adjustments for tax differences from last year of euros 12,964 thousand have also been included.

The tax rate at the year end is 25.3%. This improvement has been possible due to the application of the tax regime set down in additional provision 14 of the Corporate Income Tax Act, Law 43/1995 of 27 December, in respect of the transfer of assets in compliance with legal provisions, to results of companies consolidated by equity accounting for not affecting the calculation of the corporate income tax expenses, and due to the application of tax credits available for offset against positive results and to the provisions for the depreciation of long-term investments, carried in the holding companies, as a result of exchange differences.

Balances and movements in deferred Corporate income tax assets and liabilities are as follows:

	Balance at 1.1.04	Variation	Balance at 31.12.04
Deferred tax assets			
Pensions provisions	36,423	(4,398)	32,025
Other provisions for liabilities and charges	28,560	(13,584)	14,976
Exchange differences and others – Argentina	33,875	(5,876)	27,999
Other deferred tax assets	42,936	1,751	44,687
	141,794	**(22,107)**	**119,687**
Deferred tax liabilities			
Accelerated depreciation	16,059	1,714	17,773
Sale of investments	72,745	26,579	99,324
Sale of tangible fixed assets	2,855	(2,855)	—
Other deferred tax liabilities	23,571	34,010	57,581
	115,230	**59,448**	**174,678**

At 31 December 2004 there are tax credits for losses and deductions not accounted for and which could offset by taxable income in future years, as set out below:

Companies non-resident in Spain		**50,789**
Brazil	26,713	
Mexico	24,076	
Companies resident in Spain		**10,153**
		60,942

On 21 April 2004 Tax Assessments were signed in disagreement in relation to Corporate income tax (1995 to 1998) and Value Added Tax and Personal Income Tax (August 1997 to December 2000) raised against the consolidated tax Group. After the initial allegations were filed by the Company, the National Tax Inspection Office remitted the respective Administrative Tax Claims. These claims have been appealed by the Company before the appropriate courts.

In respect of the aforementioned tax audits and their respective assessments signed in disagreement, the appeals are now in different procedural situations (Supreme Court, National High Court, and the Central Tax and Treasury Court). On the basis of the results obtained in these courts, of special note is the large number of acceptances of the appeals relating to the tax proposals made.

Furthermore, tax audits have been initiated in the consolidated tax Group of Gas Natural in relation to Corporate income tax for 1999 to 2002 and exclusively in respect of the parent company for Value Added Tax, Withholding on Personal Income Tax and Tax on Income from Capital for the period from January 2001 to December 2002. The other taxes are open to inspection for the legal period not prescribed.

The Directors of the Company believe, therefore, that the results of these audits will not have a significant impact on the annual accounts of the company, as they have been properly provided for.

Note 16. Income and expenses

The analytical comparative consolidated profit and loss accounts of the Group for 2004 and 2003 are as follows:

		2004	2003
+	Net turnover	6,265,848	5,628,043
+	Other income	125,221	84,766
=	**Total value of production**	**6,391,069**	**5,712,809**
-	Net purchases	(4,227,696)	(3,771,091)
-	External and operating expenses	(554,856)	(512,351)
=	**Adjusted added value**	**1,608,517**	**1,429,367**
-	Staff costs	(245,994)	(227,706)
=	**Gross operating profit (EBITDA)**	**1,362,523**	**1,201,661**
-	Fixed assets depreciation and amortisation	(442,695)	(380,246)
-	Variation in provisions for current assets	(21,131)	(22,383)
=	**Net operating profit (EBIT)**	**898,697**	**799,032**
=	Financial results	(140,474)	(57,716)
+/-	Results of companies consolidated by the equity method	57,968	61,088
-	Amortisation of consolidation goodwill	(17,841)	(5,253)
=	**Profit on ordinary activities**	**798,350**	**797,151**
+/-	Gains/(loss) from sale of fixed assets	162,412	50,444
+/-	Other extraordinary results	(36,971)	(57,582)
=	**Consolidated profit before tax**	**923,791**	**790,013**
-	Corporate income tax	(234,030)	(177,532)
-	Profit attributable to minority interest	(55,840)	(44,025)
=	**Profit for the year attributed to the parent company**	**633,921**	**568,456**

Net turnover

Net turnover is broken down as follows:

	2004
Sales of natural gas	4,712,916
Electricity sales	454,787
Other sales	144,739
Third party access services to the energy networks	732,761
Installation rental service	101,712
Other services	118,933
	6,265,848

Staff

The average number of employees in the Group during the year broken down by category is as follows:

	Spain	Abroad	Total
Management	247	112	359
Technical staff	2,080	1,583	3,663
Administrative and sales staff	740	550	1,290
Tradesmen and auxiliary personnel	471	701	1,172
	3,538	**2,946**	**6,484**

Other operating expenses

This item corresponds basically to structural costs, mainly made up of: repairs and maintenance, IT expenses, advertising, external services, leases and local taxes.

Extraordinary results

Extraordinary profit relates basically to the capital gains from the sale of the 12.51% shareholding in Enagás, S.A.

Extraordinary loss relates basically to the charges to Provisions for liabilities and charges.

Contribution Group companies to consolidated profit

The breakdown is as follows:

	Contribution of companies to results	Profit for the year attributed to minority interest
Gas Natural SDG, S.A.	471,925	—
Europe Maghreb Pipeline, Ltd.	44,942	16,961
Ecoeléctrica L.P., Ltd.	22,505	1,184
Gas Natural México, S.A. de C.V.	16,804	2,567
Gas Natural S.A., ESP	16,127	11,183
Companhía Distribuidora de Gás do Rio de Janeiro, S.A. (CEG)	13,696	7,873
Sagane, S.A.	13,277	—
Gas Natural Castilla y León, S.A.	12,022	1,336
Gas Natural BAN, S.A.	5,258	5,135
Others	17,365	9,601
	633,921	**55,840**

Transactions in foreign currency

Transactions in foreign currency during the year have been as follows:

	Spain	Abroad	Total
Purchases	2,213,179	704,983	2,918,162
Sales	1,007,785	1,187,617	2,195,402
Other transactions	57,903	111,966	169,869
	3,278,867	**2,004,566**	**5,283,433**

Transactions with Companies consolidated by equity accounting

The significant operations with related companies that form part of the normal operations in terms of object and conditions are:

- Sales of natural gas and liquefied natural gas to supply rated consumers totalling euros 722,613 thousand.
- Purchases of natural gas and liquefied natural gas for the rated supply totalling euros 676,418 thousand.
- Services received for regassification, transmission, storage of gas and others totalling euros 80,243 thousand.
- Various services rendered totalling euros 17,866 thousand.
- Dividends collected in the year totalling euros 25,901 thousand.

Note 17. Information by activity

The criteria applied for allocating amounts to the activities in these accounts have been as follows:

- Assignment of the margin on intra-group operations based on the final destination of the sales by market.
- Direct assignment of income and expenses of any nature relating exclusively and directly to the activities.
- Assignment of the corporate income and expenses based on their use by each activity.

Net turnover

Net turnover by activity in 2004 is as follows:

	2004
Gas distribution	1,820,500
Commercialisation	3,437,245
Electricity	474,862
Gas trading and transport	669,498
America	1,145,279
Italy	211,488
Other activities	118,589
Consolidation adjustments	(1,611,613)
	6,265,848

Gross operating profit (Ebitda)

Gross operating profit by activity in 2004 is as follows:

	2004
Gas distribution	724,977
Commercialisation	13,453
Electricity	51,258
Gas trading and transport	230,916
America	291,066
Italy	31,393
Other activities	19,460
	1,362,523

Net operating profit (Ebit)

Net operating profit by activity in 2004 is as follows:

	2004
Gas distribution	471,973
Commercialisation	2,918
Electricity	34,087
Gas trading and transport	188,697
America	211,924
Italy	18,335
Other activities	(29,237)
	898,697

Tangible Investments

The breakdown by activity of Tangible investments is as follows:

	2004
Gas distribution	368,297
Commercialisation	8,870
Electricity	373,460
Gas trading and transport	24,922
America	127,232
Italy	25,734
Other activities	17,829
	946,344

Net tangible and intangible fixed assets

Net tangible and intangible fixed assets have increased by euros 1,031,967 thousand in 2004 and total euros 7,338,345 thousand at 31 December 2004. They are broken down as follows by activity:

	2004	%
Gas distribution	3,355,972	45.7
Commercialisation	8,323	0.1
Electricity	1,160,054	15.8
Gas trading and transport	833,911	11.4
America	1,402,431	19.1
Italy	356,352	4.9
Other activities	221,302	3.0
	7,338,345	**100.0**

Gas distribution activity accounts for 45.7% of the tangible and intangible fixed assets of the Group, while the electricity generation and trading activity totals 15.8% of the total, against 12% in 2003.

Tangible and intangible fixed assets as a whole in America represent 19.1% of the Group’s total.

Of the total tangible and intangible fixed assets in America, 32% relates to Mexico, 15% to Puerto Rico, 30% to Brazil, 11% to Argentina and the remaining 12% to Colombia.

