

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

DIRECTORS' REPORT OF THE ENAGÁS GROUP

I.- Group performance in 2015

The net profit of the Enagás Group at the end of the 2015 financial year was 412,662 thousand euros, representing a 1.5% increase against the same period last year.

The net turnover value is 1,196,366 thousand euros on 31 December 2015.

The investments of the Enagás Group in the 2015 financial year amount to 530 million euros, of which 206 million were put into domestic investments, largely on the purchase of groups such as Gascan, BBG and Saggas. The remaining 61% of the investments, 324 million euros, was spent internationally and chiefly on buying shares in the company Knubbsäl Topholding AB and increasing the stake in TgP (see point 2 on major investments).

The share capital of Enagás, S.A. amounted to 358,101 thousand euros, represented by 238,734,260 shares, each with a nominal value of 1.50 euros and all of the same class. The Parent's shares are fully paid up and traded on the Spanish stock exchange, including the electronic trading platform (the continuous market).

The Enagás Group carries out its business activities primarily in Spain, where it develops and operates virtually all its facilities. The Group leveraged its extensive track record developing and operating regasification plants and transport networks around the world to make a number of international business investments in 2015.

In respect of operations in Spain, throughout 2015 the Group fully maintained its basic natural gas regasification and storage facilities and it increased the natural gas basic transport network, servicing demand at all times.

The domestic demand for natural gas rose to 315 TWh in 2015, 4.5% higher than the figure reached in 2014, the biggest increase since 2008.

The increase is mainly down to the higher consumption of gas used in generating electricity and for household consumption.

Specifically, the demand for electrical generation has grown by 18.2% compared against 2014, largely due to a lower hydraulic generation in 2015, the increase in the electrical demand and the greater activity of combined cycles during the summer months, owing to the heat waves recorded.

In addition, the typical demand increased by 1.7% on account of the lower temperatures reached in the first quarter of 2015, the increase in the number of household customers and renewed industrial activity.

On 19 December 2014, Order IET/2445/2014 was published in the Spanish Official State Gazette. This Order establishes the tolls and fees for third-party access to gas facilities and the remuneration of the regulated activities, establishing the fixed assets entitled to remuneration at each company in relation to their transport, regasification, storage and distribution activities, as well as the parameters for calculating the related variable remuneration.

Subsequently, the previous order was amended by Order IET/389/2015 of 5 March 2015, which updates the automatic calculation of maximum prices for the sale of bottled liquefied petroleum gases, before tax, and modifies the automatic calculation of sale prices, before, of liquefied petroleum gases for piping.

In terms of CO₂ emissions, Enagás has reduced its carbon footprint by more than 45% compared with 2014. The Energy Efficiency Plan contains measure that in 2015 have made it possible to prevent the emission of around 44,000 t CO₂ into the atmosphere, largely through lower internal consumption of natural gas in the operating of regasification plants below the technical minimum and ship-loading.

Additionally, the programme for reducing methane emissions in the transport network has made it possible to prevent the emission of 84.4 tonnes of methane per year.

In 2015, the Group continued to expand and enhance its regasification, transport and storage facilities to bring them into line with demand forecasts.

In this respect, the following significant actions carried out were:

- Reduced internal consumption at the Huelva plant.
- Emission below the technical minimum at the Cartagena Plant.
- Gaviota drilling tower and wells.
- Refurbishment of the dock at the Barcelona Plant.
- Power generation at the Barcelona plant.
- Euskadour compression station.
- Revamping of the dock facilities at the Barcelona Plant.