Note 18. Environment

Environmental Actions

During 2004 the Gas Natural Group has maintained its commitment to contribute to the improvement of the environment, providing special attention to the protection of the environment during its undertakings.

This has materialised, amongst other actions, in 46 Environmental Impact Studies in Spain and Latin America. An example would be the two reforestation projects in the degraded Petroplis area (Brazil) spanning more than 10,000 m^2.

The Environmental Management System of the Gas Natural Group, which has UNE-EN-ISO 14001 certification, covers ten gas distribution companies in Spain as well as Metragaz, S.A., a gas transmission company in Morocco. In 2004 Gas Natural Mexico S.A. de C.V. was also certified.

One of the main objectives of the Environmental Management System was to reduce energy and water consumption at work centres. In order to facilitate monitoring and to contribute to resource saving, the head office in Madrid and certain office buildings in Barcelona have installed a series of “Energy Mirror” panels. These show current and historical consumption levels so that users can follow their evolution and compare them to target values. Additionally, these buildings have installed tele-measured energy consumption systems, so that energy managers can adopt decisions that will improve energy efficiency.

On the other hand, the Group continues to apply its policy of reducing paper consumption and increase the use of recycle paper, as well as decrease both the consumption of water in buildings and installations, and improve waste management.

During 2004 the Group also continued to promote electricity generation and distribution projects, especially in newly planned industrial estates. The Group applies these concepts to its own installations.

Along these lines, a mini-gas-turbine was installed in the Montigalà building in Badalona, which produces electricity and heat to cover its own needs, as well as heating a nearby municipal school.

The Group continues to undertake cogeneration projects, like the one that will be set up next to the future head offices of Gas Natural in Barcelona. This plant will supply the energy needs not only to the building itself but also to the Hospital del Mar, the Biomedical Research Park of Barcelona, different buildings at the Universidad Pompeu Fabra, the Oceanographic Institute and a hotel now under construction.

In 2004 the Group began a project to install a state of the art fuel cell in its building on Avenida de América en Madrid. This is a device that is highly energy efficient and can cover the energy needs of the building through an advanced trigeneration system.

The Gas Natural Group has been a pioneering company in the application of the advantages of natural gas in generating electricity. That is why, for several years, it has been developing combined cycle technology as the best option for producing electricity, because of its high performance ratings and low environmental impact.

In 2004 the Group has been producing electricity in Spain through combined cycle thermal electric plants in San Roque (Cádiz), Sant Adrià de Besòs (Barcelona) and Arrúbal (La Rioja). Internationally, electricity production is centred in Puerto Rico.

Along these lines, the Group has fostered the development of projects in which, in order to capitalise on energy, the plants have been located near large electricity consumers, which is why the new combined cycle plant was planned for the Barcelona Harbour.

Another way of improving energy efficiency in the electricity production phase is cogeneration. The Group is participating in many cogeneration plants through its company La Energía, S.A.

In order to promote sustainable development, the Gas Natural Group has maintained its commitment to preparing and applying measures aimed at reducing greenhouse gas emissions, under the directives of the Kyoto Protocol and the EU directives deriving therefrom. Along these lines, it controls its gas transmission and distribution emissions, from electricity generation activity and from its own use.

In 2004 the Group made a study on noise emissions during each of the installations phases of its gas networks, as well as ERM and Standard Cabinets, in order to meet the requirements set down by applicable legislation.

Finally, the Gas Natural Group has subscribed a participation in the World Bank’s Community Development Carbon Fund. This Carbon Fund was designed to undertake projects linked to the development of productive processes, habits, education and health of the most underprivileged peoples on the planet.

All these environmental activities carried out in 2004, have involved total investments of euros 40,518 thousand, which represents investments and accumulated depreciation stated on the balance sheet in the amount of euros 264,969 thousand and euros 52,107 thousand, respectively.

Moreover, the Group has also undertaken environmental sponsorship, training and divulgation activities.

The possible environment-related contingencies, indemnities and other risks which the Group could incur, are adequately covered by civil liability insurance policies.

The Group has not received any grants or income as a result of the aforementioned environmental activities.

Emissions

Royal Decree Law 5/2004 was adopted on 27 August 2004 to regulate the trade in green house gas emission rights, which object is to aid compliance with the obligations deriving from the Kyoto Protocol. The provisions of this Royal Decree are applicable to installations that can generate carbon dioxide emissions at a level higher than that set down in respect of its activity and capacity, specifically for the Gas Natural Group as the owner of combined cycle public service electricity production plants with a nominal fuel-generated power over 20 MW.

The Government on 21 January 2005 approved a resolution on the final individual assignment of emission rights for 2005-2007. The Gas Natural Group was assigned 14,119,166 tonnes of CO_2.

Note 19. Information on the Members of the Board of Directors

Remuneration of members of the Board of Directors

Remuneration accrued to the members of the Board of Directors of Gas Natural SDG, S.A. during 2004 for belonging to the Board or for labour-related relations or direct responsibilities at different executive levels have totalled euros 3,338 thousand, which includes the remuneration accrued to those members of the Board of Directors that have participated in management bodies of Group companies, have worked for the company or have held direct responsibilities at the executive level.

The remuneration accrued individually in 2004 by the acting Directors for their undertakings on the Board of Directors, the Executive Committee and other bodies as at 31 December 2004 has been as follows:

			Remuneration (in thousand euros)			
	Office	**Priod**	**Board of Directors**	**Executive Committee**	**Other bodies**	**Total**
Mr. Salvador Gabarró Serra	Chairman (*)	01/01/04 to 31/12/04	136	136	10	282
Mr. Antonio Brufau Niubó	Vice- Chairman (*)	01/01/04 to 31/12/04	141	141	9	291
Mr. Enrique Locutura Rupérez	Chief Executive Officer	01/01/04 to 31/12/04	100	100	—	200
Mr. Enrique Alcántara-García Irazoqui	Board Member	01/01/04 a 31/12/04	100	—	10	110
Mr. José Ramón Blanco Balín	Board Member	01/01/04 to 31/12/04	100	100	10	210
Mr. Santiago Cobo Cobo	Board Member	01/01/04 to 31/12/04	100	100	6	206
Mr. José María Goya Laza	Board Member	01/01/04 to 31/12/04	100	—	—	100
Mr. José Luis Jové Vintró	Board Member	26/11/04 to 31/12/04	9	9	—	18
Mr. Emiliano López Atxurra	Board Member	01/01/04 to 31/12/04	100	—	—	100
Mr. Carlos Losada Marrodán	Board Member	01/01/04 to 31/12/04	100	100	6	206
Mr. Fernando Ramírez Mazarredo	Board Member	01/01/04 to 31/12/04	100	100	16	216
Mr. Miguel Ángel Remón Gil	Board Member	01/01/04 to 31/12/04	100	82	19	201
Mr. Leopoldo Rodés Castañé	Board Member	01/01/04 to 31/12/04	100	—	—	100
Mr. José Vilarasau Salat	Board Member	01/01/04 to 31/12/04	100	—	—	100
Mr. Gregorio Villalabeitia Galarraga	Board Member	01/01/04 to 31/12/04	100	—	10	110
Caixa d'Estalvis de Catalunya	Board Member	01/01/04 to 31/12/04	100	—	—	100
Mr. Narcís Barceló Estrany	Board Member	01/01/04 to 19/06/04	55	—	—	55
Mr. Juan Sancho Rof	Board Member	01/01/04 to 28/10/04	82	—	5	87
			1,723	**868**	**101**	**2,692**

(*) Appointed on 27 October 2004.

Remuneration accrued in 2004 to the members of the Board of Directors of Gas Natural SDG, S.A. for their participation in the governing bodies of other Group or related companies totals euros 171 thousand, as shown below:

	Gas Natural Electricidad SDG, S.A.	**Enagás, S.A.**	**Total**
Mr. Salvador Gabarró Serra	5	12	17
Mr. Antonio Brufau Niubó	—	56	56
Mr. Enrique Locutura Rupérez	5	35	40
Mr. José Ramón Blanco Balín	—	53	53
Mr. Leopoldo Rodés Castañé	5	—	5
	15	**156**	**171**

The Members of the Board of Gas Natural SDG, S.A. as such have not received any amounts in loans and pensions and there are no obligations in respect of life insurance. The obligations undertaken in respect of pensions and payments of life insurance premiums for the Members of the Board as such total euros 23 thousand.

Duties of Administrators

In accordance with the provisions of Law 26/2003 of 17 July, set out below is the information provided by the Directors in relation to their shareholdings in companies with the same, analogous or complementary activity as that of the Gas Natural Group at 31 December 2004, as well as their offices and functions they exercise therein, excluding their offices in companies of the Gas Natural Group:

Directors and offices in other companies with analogous or complementary activity	Office in Gas Natural SDG, S.A.	Number of shares and percentage in:				
		Enagás	Repsol YPF	Endesa	Iberdrola	Suez
Mr. Salvador Gabarró Serra Member of the Board of Directors of Enagás, S.A. and President of the Appointments and Remuneration Commission.	Chairman	10 (0.000)	—	—	10,350 (0.001)	—
Mr. Antonio Brufau Niubó Executive President of Repsol YPF, S.A. and President of the Executive Comission. Member of the Board of Directors of Suez, S.A. and Member of the Audit Committee.	Vice-Chairman	—	7,035 (0.001)	—	—	2,000 (0.000)
Mr. Enrique Locutura Rupérez Member of the Board of Directors of Enagás, S.A.	Chief Executive Officer	—	3,719 (0.000)	306 (0.000)	—	—
Mr. José Ramón Blanco Balín Chief Executive Officer of Repsol YPF, S.A. Member of the Board of Directors of Enagás, S.A.	Board Member	—	22,955 (0.002)	7,279 (0.001)	7,265 (0.001)	—
Mr. Santiago Cobo Cobo	Board Member	—	—	7,500 (0.001)	5,000 (0.001)	—
Mr. Carlos Losada Marrodán	Board Member	—	—	—	—	—
Mr. Fernando Ramírez Mazarredo	Board Member	—	—	—	—	—
Mr. Miguel Ángel Remón Gil Executive Vice-President of Exploration and Production for Repsol YPF, S.A.	Board Member	22,654 (0.009)	—	—	—	—
Mr. Enrique Alcántara-García Irazoqui	Board Member	—	—	—	—	—
Caixa d'Estalvis de Catalunya	Board Member	—	—	—	—	—
Mr. José María Goya Laza	Board Member	—	—	—	—	—
Mr. Emiliano López Atxurra	Board Member	—	—	—	—	—
Mr. Leopoldo Rodés Castañé	Board Member	—	—	—	—	—
Mr. José Vilarasau Salat	Board Member	—	—	—	—	—
Mr. Gregorio Villalabeitia Galarraga Member of the Board of Repsol YPF, S.A.	Board Member	—	—	—	—	—
Mr. José Luis Jové Vintró	Board Member	—	—	—	—	—

The Directors of the company have not undertaken operations in 2004 that are outside ordinary trading operations or under abnormal market conditions with the company or Group companies.

Note 20. Operations with related persons

In accordance with the provisions of article 37 of the Financial System Reform Act, Law 44/2002, set out below are the contractual and financial relations undertaken in 2004 between the Gas Natural Group and the individual or legal persons related to the same.

Related persons are understood as follows:

- Significant shareholders of Gas Natural SDG, S.A., i.e., those holding 5% or more shares.

- Shareholders who, while not significant, have exercised the right to propose a member of the Board of Directors of Gas Natural SDG, S.A.

- Any other person that complies with the conditions or legal requirements that legally or under the regulations have been established in order to be considered a related party.

On the basis of this definition, the related persons to the Gas Natural Group are Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol YPF, S.A., Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA) and Caixa d'Estalvis de Catalunya.

Transactions with the "la Caixa"Group

This Group participates in the different syndicated loans totalling euros 88,110 thousand and US dollars 55,860 thousand, maturing between 2005 and 2009, and accruing interest totalling euros 5,804 thousand.

There are credit facilities totalling euros 200,000 thousand and a credit facility drawn down totalling euros 5,400 thousand.

At the year end the guarantees given total euros 100,849 thousand on a limit of euros 117,300 thousand.

The existing exchange rate hedges for future payments in foreign currency and for interest payments at 31 December 2004 total euros 243,800 thousand and euros 150,000 thousand, respectively.

The bank accounts and short-term investments at the year end total euros 62,394 thousand. The interest accrued on this item in 2004 totals euros 773 thousand.

The interest on guarantees and other services provided by the companies in the "la Caixa" Group total euros 3,913 thousand and turnover for services provided to the Gas Natural Group total euros 4,487 thousand.

Invercaixa Valores is a "dealer" in the EMTN (Euro Medium Term Note) and ECP (Euro Commercial Paper) programs.

"la Caixa" is the agent and coordinator of the Club Deal credit facility contract, in which it participates with an amount of euros 10,000 thousand.

Dividends paid during the year total euros 84,054 thousand.

Transactions with the Repsol YPF Group

Purchase of natural gas, liquid natural gas, different materials and services totalling euros 345,809 thousand.

Agreement for Repsol YPF to supply a volume of 2.1 Bcm of natural gas annually until 2023.

Agreement to provide supplies jointly with GNL to the island of Puerto Rico in relation to the "Tolling Agreement" contract owned by the Gas Natural Group.

Repsol YPF, S.A. has the option to exercise a preferential right to supply natural gas in Brazil, with the commitment to pay US dollars 20,000 thousand.

Sales of natural gas, liquid gas, electricity and different services totalling euros 366,160 thousand.

Dividends paid during the year total euros 81,448 thousand.

Transactions with Caixa d'Estalvis de Catalunya

Caixa de Catalunya has a euros 310 thousand share in syndicated loans and an accrual of interest totalling euros 10 thousand.

There are credit facilities totalling euros 30,000 thousand and a credit facility drawn down totalling euros 2,484 thousand.

Guarantees given total euros 28,317 thousand, over a total limit of euros 31,300 thousand.

The commissions and interest accrued in 2004 total euros 172 thousand.

Dividends paid during the year total euros 8,130 thousand.

Transactions with Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)

Dividends paid during the year total euros 13,433 thousand.

There are no operations with companies in the Gas Natural Group.

Note 21. Other information

Guarantees

At 31 December 2004 Gas Natural SDG, S.A. has given guarantees to Group companies totalling euros 1,451,486 thousand. It has also requested guarantees from financial entities totalling euros 713,320 thousand in relation to litigation underway and trade of Group companies.

The Group estimates that unforeseen liabilities at 31 December 2004 that may arise from the guarantees provided, if any, will not be significant.

Hedging operations on exchange rates

In order to hedge certain purchases of gas denominated in foreign currency, the Group has contracted exchange rate hedges totalling US dollars 454 million maturing in 2005.

It has also contracted hedges for income from gas sales and derivatives from the lease agreements with third parties which nominal value totals US dollars 53 million and US dollars 3 million, respectively. There are also hedging contracts on the sale of dollars for other items totalling US dollars 12 million.

At each year end the balances are adjusted to the hedged exchange rate.

Hedging operations on interest rates

The Group has contracted the following interest rate hedges at 31 December 2004:

	Notional Amount Contracted	Maturity
From variable to variable	Euros 120 million	2007
From variable to fixed	Euros 5.4 million	2005
From variable to fixed	Euros 2 million	2006
From variable to fixed	Euros 12.2 million	2007
From variable to fixed	Euros 303.2 million	2011
From variable to fixed	US dollars 216 million	2017
From variable to fixed	Mexican pesos 1,000 million	2005

Financial expense accrued from the operation is taken to consolidated profit and loss as the *swap* liquidations are settled.

Options on interest rates

At 31 December 2004 the Gas Natural Group has an interest rate option on a notional amount of euros 12.8 million.

	Notional amount contracted	Maturity
Interest rate options	Euros 12.8 million	2016

Hedging operations on the price of raw materials

The Group contracts a hedge on the purchase price of natural gas pegged to the US dollar totalling euros 155.3 million maturing in the first quarter of 2005.

The settlements of these contracts are taken to profit and loss when the operations actually accrue.

Cross Currency and Interest Rate Swap

At 31 December 2004 the Group has cross currency and interest rate swap operations. The breakdown of operations at 31 December 2004 is as follows:

Notional	Maturity	Debt in foreign currency
Euros 128 million	2005	US dollar
Brazilian real 448 million	2005	US dollar

The interest on these operations is booked as long-term financial income and expense over the life of the contracts.

Medium-term incentives

In December 2001 and 2002 the Appointments and Remunerations commission adopted two medium-term cash incentive programmes indexed to the evolution of the share value of Gas Natural SDG, S.A. for a group of top managers.

The beneficiaries are entitled to exercise this right on the number of shares assigned to them at a specific reference price on specific dates up to one third of the same each year, and the amount not exercised can be accumulated in the following years.

In order to meet possible disbursements that may arise the company has contracted purchase options on shares of the Company through a financial entity that are liquidated upon maturity at the aforementioned reference price.

The breakdown of the options assigned at 31 December 2004 is as follows:

	Type of operation	Number of shares	Maturity	Premium (thousand euros)
Incentive 2001	Purchase	255,202	For 5 business days after 1 March 2003, 2004 and 2005	2,015
Incentive 2002	Purchase	279,411	For 5 business days after 1 March 2004, 2005 and 2006	1,914

After the rights of 1 March 2003 and 2004 were exercised by the beneficiaries, the number of hedging options outstanding at 31 December 2004 in the incentives program 2001 and 2002 were 109,781 and 273,993 options, respectively.

The cost of these options has been recorded under Staff costs in the consolidated profit and loss account each year.

Other contractual commitments

At 31 December 2004 the Company holds title to various natural gas supply contracts, by virtue of which it holds gas purchase rights for the period 2005/2030 for a total of 4,584,701 GWh. All the contracts include “take or pay” clauses. It also has firm sale commitments for the period 2005-2020 for 477,699 GWh.