Overall, as of 31 December 2015, the Enagás Group's gas infrastructure comprising the basic natural gas network consisted of the following:

- Almost 10,314 kilometres of gas pipelines throughout Spain.
- Three underground storage facilities: Serrablo (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya).
- Four regasification plants in Cartagena, Huelva, Barcelona and Gijón.
- The Group additionally owns 50% of the BBG Regasification Plant (Bilbao), 40% of the Altamira Plant (Mexico) and 20.4% of the Bahía de Quintero Plant (Chile), and indirectly 30% of the Sagunto Regasification Plant (Valencia).
- Since March 2014, the Enagás Group owns 20% of the company Transportadora de gas del Perú, whose assets make up the Natural Gas Transportation Pipeline System between Camisea and Lurín and the Liquefied Natural Gas Transport pipeline between Camisea and Costa. It is worth noting that from July 2015 the Enagás Group increased its shares in that company by 4.34%, bring its total stake up 24.34%.
- In addition, it should be noted that the Enagás Group has a 30% holding in COGA, the company responsible for operating and maintaining the gas transport infrastructure in Peru.
- From 15 April 2015, the Enagás Group hold 50% of Knubbsäl Topholding AB, indirect holder of 100% of Swedegas AB, holding company of the entire network of the high-pressure gas system in Sweden and sole operator in Sweden with European TSO (Transmission System Operator) certification.

II. Main business risks

The Enagás Group is exposed to various risks intrinsic to the sector, markets in which it operates and the activities it performs, which, should they materialise, could prevent it from achieving its objectives and executing its strategies successfully.

The Enagás Group has established a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model is based on the following features:

- establishing a context of appetite for risk that is consistent with the established business goals and the market context in which the company is developing its activities;
- the consideration of some standard types of risk that the company is subject to;
- the segregation and independence of the risk management and control functions brought together in the company on three levels of defence;
- the existence of certain governing bodies with responsibilities for supervising the level of risk in the company;
- transparency in the information provided to third parties, guaranteeing its reliability and rigour.

The integral analysis of all risk permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

The main risks associated with the Group's business activities are classified as follows:

1. Strategic and Business Risks

These are risks which are inherent to the gas sector and are linked to potential losses of value or results derived from external factors, strategic uncertainties, economic cycles, changes to the environment, changes to patterns of demand, competition and market structure or changes to the regulatory framework, as well as those derived from taking the incorrect decisions in relation to business plans and company strategies.

The activities carried out by the Enagás Group are notably affected by legislation (local, regional, national and supranational). Any change in that legislation could negatively affect profits and the value of the company. Within this type of risk, regulatory risk is of special relevance, and is associated with the remuneration framework and, therefore, the regulated income from business activities.

Similarly, the new developments of infrastructures are subject to obtaining licences, permits and authorisation from governments, as well as legislation of various types, notably environmental regulations. These long-term and complex processes may give rise to delays or modifications to the designs initially projected due to: i) obtaining authorisation, ii) the processes relating to environmental impact studies, iii) public opposition in the affected communities, and iv) changes in the political environment in the countries in which it operates. All of these risks may increase costs or delay projected income.

The growth in demand may also bring negative effects that will have a different impact in the short and medium-to-long term.

In the short term, the variation in the demand for transport, regasification and underground storage of natural gas in Spain has a direct impact on a component of the regulated remuneration received by these activities. The degree to which regasification plants are used may have a negative impact on the forecasted operating costs, through greater internal consumption and greenhouse gas emissions.

In the medium-to-long term, the increase in the demand is a factor that creates opportunities for building new projects in transport, regasification and underground storage infrastructure for natural gas and its development may alter or delay decisions taken in dealing with these projects.

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The results of the company may also be affected by the legal risk arising from the uncertainties related with the different interpretation of contracts, laws or regulations which the company and third parties may have, as well as the results of any law suits undertaken.

The internalisation process that Enagás Group is undertaking means that its operations are being developed in specific regulatory frameworks and contexts of different investment needs, which have specific risks associated with them.

This context includes risks resulting economic or political crises that affect the operations of subsidiaries, the expropriation of assets, changes in commercial, tax, accounting or employment legislation, restrictions applied to the movement of capital, etc.