The Group also has natural gas transmission contracts on the basis of which it has the rights of gas transmission for the period 2005-2033 for a total of 225,568 GWh, with ship or pay clauses.

In 2004 the Company entered into two long-term time charter shipping contracts for 8 methane carrier vessels for the transport of liquefied natural gas with a storage capacity of between 25,000 m^3 and 140,000 m^3, which are managed by Gas Natural Aprovisionamientos SDG, S.A. The rental payment for all these vessels totals approximately euros 75 million per year.

Additionally, under financial lease the Group has two methane carrier vessels with a storage capacity of 138,000 m^3 each for the transport of liquefied natural gas.

Other information

In July 2004 the Algerian state company Sonatrach granted a hydrocarbon exploration block of 4,813 km^2 in the east of the country to a consortium made up of Repsol YPF and Gas Natural SDG, S.A. This award is part of the Natural Gas Group strategy of accessing gas reserves in order to meet the growing demand of the Spanish market.

The Brazilian state group Petrobras holds a pre-emption right for the purchase of a 22% shareholding in CEG Rio, S.A. If the competent bodies approve the exercising of this right, the interest of the Gas Natural Group would be 50%.

On 14 April 2004 the General Meeting of Shareholders of Gas Natural SDG, S.A. agreed to authorise the Board of Directors of Gas Natural SDG, S.A. to contribute its regulated gas distribution activity branch to Gas Natural Distribución SDG, S.A., a company that is fully owned by the Group.

Gas Natural Aprovisionamientos SDG, S.A. and Gas Natural Trading SDG, S.A. were merged, for accounting purposes on 31 December 2004, through a takeover by the former by the latter and the transfer en bloc of all the equity (assets and liabilities) of the merged company to the merging company.

The Executive Committee of Gas Natural SDG, S.A. has adopted a resolution to wind up Compañía Auxiliar de Industrias Varias, S.A. This operation will take place in 2005.

Audit

The fees received during the year by PricewaterhouseCoopers Auditores, S.L. for auditing and other services related to the 2004 audit totalled euros 1,375 thousand.

Furthermore, the fees received during the year by other companies using the name PricewaterhouseCoopers for other services rendered to the Company total euros 484 thousand.

Coming into line with International Financial Reporting Standards

CE Regulation no. 1606/2002 of the European Parliament and the Council of 19 July 2002 sets forth that it is obligatory for companies subject to the legislation of EU member states and whose securities are traded on regulated markets in any member state of the EU, to prepare consolidated financial statements in accordance with International Financial Reporting Standards for the years beginning as from 1 January 2005.

The issuance of international financial reporting standards is the responsibility of the International Accounting Standards Board (IASB), to be approved thereafter by the European Commission, as the case may be.

The Gas Natural Group set up a technical working committee to adapt the Group to international accounting standards. Their main objectives are to analyse the differences and different treatments of the accounting principles now applied, evaluate the implications of IFRS, set down the accounting policies for the Group under IFRS, determine and quantify impacts, prepare the consolidated transitional balance sheet at 1 January 2004, the quarterly consolidated financial statements for 2004 and the balance sheet and profit and loss account at 31 December 2004, all of which are for future comparative purposes, until the new standards are fully implemented as from 1 January 2005.

The degree of current progress means that the Group will be able to meet the deadline set by the European Commission, taking into account that there are international standards that have been analysed by the International Accounting Standards Board (IASB) that are in the draft stage or pending approval by the European Commission.

Note 22. Subsequent events

On 31 January 2005 the Official State Gazette published three Ministerial Orders updating the remuneration of regulated activities in the gas industry for 2005 and set down new tolls and levies and prices for the regulated market. The impact on the domestic level for the Gas Natural Group of these measures is as follows:

- The remuneration for distribution recognised in favour of Gas Natural SDG, S.A. for 2005 has totalled euros 996 million, which represents an increase of 7.4% on last year. This increase is due to the growth foreseen in activity for 2005, the CPI and IPRI forecast made by the regulator and the maintenance of the efficiency factors.

- The estimated remuneration to be received for the regulated supply in 2005 will be approximately 20% lower than 2004, due to the forecast that the shift of residential customers to the deregulated market will be greater than the influx of new regulated supply customers and to a greater recognition of the leakage identified in pressure under 4 bars, which will drop from 2% to 1%.

- The historical remuneration for secondary transport has been updated in accordance with 85% of the IPH, reaching euros 16.6 million.

Furthermore, Order ITC 102/2005 sets down a specific remuneration system for distribution for new municipalities with not enough profitability to make the project economically feasible.

On 1 February 2005 the General Directorate of Energy and Mining Policy adopted a Resolution that determines which projects begun in 2004 will enjoy a specific remuneration right. The Group's share totals 18,731 thousand of this amount. The specific remuneration will be made in a single payment to form part of the economic regime of the year following the start up year. For this purpose, the Company must submit to the General Directorate of Energy and Mining Policy a start up Certificate or a Certificate from the Regional Government of the municipality where the gas service has been initiated.

On 26 January 2005, the Group and Repsol YPF, S.A. entered into a "time charter" lease for a cryogenic vessel for the transport of liquefied natural gas with a storage capacity of 138,000 m^3. Delivery is expected at the end of 2007. According to this agreement there is a rental agreement for an initial term of 25 years as from delivery with the option to extend it for five years.

On 28 January 2005 the Board of Directors of Gas Natural SDG, S.A. appointed Mr. Rafael Villaseca as Chief Executive Officer, upon the proposal of Repsol YPF, S.A., and, at the same meeting, the Board also approved the appointment of Mr. Guzmán Solana and Mr. Nemesio Fernández-Cuesta as Board Members, upon the proposal of Repsol YPF, S.A., to replace Mr. José Ramón Blanco and Mr. Miguel Ángel Remón, respectively, as well as the appointment of Mr. Carlos Kinder, as Board Member, upon the proposal of "la Caixa", to replace Mr. Fernando Ramírez , and of Mr. Miquel Valls as an independent Board Member, upon the joint proposal of "la Caixa" and Repsol YPF, S.A.

Note 23. Consolidated statement of source and application of funds

The consolidated statement of source and application of funds is as follows:

Consolidated statement of source and application of funds of the Goup (in thousand euros)

Applications	**2004**	**2003**
Start-up and deferred expenses	19,182	7,828
Acquisition of fixed assets:	1,506,050	1,353,425
Intangible fixed assets	65,001	489,856
Tangible fixed assets	946,344	778,269
Investments	494,705	85,300
Dividends:	296,008	206,488
Parent company	268,664	179,106
Paid to minority interests	27,344	27,382
Cancellation or transfer to short term of long-term debts	453,890	251,353
Cancellation or transfer to short term of deferred income	1,474	—
Provisions for liabilities and charges	19,382	21,730
Total applications	**2,295,986**	**1,840,824**
Excess of sources over applications (increase in working capital)	**—**	**—**

Sources	**2004**	**2003**
Net funds generated from operating activities	1,003,561	856,783
Deferred income	63,768	55,295
Long-term debts	532,490	388,151
Sale of fixed assets:	309,994	109,516
Intangible fixed assets	267	9
Tangible fixed assets	14,801	59,878
Investments	294,926	49,629
Early redemption of investments or transfer to short term	4,125	3,501
Other sources	1,180	—
Total sources	**1,915,118**	**1,413,246**
Excess of applications over sources (decrease in working capital)	**380,868**	**427,578**

Movement in working capital

	2004		2003	
	Increases	**Decreases**	**Increases**	**Decreases**
Inventories	—	69,354	8,049	—
Debtors	416,544	—	104,585	—
Creditors	—	361,726	—	208,398
Current asset investments	—	311,869	—	379,365
Cash and banks	—	50,162	53,070	—
Prepaid expenses	—	4,301	—	5,519
Total	**416,544**	**797,412**	**165,704**	**593,282**
Movement in working capital	**—**	**380,868**	**—**	**427,578**

The reconciliation between consolidated profit and net funds generated from operating activities is as follows:

	2004	**2003**
Results for the year	**689,761**	**612,481**
Increases:		
Depreciation and amortisation and application of Deferred expenses	445,378	390,964
Exchange losses	2,591	—
Provision for liabilities and charges	42,802	35,834
Companies consolidated by the equity method (Dividends)	25,576	28,414
Amortisation of consolidation goodwill	17,841	5,253
Set up/reversal of deferred tax assets and liabilities	48,116	8,702
Decreases:		
Profit on sale of fixed assets	(156,150)	(52,099)
Grants and other deferred income released to profit and loss	(33,622)	(19,425)
Exchange gains	—	(33,116)
Provisions for liabilities and charges	(17,398)	(59,137)
Companies consolidated by equity accounting	(57,968)	(61,088)
Other adjustments	(3,366)	—
Total	**1,003,561**	**856,783**