Major infrastructure projects are being undertaken, which are exposed to various risks of construction, for example deviations in completion deadlines or changes to plans and designs, with potential negative impact on the planned investment, penalties, etc.

Certain internal regulatory frameworks mean that subsidiaries assume a commercial risk and their short-term revenue is affected by the increase in the demand, competitiveness of natural gas compared with other sources of energy or the negotiation of tariffs with industrial clients.

The Enagás Group has implemented measures to control and manage its strategic and business risk within acceptable risk levels. To this end, it continually monitors risks relating to regulation, the market, the competition, business plans, strategic decisions, etc., and the management measures for keeping them at acceptable levels.

2. Operational and Technological Risks

During the performance of the activities carried out by Enagás Group there may be direct or indirect losses of value caused by inadequate processes, failure of physical equipment and computer systems, human resource errors or those deriving from certain external factors.

The main operational and technological risks that the Enagás Group is exposed to are those related with incidents and/or the unavailability of its infrastructure, teams and systems, which have negative economic effects due to repair costs or higher investment. Some of the regulatory frameworks in which the group operates also establish penalties in the event of the prolonged unavailability of the infrastructure.

Each year, the Enagás Group identifies the control and management activities that allow it to adequately and appropriately respond to those risks. The control activities that have been defined include employee training, the application of certain internal policies and procedures, maintenance plans and the definition of quality indicators, the establishment of limits and authorisations, and quality, prevention and environmental certificates, etc., that allow the likelihood of the occurrence of these risk events to be minimised.

To mitigate the negative economic impact that the materialization of some of these risks could have on the Enagás Group, a series of insurance policies have been obtained.

Some of these risks could affect the reliability of the financial information prepared and reported by the Enagás Group. To control these types of risks, an Internal Control over Financial Reporting System (ICFRS) has been established, the details of which may be consulted in the Corporate Governance Report.

3. Credit and Counterparty Risks

Credit risk consists of the possible losses arising from a failure to pay the financial or quantifiable obligations owed by a counterparty to which the Enagás Group has extended net credit and is pending settlement or collection. The counterparty risk includes the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.

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The Enagás Group monitors in detail this type of risk for its commercial activity, which is particularly relevant in the current economic context.

The activities carried out include analysing the risk level and monitoring the credit quality of counterparties, regulatory proposals to compensate the Group for any possible failure to comply with payment obligations on the part of marketers (an activity that takes place in a regulated environment), the request for guarantees or guaranteed payment schedules in the long-term agreements reached with respect to the international activity, etc.

The measures for managing credit risk involving financial assets include the placement of cash at highly-solvent entities, based on the credit ratings provided by the agencies with the highest international prestige. Interest rate and exchange rate derivatives are contracted with financial entities with the same credit profile.

The regulated nature of Enagás Group business activity does not allow an active customer concentration risk management policy to be established. However, the internalisation process that the Company is carrying out will facilitate the reduction of this potential risk.

Information concerning credit and counterparty risk management is disclosed in Note 17 to the consolidated financial statements.

4. Financial Risks

The Enagás Group is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that accrued interest at fixed rates, and the future flows from assets and liabilities that accrue interest at floating rates. The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over a multi-year horizon with low volatility in the income statement. For this purpose, hedges are put in place using derivatives and at the moment the Enagás Group maintains its fixed or protected debt structure of over 70%.

Foreign currency risk relates to debt transactions denominated in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of converting the financial statements of those companies whose currency is not the euro during the consolidation process. Exchange rate risk management at the Enagás Group pursues a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the companies. The possibility of arranging exchange rate derivatives to cover the volatility affecting the collection of dividends is also analysed at each opportunity for international expansion.

The Enagás Group maintains a liquidity policy that is consistent in terms of contracting credit facilities that are unconditionally available and temporary financial investments in an amount sufficient to cover the projected needs over a given period of time.

The financial risk management policy is set out in Note 18 to the consolidated financial statements.