Appendix – Main Group companies

Company	Country	Activity
Sagane, S.A.	Spain	Gas supply
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
A.I.E. Ciudad Sanitaria Vall d'Hebrón	Spain	Cogeneration
La Energía, S.A.	Spain	Cogeneration
Sociedad de Tratamiento Hornillos, S.L.	Spain	Cogeneration
Sociedad de Tratamiento La Andaya, S.L.	Spain	Cogeneration
UTE La Energía-SPA	Spain	Cogeneration
AECS Hospital Trias i Pujol AIE	Spain	Cogeneration
AECS Hospital Bellvitge AIE	Spain	Cogeneration
Gas Natural Servicios SDG, S.A.	Spain	Comercializ. Gas, and electricity and energy management
Smedigas, S.r.L.	Italy	Gas distribution
Impianti Sicuri, S.r.L.	Italy	Gas distribution
Nettis Gas Plus, S.p.A.	Italy	Gas distribution
SCM Gas Plus, S.r.L.	Italy	Gas distribution
GEA, S.p.A.	Italy	Gas distribution
Congas, S.p.A.	Italy	Gas distribution
Gas Natural Commercialisation France, S.p.a.S.	France	Gas distribution
Gas Natural Vendita Italy, S.p.A.	Italy	Gas distribution
Natural Energy, S.A.	Argentina	Gas distribution
Gas Natural Comercializadora, S.A.	Spain	Gas distribution and industrial electricity
CH4 Energía, S.A de C.V.	Mexico	Transmission and gas distribution
Transnatural, S.R.L. de México, C.V.	Mexico	Transmission and gas distribution
Kromschroeder, S.A. (1)	Spain	Meters
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural La Coruña, S.A.	Spain	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Murcia SDG, S.A.	Spain	Gas distribution
Gas Natural Cantabria SDG, S.A.	Spain	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural de Álava, S.A.	Spain	Gas distribution
Gas Aragón, S.A. (1)	Spain	Gas distribution
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Gas distribution
CEG Rio, S.A.	Brazil	Gas distribution
Gas Natural São Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gases de Barrancabermeja, S.A. ESP	Colombia	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural BAN, S.A.	Argentina	Gas distribution
Gas Natural México, S.A. de C.V.	Mexico	Gas distribution
Comercializadora Metrogas, S.A. de C.V.	Mexico	Gas distribution
Smedigas, S.p.A.	Italy	Gas distribution
Nettis Gestioni, S.r.L.	Italy	Gas distribution
SCM, S.r.L.	Italy	Gas distribution
Gasdotti Azienda Siciliana, S.p.A.	Italy	Gas distribution
Agragas, S.p.A.	Italy	Gas distribution
Normanna Gas, S.p.A.	Italy	Gas distribution
Gas Natural Distribución Eléctrica, S.A.	Spain	Electricity distribution
Electra de Abusejo, S.L.	Spain	Electricity distribution

(1) Result corresponding to November 2004 and October 2004.

F.C. = Fully Consolidated; P.C. = Proportionally Consolidated; E.M. = Equity Method

Consolidation Method	% Shareholding Total	Shareholders' equity Capital	Reserves	Results	Interim Dividend
F.C.	100.0	94,800	16,931	87,969	(41,178)
F.C.	100.0	600	32,028	(4,982)	—
F.C.	81.3	1,707	266	(15)	—
F.C.	100.0	10,654	136	586	—
F.C.	80.0	1,247	3	1	—
P.C.	45.0	1,121	135	79	—
F.C.	60.0	1,260	—	75	—
P.C.	50.0	901	111	71	—
P.C.	50.0	841	(436)	(166)	—
F.C.	100.0	2,900	136	2,711	—
F.C.	100.0	100	285	(36)	—
F.C.	100.0	186	(40)	(22)	—
F.C.	100.0	2,600	183	949	—
F.C.	100.0	190	34	35	—
F.C.	100.0	120	605	710	—
F.C.	100.0	—	828	(167)	—
F.C.	100.0	37	—	—	—
F.C.	100.0	2,100	1,519	4,345	—
F.C.	49.9	32	(351)	1,274	—
F.C.	100.0	2,400	26,641	7,757	—
P.C.	43.4	647	(670)	564	—
P.C.	43.4	10,356	(10,002)	1,507	—
E.M.	42.5	657	10,901	(181)	—
F.C.	99.7	25,464	60,169	4,706	—
F.C.	100.0	12,414	30,717	8,980	—
F.C.	95.0	26,900	14,718	547	—
F.C.	62.0	32,647	3,518	1,389	—
F.C.	90.1	6,326	78,663	13,358	—
F.C.	56.4	2,300	(544)	15	—
F.C.	90.0	3,600	27,229	5,055	—
F.C.	87.5	2,700	8,915	2,753	—
F.C.	99.9	19,414	(2,031)	(196)	—
F.C.	90.4	3,160	27,914	3,644	—
F.C.	100.0	1,000	—	3	—
E.M.	10.0	10,349	10,286	4,150	(2,600)
E.M.	35.0	5,890	15,579	7,730	(3,920)
F.C.	54.2	147,744	(92,457)	32,448	(8,831)
F.C.	72.0	16,898	(4,253)	9,885	(4,931)
F.C.	100.0	346,371	(201,376)	(7,304)	—
F.C.	59.1	54,522	144,084	31,578	—
F.C.	32.2	1,331	4,240	155	—
F.C.	32.2	9,209	34,423	5,130	(4,156)
F.C.	45.8	1,131	3,070	1,748	—
F.C.	50.4	214,673	(164,675)	10,239	(13,391)
F.C.	86.8	487,074	(208,688)	19,370	—
F.C.	86.8	130,842	(76,898)	6,285	—
F.C.	100.0	620	19,280	537	—
F.C.	100.0	70	1,464	216	—
F.C.	100.0	801	(2,389)	7	—
F.C.	100.0	526	18,569	3,033	—
F.C.	100.0	103	35,234	497	—
F.C.	100.0	103	28,903	419	—
F.C.	100.0	151	(2)	(126)	—
F.C.	100.0	90	(16)	2	—

Appendix – Main Group companies

Company	Country	Activity
Distribución Eléctrica Navasfrias, S.L.	Spain	Electricity distribution
Portal Gas Natural, S.A.	Spain	e-Business
Gas Natural Finance, B.V.	Holland	Financiera
Gas Natural International, Ltd.	Ireland	Financiera
Ecoeléctrica L.P., Ltd.	Bermuda	Generation of electricity
Central Térmica la Torrecilla, S.A.	Spain	Generation of electricity
Corporación Éolica de Zaragoza, S.L.	Spain	Wind farm
Montouto 2000 S.A.	Spain	Wind farm
Exp.Eólicas Sierra Utrera, S.L.	Spain	Wind farm
Enervent, S.A. (1)	Spain	Wind farm
Burgalesa de Generación Eólica, S.A. (1)	Spain	Wind farm
Gas Natural Electricidad SDG, S.A.	Spain	Generation and distribution of electricity
Gas Natural do Brasil, S.A.	Brazil	Generation and distribution of electricity
UTE Dalkia-GN Servicios	Spain	Energy management
Iradia Climatización AIE	Spain	Energy management
Gas Natural Informática, S.A.	Spain	Information systems
Torre Marenostrum, S.L.	Spain	Real Estate Company
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Servicios
Natural Servicios, S.A.	Argentina	Servicios
Serviconfort Colombia, S.A.	Colombia	Servicios
Gas Natural Servicios, S.A. de C.V.	Mexico	Servicios
Sistemas Administración y Servicios, S.A. de C.V.	Mexico	Servicios
Energía y Confort Admón. de Personal, S.A. de C.V.	Mexico	Servicios
Administradora de Servicios Energía, S.A. de C.V.	Mexico	Servicios
Serviconfort Brasil, S.A.	Brazil	Servicios
Gas Natural Soluciones, S.L.	Spain	Servicios
Portal del instalador, S.A.	Spain	Servicios
Gas Natural Distribuzione Italia, S.p.A.	Italy	Investment company
Gas Fondiaria, S.p.A.	Italy	Investment company
Gas Natural Servizi e Logistica, S.p.A.	Italy	Investment company
Gas Natural Puerto Rico Inc.	Puerto Rico	Investment company
Gas Natural Corporación Eólica, S.L.	Spain	Investment company
SINIA XXI, S.A.	Spain	Investment company
La Propagadora del Gas, S.A.	Spain	Investment company
Holding Gas Natural, S.A.	Spain	Investment company
Gas Natural Internacional SDG, S.A.	Spain	Investment company
Invergas, S.A.	Argentina	Investment company
Gas Natural SDG Argentina, S.A.	Argentina	Investment company
Invergas Puerto Rico, S.A.	Spain	Investment company
Buenergía Gas & Power, Ltd	Cayman Is.	Investment company
Ecoeléctrica Holdings, Ltd.	Cayman Is.	Investment company
Ecoeléctrica, Ltd.	Cayman Is.	Investment company
Nettis Impianti, S.p.A.	Italy	Investment company and gas distribution
Desarrollo del Cable, S.A.	Spain	Telecommunications
Grupo Enagás	Spain	Gas transmission
Europe Maghreb Pipeline, Ltd. (EMPL)	UK	Gas transmission
Metragaz, S.A.	Morocco	Gas transmission
Gas Natural Transporte SDG, S.L.	Spain	Gas transmission

(1) Result corresponding to November 2004 and October 2004.

F.C. = Fully Consolidated; P.C. = Proportionally Consolidated; E.M. = Equity Method

Consolidation Method	% Shareholding Total	Shareholders' equity Capital	Reserves	Results	Interim Dividend
F.C.	100.0	—	—	—	—
F.C.	63.2	7,980	(810)	1.255	—
F.C.	100.0	20	2,098	397	—
F.C.	100.0	25,364	10,309	123	—
P.C.	47.5	63,237	(54,016)	47,380	(12,246)
P.C.	50.0	2,100	(2)	—	—
F.C.	65.6	2,524	74	314	—
P.C.	49.0	6,000	(1)	749	—
P.C.	50.0	2,704	2,574	1,223	—
E.M.	26.0	2,404	284	685	—
E.M.	20.0	1,503	(77)	135	—
F.C.	100.0	60	(19)	(335)	—
F.C.	100.0	587	(1,009)	(235)	—
P.C.	50.0	9	(253)	(32)	—
F.C.	100.0	307	68	31	—
F.C.	100.0	19,916	2,387	1,085	—
E.M.	45.0	5,333	15,791	(155)	—
F.C.	100.0	302	1,671	9	—
F.C.	79.3	2,314	(1,653)	229	—
F.C.	100.0	215	143	356	—
F.C.	86.8	6,340	(3,932)	407	—
F.C.	87.0	12	173	4	—
F.C.	87.0	7	54	16	—
F.C.	86.8	8	(323)	18	—
F.C.	100.0	1,673	(221)	109	—
F.C.	100.0	6,214	6,025	(4,005)	—
F.C.	47.4	1,286	(130)	50	—
F.C.	100.0	39,120	38,995	(241)	—
F.C.	100.0	120	6,028	(51)	—
F.C.	100.0	120	260	134	—
F.C.	100.0	462	(32)	(122)	—
F.C.	100.0	1,001	—	(66)	—
F.C.	100.0	6,000	(513)	172	—
F.C.	100.0	157	848	117	—
F.C.	100.0	301	164	(2)	—
F.C.	100.0	349,500	(77,518)	17,591	—
F.C.	72.0	48,872	60,696	(52)	—
F.C.	72.0	104,951	(23,406)	(24)	—
F.C.	100.0	60	(208)	(761)	—
F.C.	95.0	87	(70,650)	(2,457)	—
F.C.	47.5	63,237	(48)	12,293	(12,246)
P.C.	47.5	632	(44)	122	(122)
P.C.	100.0	3,120	27,164	(352)	—
F.C.	100.0	21,060	19,655	8,073	—
F.C.	26.1	358,101	532,103	158,126	(31,035)
E.M.	72.6	94	88,532	61,903	(47,617)
F.C.	72.3	3,441	858	876	—
F.C.	100.0	5	—	—	—

Directors' Report

Directors' report of the Gas Natural Group for the year ended 31 December 2004

Profits

In 2004 net consolidated profit totals euros 633,921 thousand, an increase of 11.5% when compared to last year.

Gross operating profit (Ebitda) for 2004 totals euros 1,362,523 thousand, 13.4% higher than last year.

2004 results have been boosted by the progressive contribution of the activities in America, due to the organic growth in the region and the full consolidation of the shareholdings in Brazil, and, unlike in 2003, the fact that the results in Puerto Rico represent a full year. The activity of gas distribution in Spain continues to represent a large percentage of the contribution to the Ebitda of the Group (53.2%) and has grown by 9.8% over last year.

These increases have offset the lower contribution from gas and electricity trading and transmission activity. Net operating profit (Ebit) has totalled euros 898,697 thousand, an increase of 12.5%, in line with the evolution of gross operating profit, for the reasons mentioned above.

Net financial income for 2004 totals euros 140,474 thousand, against euros 57,716 last year, due mainly to the different performance between the periods of the exchange differences in Argentina, and a higher net debt cost due to a higher debt volume and the interest expense on the finance lease of the LNG vessels.

Net debt at 31 December 2004 totals euros 2,573,566 thousand, which puts the debt ratio at 34.4% this year against 29.3% last year, as a result of the investments made during the year, and especially the investments in acquisitions of certain shareholdings in companies, as well as the incorporation of these companies in the Group consolidation scope and, accordingly, their net debt as well.

Investment and cash flow

Investments in 2004 have totalled euros 1,525,232 thousand, 65.8% self-financed.

The breakdown of investments by activity is as follows:

	2004
Intangible investments	65,001
Tangible investments	946,344
Financial investments	494,705
Others	19,182
	1,525,232

The growth in investments is due to the acquisitions in Italy and the increase in the shareholdings in Group companies in Brazil, which, together, represent 88.5% of the total figure. The remainder relates to the acquisition of shareholdings in wind farm companies and the acquisition of minority interests in gas distributors in Spain.

The tangible investments for the year have totalled euros 946,344, mainly as a result of the permanent development of activities to extend the gas distribution network and the Group's plans for combined cycle electricity production.

Of special note are the investment products in gas pipelines and antennae for the extension of the distribution network to specific municipalities.

The funds from operations have totalled euros 1,003,561 thousand, 17% higher than last year.

Physical Information

At 31 December 2004 the most relevant physical information is as follows:

The number of natural gas customers has been 9,564,986, 4,808,271 of which are in Spain, 4,505,146 in America, and the rest in Italy.

The number of kilometres of natural gas distribution total 95,155, 37,534 km in Spain and 54,120 km in America and 3,501 km in Italy.

Electrical energy produced this year totalled 7,272 GWh of which 5,802 GWh was produced in Spain and 1,470 GWh in America (Puerto Rico). The energy generated in Spain, measured in central bars, represents a degree of coverage over electricity sold by the Group of 119%.

The sales of natural gas this year have been as follows: through sales in Spain, 190,421 GWh (regulated and deregulated prices); wholesale sales 89,635 GWh, of which 53,602 GWh were in the Spanish market and 36,033 GWh in the international market; and for sales through international commercialisation, 101,924 GWh, 92,097 GWh in America and 9,827 GWh in Italy.

The sales of electricity in the deregulated Spanish market have totalled 4,457 GWh, an increase of 47.4% over last year.

Subsequent events

On 31 January 2005 the Official State Gazette published three Ministerial Orders updating the remuneration of regulated activities in the gas industry for 2005 and set down new tolls and levies and prices for the regulated market. The impact on the domestic level for the Gas Natural Group of these measures is as follows:

- The remuneration for distribution recognised in favour of Gas Natural SDG, S.A. for 2005 has totalled euros 996 million, which represents an increase of 7.4% on last year. This increase is due to the growth foreseen in activity for 2005, the CPI and IPRI forecast made by the regulator and the maintenance of the efficiency factors.

- The estimated remuneration to be received for the regulated supply in 2005 will be approximately 20% lower than 2004, due to the forecast that the shift of residential customers to the deregulated market will be greater than the influx of new regulated supply customers and to a greater recognition of the leakage identified in pressure under 4 bars, which will drop from 2% to 1%.

- The historical remuneration for secondary transport has been updated in accordance with 85% of the IPH, reaching euros 16.6 million.

Furthermore, Order ITC 102/2005 sets down a specific remuneration system for distribution for new municipalities with not enough profitability to make the project economically feasible.

On 1 February 2005 the General Directorate of Energy and Mining Policy adopted a Resolution that determines which projects begun in 2004 will enjoy a specific remuneration right. The Group's share totals euros 18,731 thousand of this amount. The specific remuneration will be made in a single payment to form part of the economic regime of the year following the start up year. For this purpose, the Company must submit to the General Directorate of Energy and Mining Policy a start up Certificate or a Certificate from the Regional Government of the municipality where the gas service has been initiated.

On 26 January 2005, the Company and Repsol YPF, S.A. entered into a "time charter" lease for a cryogenic vessel for the transport of liquefied natural gas with a storage capacity of 138,000 m^3. Delivery is expected at the end of 2007. According to this agreement there is a rental agreement for an initial term of 25 years as from delivery with the option to extend it for five years.

On 28 January 2005 the Board of Directors of Gas Natural SDG, S.A. appointed Mr. Rafael Villaseca as Chief Executive Officer, upon the proposal of Repsol YPF, S.A., and, at the same meeting, the Board also approved the appointment of Mr. Guzmán Solana and Mr. Nemesio Fernández-Cuesta as Board Members, upon the proposal of Repsol YPF, S.A., to replace Mr. José Ramón Blanco Balín and Mr. Miguel Ángel Remón, respectively, as well as the appointment of Mr. Carlos Kinder, as Board Member, upon the proposal of "la Caixa", to replace Mr. Fernando Ramírez , and of Mr. Miquel Valls as an independent Board Member, upon the joint proposal of "la Caixa" and Repsol YPF, S.A.

Expectations for the future

The natural gas market in Spain is moving towards de-regulation, with 1,270,000 customers in 2004, which is more than 80% of the market. The number of de-regulated customers in the electricity market now stands at 1,350,000, which is 34% of the market.