5. Reputational Risks

Reputational risk refers to any action, event or circumstance that could have either a harmful or beneficial effect on the company's reputation among its stakeholders.

The Group has implemented a reputational risk self-assessment procedure which uses qualitative measurement techniques. This process considers the potential reputational impact of any of the risks listed in the current inventory as a result of strictly reputational events arising from the action, interest or opinion of a third party.

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6. Compliance Risk and Model

The Enagás Group is exposed to the compliance risk, which includes the cost associated with potential penalties for breach of laws and legislation, or penalties resulting from the materialisation of operational events (environmental damage, damage to third parties, filtration of confidential information, health, hygiene and workplace security, etc.). In addition, the use of improper business practices (infringement of competition laws, independence of functions, etc.) or the breach of internal company policies and procedures.

Also, the Group may be affected by risks associated with the improper use of assessment models and/or risk measurement, and hypotheses that are outdated or do not have the necessary precisions to be able to correctly evaluate their results.

7. Criminal Liability Risks

The amendments made to Article 31 bis of the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this regard, the Enagás Group could be held liable in Spain for certain crimes committed by its directors, officers and staff in the course of their work and in the interest of the Company.

To prevent this risk from materialising, the Enagás Group has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the Company.

As a result of the international development of the company, the Crime Prevention Model is being expanded for the purpose of meeting the requirements of Mexican criminal legislation and US anti-corruption legislation.

III. Use of financial instruments

In February 2008, the Enagás Group Board of Directors approved an interest rate hedging policy devised to align the Group's financial cost with the target rate structure set under its Strategic Plan.

In compliance with this policy, the Group entered into a series of interest rate hedges in the course of 2015. As a result, 82% of total gross debt was hedged against interest rate increases at 31 December 2015.

IV. Outlook

The natural gas market is mature. The Spanish gas sector is dependent on the stream of regulations emanating from the European Union. The Enagás Group, which generates most of its revenue from the regulated business in Spain, is committed to Europe's new energy policy objectives. To this end, it is working intensively to help make sure that these regulatory developments prove as effective as possible, factoring in the characteristics of the internal market, and that they are properly integrated into the Spanish framework.

Net profit in 2016 is expected to increase by 0.5% compared with 2015.

The Enagás Group is considering making investments in 2016 of around 465 million euros, 70% of which are expected to go towards new international acquisitions and 30% towards regulated assets in Spain.

V. Research and development

In 2015 the activities carried out by the Company, with regard to technological innovation, focused on the study, analysis and, where applicable, application of new gas technologies in order to increase and improve the efficiency and security of operations and the competitiveness of the activities carried out, concentrating its technological efforts on projects with strategic value for the Company.

The most significant activities carried out by area in 2015 were:

- a) **Production (LNG).** The contribution to the newly revised LNG Custody Transfer Handbook has been finalised with the preparation and validation of the procedure to determine the energy transferred in a load, according to the alternative method proposed (mass balance). CFD studies for flaring at the Cartagena Plant and flaring and venting at the Barcelona Plant: Corrections made subject to the results of the hydrodynamic analysis. Completion of a sensitivity analysis on the operating parameters of a recondenser to determine whether there was a need to acquire the ROMEO tool. Launch of the project to develop an internal tool (Julieta) for optimising the recondenser. Contribution to the preparation of the Retail LNG Handbook published in 2015. Revision of the state of the technology for LNG fiscal measurement in small-scale applications and launch of a pilot test to compare measurements with Coriolis meters against the static measurement in tank loaders at the Barcelona Plant.
- b) **Transport.** The Company completed its part in a European project to adopt a common position on the quantitative evaluation of gas leaks in gas transport systems. It also took part in European studies into the development of Power to Gas technology, evaluating the operating and financial repercussions that could result from injecting small amounts of hydrogen into the natural gas network. A Spanish project also commenced to design natural gas production plants based on hydrogen produced electrolytically using the excess from renewable energies and the CO₂ content of biogas.
- c) **Storage.** The use of equipment for flow measurement for multiphase flows in the exit chamber of underground wells and a pilot project has been launched.
- d) **Operation.** The SPOL tool (Logistics Optimisation and Planning System) has been adapted to the new regulatory changes introduced in 2015 and to the new infrastructure regulatory framework. Finally, the Company continued with the development of a model to determine gas quality through simulation (NGQT), having established in collaboration with the Spanish Centre for Meteorology the technical requirements for obtaining certification for the system.
- e) **Safety.** Various projects and studies have been developed in relation to the analysis of risks involving gas pipelines and Enagás facilities. Specifically, all compressor stations, pipelines and positions belonging to two autonomous communities. The Group has also continued to participate in the development of important international databases.
- f) **Measurement.** Work continued to improve the measurement of sulphur compounds, dew points and hydrocarbon levels in natural gas, implementing a methodology for the contrast of measurements taken in the laboratory as well as in the field. A model is being developed to estimate the uncertainty of measuring energy in the transport network in order to improve the limitations on local and global calculation of the uncertainty and its integration as part of the measurement system.
- g) **Projects of general interest.** The Group has continued to develop a project that will cover all of the Group's facilities and is intended to boost energy efficiency both from the standpoint of optimising consumption and producing electricity from residual energy from the process: pressure, heat and cold. Various comparisons and proofs have been conducted on the evolution of the VUM software, which is a tool used in the metrology verification procedures at measuring stations.
- h) **Other matters.** The Group has also collaborated with various regulatory preparation groups relating to gas and biomethane quality, in accordance with the M400 and M475 mandates of the European Union, and the measurement of natural gas. Analysis and preparation of a report to be send to MINETUR on the impact of narrowing the range of the Wobbe Index in Spain Study of the variation in the main quality parameters in the RBG, meeting the needs of the Pilot Study to harmonise the Wobbe Index launched by MARCOGAZ and EASEE-gas.

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VI. Transactions with treasury shares

The Group did not carry out any transactions involving treasury shares during the 2015.

VII - Additional information

This additional disclosure is included to comply with article 116.bis of Securities Market Law 24/1988, of 28 July.

a) Capital structure, including securities which are not admitted to trading on a regulated market in a member state, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching thereto and the percentage of total share capital represented

Capital structure of the parent company:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
05-03-02	358,101,390	238,734,260	238,734,260

All the shares are of the same class.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Significant direct and indirect shareholdings

Significant shareholdings (excluding directors):

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
BANK OF AMERICA CORPORATION	-	8,627,588	3.614
RETAILS OEICS AGGREGATE	-	2,410,274	1.01

Significant shareholdings of directors holding voting shares in the company:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Mr. ANTONIO LLARDÉN CARRATALÁ	56,396	-	0.024
Mr. MARCELINO OREJA ARBURÚA	1,260	-	0.001
SOLANA GONZALEZ, GONZALO (1)	440	550 ⁽¹⁾	0.000
Mr. LUIS JAVIER NAVARRO VIGIL (2)	1,405	7,075 ⁽²⁾	0.004
Mr. MARTÍ PARELLADA SABATA	910	-	0.000
Mr. RAMÓN PÉREZ SIMARRO	100	-	0.000
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	-	5.000
TOTAL	11,997,224	7,625	5.029

¹ Through Investigación y Desarrollo de Estudios Aplicados, S.L., 50% owned with his wife.

² Through Newcomer.

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(1) through:

Name or corporate name of shareholder	Number of direct voting rights	% of total voting rights
Investigación y Desarrollo de Estudios Aplicados, S.L.	550	0.000

(2) through:

Name or corporate name of shareholder	Number of direct voting rights	% of total voting rights
NEWCOMER 2000, S.L.U.	7,075	0,003

d) Any restrictions on voting rights

Article 6 bis ('Restrictions on shareholdings and the exercise of voting rights') of the bylaws was amended at the Extraordinary Shareholders' Meeting held on 31 October 2007 to bring it in line with the provisions of Law 12/2007 of 2 July.