In order to meet the growing competition arising from the new environment, the Gas Natural Group bases its strategy on the following basic pillars:

- Being able to supply natural gas in Spain at a competitive price, with sufficient diversity of sources and the flexibility needed to arbitrate in the different markets. The Group also plans to have a part of equity gas, through participation in integrated liquefied natural gas programmes with access to gas reserves. As part of this strategy, Gas Natural SDG, S.A. has been awarded, together with Repsol YPF, S.A., the integrated exploration, production, liquefaction and commercialisation of the Gassi Touil gas reserves organised by Sonatrach in Algeria.

- Additionally, the privileged position of the Group as the leading operator of liquefied natural gas in the Atlantic together with the advantages of the recently extended Maghreb gas pipeline allows it to operate as a major agent that can arbitrate in the gas markets of Europe and America and in the generation of electricity in Spain.

- As for distribution in Spain in the coming fourth years, Gas Natural expects to increase its number of customers by 1.4 million, based on improved efficiency, intensification of consumer recruitment policies, development of new markets to take advantage of the regulatory advantages of the remuneration of access installations and the stability of the financial market, all of which is supported by a brand policy and guarantee of service that this represents for the Gas Natural Group.

- The Group has maintained its international presence and will continue looking for new investment opportunities in America and other countries with criteria based on sustainable development and suitable profitability. In America the strategic objective is to consolidate the presence of the Group in Argentina, Brazil, Colombia and Mexico by developing the current markets in order to have 5.9 million consumers by 2008. In Puerto Rico, where the Group has been present since 2003 after acquiring the share of Enron in Buenenergía Gas & Power, Ltd., it expects to develop the natural gas market on the island in the coming years by accessing domestic, commercial, industrial and electricity markets.

  The strategic goal in Europe is to consolidate the current presence of the Group in Italy, where it already has Gas Natural Vendita Italia, S.p.A., and where in 2004 it has acquired the Palermo, Nettis and Smedigas Groups. All of this is a point of departure for increasing the presence of the Group in the Italian natural gas distribution market, where it expects to have more than 700,000 consumers by the end of 2008. Furthermore, the Group is planning to build liquefied natural gas terminals to access the market and has filed two specific projects in Taranto and Trieste.

- The Group's penetration of the electricity market is based on the current deficit of electricity capacity in Spain, where the general consensus is to cover this deficit basically with combined cycle electricity plans using natural gas, the raw material in respect of which the Group finds itself well situated in order to obtain competitive prices and in the dual-sale strategy to consumers.

  Following this strategy, the Gas Natural Group set up the first plant of this type in Spain in March 2002 in San Roque (Cadiz) and another in June in Sant Adrià de Besòs (Barcelona), with a wattage of, 400 MW each. In the first quarter of 2005 the 800 MW plant began operations in Arrúbal (La Rioja) while construction of the Cartagena plant (Murcia) (1,200 MW) is expected to be running by the first quarter of 2006. Construction will soon begin on the construction of the Plana del Vent plant (800 MW) and permits are expected to be granted for other plants in order to reach the target of 4,800 MW by 2008. The Group is also expected to develop in the electricity commercialisation market until it reaches a share of 10% in 2008.

- The multi-service strategy which the Group has been applying is defined mainly by its wish to commercialise natural gas and electricity. The gas objective is to have the maximum number of high margin customers, while in electricity the idea is to combine commercialisation and own generation.

  Additionally, new products and services will continue to be developed for the Groups large number of consumers. Of special note in relation to these products and services are: home maintenance contracts, credit cards and home-owner's insurance. Other products and services are under study.

The Group's target in 2008 is to have two contracts for products and services per customer.

As a result of all the above, the Group is developing a global operator strategy of products and services together with a policy based on growth, quality and profitability, so that it will be able to reinforce its leadership in the industry and continue generating value for its customers and shareholders in the framework of full de-regulation of the industry and the convergence of energy markets. The investments to be made in the period 2004-2008 will surpass euros 8,800 million, for which a suitable profitability rate will be required.

As a result of this strategy and the profitability criteria required and expected for these investments, the Group will continue to grow in terms of net profit at an average annual rate of 10%.

The Group will continue its policy of encouraging the development of its employees through ongoing training plans and stimulating internal communication in order to permit the optimal development of their professional and human potential.

The Group maintains its commitment to contributing to the improvement of the environment. Amongst other policies and actions, it will continue its development of the Environmental Management System.

Technological innovation activity

Within the framework of the strategic objectives of the Gas Natural Group itself, technological innovation activities have centred on the development and application of technologies geared to the search for high efficiency energy solutions, the strengthening of applications based on the integration of natural gas and renewable energy and the development of new energy vectors such as hydrogen, all of which are designed to position the Gas Natural Group amongst the companies most committed to compliance with the Kyoto Protocol agreements.

Along these lines, the main actions undertaken by the Gas Natural Group in 2004 include the development of distributed electricity generation, through the installation of a mini-turbine in the Gas Natural building in Montigalà (Badalona). This installation was set up in mid-2004, and has been running continuously for more than 4,000 hours, supplying electricity to the building itself while covering, with the heat from the exhaust, all the heating needs of the building and the nearby Day Care Centre and Primary School "Planes i Casals".

On the other hand, in this same area, the Group has prepared a project in order to incorporate a distributed electricity generation system into its new head offices now under construction. The project is characterised by a distributed electricity generation system that will meet the energy needs not only of our building but also of the other public institutions located in the same area, with a building surface are of more than 300,000 m^2, including the Hospital del Mar and the New Biomedical Research Centre of Barcelona. Part of the installations will be located in the former Barceloneta gas factory.

Furthermore, in the field of integrated high efficiency energy solutions, of special note is the fact that we are working in conjunction with the Barcelona Energy Agency to recover the thermal energy which, in the form of cold, can be obtained by the regassification of liquefied natural gas at the Barcelona harbour.

In respect of renewable energy, in 2004 the Gas Natural Group made major efforts to introduce these technologies into its business portfolios. All of this has materialised in the acquisition of wind farms, the set up of photo-voltaic installations and the design and dissemination of solutions which, by responding to the concerns voiced by public bodies, allows for the integration of new hot water generating buildings using solar heating systems combined with natural gas. This solution can guarantee a lower level of greenhouse gas emissions.

Natural gas has also been positioning itself, following EU energy policy criteria, as a fuel for transport. Our country has serious difficulties in limiting its emissions of pollutants in this area, which represent more than one third of total emissions. Thus, new projects have been initiated to achieve a greater penetration of natural gas in the automobile industry, with the possible use of liquefied natural gas for long-haul transport fuel and natural gas plus hydrogen hybrid solutions, which will undoubtedly bear fruit in future years.

In order to foster this use, in 2004 the first semi-public plant was built to fuel light vehicles with natural gas. The company's own fleet will be fuelled at these installations as from the first quarter of next year.

The Gas Natural Group continues working on hydrogen as an energy solution in our country. On the other hand, the installation of reformed natural gas in the Madrid EMT merits special attention in this respect. This was begun in April 2003 and continues providing hydrogen to four buses equipped with fuel cells which, on an experimental basis, and under the auspices of the European demonstration program, are currently in use in Madrid, and, on the other hand, the agreement signed at the end of 2004 with the Regional Government of Galicia to product hydrogen at a wind farm during non peak hours and use it to generate electricity in peak hours, thus creating an optimal electricity generation cycle that is totally sustainable.

From the point of view of the development of new products to facilitate the use of natural gas, we are working on new cooking equipment that will have the same features as electric vitro-ceramics, but which have other advantages, such as: lower consumption of primary energy and consequently lower emissions levels, as well as the possibility of cooking apart from the electricity supply, maintaining, at the same time, the indoor air quality of the dwelling by directly expelling the combustion gasses out of doors.

In the gas transmission and distribution area we continue to work on the introduction of new materials to improve the safety standards and service quality at competitive prices, which are necessary in the current competitive environment.

Finally, the Gas Natural Group has participated in different technical and scientific dissemination activities both in business and teaching forums, amongst which of special note are the 4th International Seminar on Climate Change, the Spanish Association of Managers, the Universities of the Basque Country, Menéndez Pelayo and the Spanish Energy Club.

Own shares

At 31 December 2004 none of the companies that make up the Gas Natural Group holds own shares.

Consolidated Data 2000 - 2004

Operating statistics

	2000	2001	2002	2003	2004
Gas sales (GWh)	**262,079**	**276,327**	**312,387**	**352,705**	**381,980**
Spain	193,542	206,953	218,784	236,500	244,023
Regulated gas sales	158,325	111,216	88,693	63,437	51,449
Liberalized gas sales	12,999	65,428	84,521	111,155	138,972
Wholesales	22,218	30,309	45,570	61,908	53,602
International	68,537	69,374	93,603	116,205	137,957
Americas	61,420	66,750	77,506	83,140	92,097
Italy	—	—	171	3,136	9,827
Wholesales	7,117	2,624	15,926	29,929	36,033
Gas transportation/TPA (GWh)	**69,155**	**90,159**	**126,819**	**148,739**	**167,156**
Spain[1]	—	15,422	45,298	62,377	75,616
Portugal	22,741	25,963	30,723	28,568	28,251
Italy	—	—	—	—	40
Americas	46,414	48,774	50,798	57,794	63,249
Gas distribution network (km)	**68,338**	**73,895**	**79,574**	**85,905**	**95,155**
Spain	26,259	28,829	31,648	34,701	37,534
Americas	42,079	45,066	47,926	51,204	54,120
Italy	—	—	—	—	3,501
Change in gas customers, in thousands	**679**	**548**	**567**	**625**	**620**
Spain	330	301	287	308	326
Americas	349	247	280	317	280
Italy	—	—	—	—	14
Gas customers, in thousands (as at 31/12)	**6,990**	**7,538**	**8,082**	**8,707**	**9,565**
Spain	3,609	3,910	4,174	4,482	4,808
Americas	3,381	3,628	3,908	4,225	4,505
Italy	—	—	—	—	252
Contracts per customers in Spain (as at 31/12)	**1.0**	**1.1**	**1.2**	**1.3**	**1.4**
Employees (as at 31/12)[1]	**5,916**	**6,154**	**6,040**	**6,150**	**6,697**
Electricity sales in Spain (GWh)	**—**	**809**	**2,571**	**3,023**	**4,457**
Electricity generated (GWh)	**—**	**—**	**2,075**	**4,324**	**7,272**
Spain	—	—	2,075	4,042	5,802
Americas	—	—	—	282	1,470

[1] In order to ensure a proper comparison, the figures for Enagás have not been included.

Financial statistics

Abbreviated consolidated balance sheet (in thousands of euros)

Assets	2000	2001	2002	2003	2004
Fixed assets	**7,798,805**	**7,888,464**	**6,107,401**	**7,021,199**	**7,977,796**
Start-up costs	7,422	10,205	7,603	5,796	7,262
Tangible and intangible fixed assets, gross	9,817,372	10,443,059	7,622,136	8,854,538	10,519,735
Accumulated depreciation and amortisation	(2,574,959)	(2,906,010)	(2,225,044)	(2,548,160)	(3,181,390)
Tangible and intangible fixed assets, net	7,242,413	7,537,049	5,397,092	6,306,378	7,388,345
Financial investments	548,970	341,210	702,706	709,025	632,189
Consolidation goodwill	**51,531**	**56,397**	**71,927**	**208,258**	**469,417**
Deferred expenses	**15,326**	**29,499**	**15,051**	**410,257**	**423,681**
Current assets	**1,869,460**	**2,085,826**	**2,615,127**	**2,368,868**	**2,465,948**
Total assets	**9,735,122**	**10,060,186**	**8,809,506**	**10,008,582**	**11,336,842**

Liabilities	2000	2001	2002	2003	2004
Shareholders' equity	**3,283,303**	**3,677,719**	**3,992,749**	**4,307,599**	**4,643,150**
Share capital	447,776	447,776	447,776	447,776	447,776
Reserves	2,391,796	2,721,765	2,815,230	3,386,519	3,682,353
Profit/(loss) attributed to the parent company	497,464	570,867	805,865	568,456	633,921
Interim dividend	(53,733)	(62,689)	(76,122)	(95,152)	(120,900)
Minority interest	**242,593**	**141,601**	**201,006**	**211,826**	**256,519**
Deferred income	**788,708**	**735,910**	**270,802**	**297,499**	**414,995**
Provisions for liabilities and charges	**276,826**	**207,180**	**276,360**	**230,963**	**265,160**
Long-term creditors	**3,282,139**	**2,522,742**	**2,142,018**	**2,848,721**	**3,087,333**
Short-term creditors	**1,861,553**	**2,775,034**	**1,926,571**	**2,111,974**	**2,669,685**
Total liabilities	**9,735,122**	**10,060,186**	**8,809,506**	**10,008,582**	**11,336,842**

For a proper comparison of the information between fiscal year, the liability side of the balance sheet has been modified on the enclosed balance sheet by the interim dividend approved for fiscal years prior to 2001.

Financial statistics

Abbreviated consolidated balance sheet (in thousands of euros)

	2000	2001	2002	2003	2004
Net turnover	4,891,571	5,530,640	5,267,889	5,628,043	6,265,848
Other income	113,327	117,773	87,936	84,766	125,221
Operating income	**5,004,898**	**5,648,413**	**5,355,825**	**5,712,809**	**6,391,069**
Cost of sales	2,896,529	3,361,224	3,239,341	3,771,091	4,227,696
Other operating expenses	496,250	527,743	504,748	512,351	554,856
Staff costs	251,734	275,565	245,757	227,706	245,994
Gross operating profit	**1,360,385**	**1,483,881**	**1,365,979**	**1,201,661**	**1,362,523**
Charge for depreciation and amortisation of fixed assets	404,223	450,715	424,680	380,246	442,695
Variation in trade provisions	33,765	14,537	34,572	22,383	21,131
Operating profit	**922,397**	**1,018,629**	**906,727**	**799,032**	**898,697**
Financial income	67,379	86,733	157,541	167,392	91,870
Financial expenses	261,837	373,495	365,372	225,108	232,344
Financial result	**(194,458)**	**(286,762)**	**(207,831)**	**(57,716)**	**(140,474)**
Share in profit of companies consolidated by the equity method	**12,074**	**8,614**	**31,399**	**61,088**	**57,968**
Goodwill amortisation	**763**	**3,204**	**84,344**	**5,253**	**17,841**
Profit from ordinary activities	**739,250**	**737,277**	**645,951**	**797,151**	**798,350**
Extraordinary profit/(loss)	**2,176**	**20,227**	**365,030**	**(7,138)**	**125,441**
Consolidated profit before tax	**741,426**	**757,504**	**1,010,981**	**790,013**	**923,791**
Corporate income tax	208,683	196,669	212,897	177,532	234,030
Consolidated profit for the year	**532,743**	**560,835**	**798,084**	**612,481**	**689,761**
Profit/(loss) attributed to minority interests	35,279	(10,032)	(7,781)	44,025	55,840
Net profit for the year attributable to the parent company	**497,464**	**570,867**	**805,865**	**568,456**	**633,921**

Abbreviated consolidated statement of source and application of funds

(in thousands of euros)

Sources	2000	2001	2002	2003	2004
Net funds generated from operating activities	928,594	1,003,758	909,450	856,783	1,003,561
Other sources	28,602	7,389	318	—	1,180
Deferred income	99,119	48,950	80,150	55,295	63,768
Long-term debts	818,482	59,893	196,186	388,151	532,490
Sale of fixed assets	21,823	99,703	1,120,702	109,516	309,994
Early redemption of investments or transfer to short-term	(1,322)	231,155	(18,960)	3,501	4,125
Total sources	**1,895,298**	**1,450,848**	**2,287,846**	**1,413,246**	**1,915,118**
Excess of applications over sources (Decrease in working capital)	**374,268**	**671,165**	**—**	**427,578**	**380,868**

Applications	2000	2001	2002	2003	2004
Start-up and deferred expenses	10,764	23,992	6,059	7,828	19,182
Acquisition of fixed assets	1,715,205	987,865	1,060,941	1,353,425	1,506,050
Dividends	133,004	166,787	158,297	206,488	296,008
Cancellation or transfer to short-term of long-term debts	351,171	911,257	545,791	251,353	453,890
Cancellation or transfer to short-term of deferred income	—	658	2,126	—	1,474
Provisions for liabilities and charges	59,422	31,454	13,261	21,730	19,382
Total applications	**2,269,566**	**2,122,013**	**1,786,475**	**1,840,824**	**2,295,986**
Excess of sources over applications (Increase in working capital)	**—**	**—**	**501,371**	**—**	**—**

Stock Statistics

	2000	2001	2002	2003	2004
Number of shares traded (millions)	182.1	180.4	476.8	345.0	258.9
Funds traded (thousands of euros)	3,589,244	3,453,138	9,148,038	5,946,824	5,169,724
Last quoted price (euros)	19.40	18.70	18.07	18.55	22.76
Maximum (euros)	23.40	21.40	22.87	19.85	22.99
Minimum (euros)	17.06	16.60	15.37	14.92	18.18
Book value per share (euros)	7.45	8.21	8.92	9.62	10.37
Cash flow per share (euros)	2.07	2.24	2.03	1.91	2.24
Net profit per share (euros)	1.11	1.27	1.80	1.27	1.42
Dividend per share (euros)	0.28	0.33	0.40	0.60	0.71
Quoted price-book value ratio	2.6	2.3	2.0	1.9	2.2
Quoted price-cash flow ratio	9.4	8.3	8.9	9.7	10.2
Quoted price-profit ratio	17.5	14.7	10.0	14.6	16.1
Dividend-profit ratio (%)	25.2	26.0	22.2	47.3	50.2
Dividend-quoted price ratio (%)	1.4	1.8	2.2	3.2	3.1
Share capital (number of shares as at 31/12)	447,776,028	447,776,028	447,776,028	447,776,028	447,776,028
Stock market capitalization (thousands of euros)	8,686,855	8,373,412	8,091,313	8,306,245	10,191,382

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