Law 12/2007 of 2 July, amending Hydrocarbon Law 34/1998, of 7 October, in order to bring it into line with the provisions of Directive 2003/55/EC of the European Parliament and of the Council, of 26 June 2003 concerning common rules for the internal market in natural gas, provides a new wording for Additional Provision Twenty of Law 34/1998, which vests in Enagás, S.A. the role of technical system operator and sets ceilings on shareholdings in the Company. The wording of this additional provision now stands as follows:

"Additional Provision Twenty. Technical system operator.

ENAGAS, Sociedad Anónima shall undertake the duties, rights and obligations of technical system operator. (...)

No natural person or corporate body may hold, directly or indirectly, more than 5% of the share capital of the company acting as technical system manager, or exercise more than 3% of the company's voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system manager above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.

For the purposes of calculating the interest in the shareholding structure, the same individual or body corporate will be attributed, in addition to the shares and other securities held or acquired by companies belonging to its group, as defined in article 4 of the Law 24/1988, of 28 July, regarding securities markets, those whose ownership corresponds to:

a) Any person acting on his own behalf but on account of the aforesaid, in concert or constituting a decision-making unit. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.

b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Law 24/1988.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Law, and liability shall attach to any natural

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person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. In any event, the regime of penalties laid down in the law shall be applied."

Accordingly, Transitional Provision Six of Law 12/2007, of 2 July, stipulates that during the four months prior to the entry into force of the Law, Enagás, S.A. shall bring its bylaws in line with Additional Provision Twenty of Law 34/1998, of 7 October. Transitional Provision Two of Law 12/2007 of 2 July, further prescribes:

"Transitional Provision Two. Technical system operator.

The voting rights that correspond to the shares or other securities held by those persons that have a shareholding in Enagás, S.A., exceeding the maximum percentages indicated in Additional Provision Twenty of Hydrocarbon Law 34/1998, shall be suspended as of the entry into force of this provision.

The Spanish energy regulator shall be entitled to bring all legal actions aimed at ensuring compliance with the limitations imposed by this provision."

In accordance with the aforementioned legal provision, article 6a ("Limitation on shareholdings and exercise of voting rights") of Enagás, S.A.'s bylaws sets forth the following:

"No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System Technical Manager of over 1%. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated.

In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.

For the purposes of computing holdings in the share capital of the company, additional provision 20 of the Hydrocarbons Law 34/1998 of 7 October shall apply".

e) *Agreements between shareholders*

There is no record of any agreements among the Company's shareholders.

f) *The rules governing the appointment and replacement of board members and the amendment of the articles of association*

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35. – COMPOSITION OF THE BOARD.

The Company shall be governed and managed by the Board of Directors, which shall represent the Company collegiately, both in and out of court. Its representation shall extend, with no limitation of powers, to all acts embodied in the Company's objects.

The Board of Directors shall be composed of a minimum of six members and a maximum of seventeen, appointed at the General Shareholders' Meeting.

Directors shall be elected by vote. For this purpose, the shares that are voluntarily pooled, to make a share capital that is equal to or greater than the result of dividing the latter by the number of Directors, shall be entitled to appoint a number of Directors equal to the integer number resulting from that proportion. If this power is exercised, the shares pooled in this way shall not take part in the voting for the appointment of the remaining Directors.

A director need not be a shareholder, may step down from office, may have his appointment revoked, and may be re-elected on one or more occasions.

Appointment as director shall take effect upon acceptance of the post.

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Persons who are subject to any of the situations referred to in article 124 of the revised Spanish Companies Law may not be appointed as directors.

ARTICLE 37.- POSTS.

The Board of Directors will appoint its Chairman and, where applicable, a Deputy Chairman, who shall act as Chairman when necessary. In lieu of a Deputy Chairman, the most senior director in age shall substitute the Chairman.

The Board of Directors will be responsible for appointing a Secretary, and may also appoint a Deputy Secretary, which shall act as Secretary when necessary, those that may not be directors. In lieu of a Deputy Secretary, the most senior director in age shall substitute the Secretary.

Provisions of the organisational and operational regulations of the Board of Directors (adopted by the Board of Directors on 29 March 2007):

ARTICLE 3.- QUANTITATIVE AND QUALITATIVE COMPOSITION.

1.- Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, and without prejudice to the powers of proposal enjoyed by shareholders, the Board of Directors shall submit to the General Meeting such Board membership size as it deems appropriate in the interests of the Company at the given time. The General Meeting shall decide on the final number.

2.- The Board of Directors shall be composed of Directors classified into the categories specified below:

- a) Internal or Executive Directors: directors who perform senior management functions or are employed by the company or its Group. If a director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of Directors may belong to this category.

- b) External Consultants: These directors shall in turn fall into three categories:
 - b1) Proprietary directors: directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.
 - b2) Independent Directors: Directors of acknowledged professional prestige who are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present Regulations. The number of independent directors shall represent at least one third of all directors.
 - b3) Other external directors: External directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of these Regulations.

In exercising its powers of co-option and proposal to the General Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, Independent Directors represent a broad majority over Executive Directors, and that among Non-Executive Directors the ratio of Proprietary to Independent Directors reflects the existing ratio of share capital represented by Proprietary Directors to all other capital.

ARTICLE 8 - APPOINTMENT OF DIRECTORS.

1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Companies Act and the company's Bylaws.

2.- In order to be considered for appointment, candidates must have a solid reputation and possess the professional know-how and experience required to discharge their duties, in addition to complying with all requirements associated with the post imposed by law and the bylaws.

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Proposals for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments and Remuneration Committee. When the Board of Directors departs from the Committee's recommendations, it must explain the reasons for this, and such reasons must be duly recorded in the minutes.

3.- Selection procedures must be free of any implied bias against women candidates. The Company shall make an effort to include women with the target profile among the candidates for Board positions.

ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS

Independent Directors are defined as those who, appointed based on their personal and professional aptitudes, may perform their duties without being affected by dealings with the Company, its significant shareholders or its executives. As such, the following shall in no circumstances qualify as independent directors:

- a) Persons who have been employed by, or served as Executive Directors of, Group companies, unless three or five years, respectively, have elapsed since the termination of that relationship.
- b) Persons who receive any sum or benefit other than Director's remuneration from the Company or its Group, unless such benefit is negligible. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the Company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.
- c) Persons who are, or have been during the past three years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for that period.
- d) Persons who are executive directors or senior managers of another company where an Executive Director or Senior Manager of Enagás, S.A. is a non-executive director.
- e) Persons who maintain, or have maintained in the past year, a significant business relationship with Enagás, S.A. or any other Group company, whether on their own behalf or as a significant shareholder, director or senior manager of any company that maintains or has maintained such relationship. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.
- f) Persons who are significant shareholders, executive directors or senior managers of any entity that receives, or have received during the past three years, significant donations from Enagás, S.A. or its Group. Mere sponsors of a foundation receiving donations are not included here.
- g) Spouses, partners or relatives up to the second degree of any of the Company's Executive Directors or senior managers.
- h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.
- i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Significant-Shareholder Appointed Directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the company.

A director with shares in the company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

ARTICLE 10.- TENURE AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting.

ARTICLE 11.- RE-APPOINTMENT OF DIRECTORS

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the directors proposed during the previous term of office, shall provide information required to assess proposal for re- appointment of directors presented by the Board of Directors to the General Shareholders' Meeting.

As a general rule, appropriate rotation of independent directors should be endeavoured. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified. Independent directors should not stay on as such for a continuous period of more than 12 years.

ARTICLE 12.- REMOVAL OF DIRECTORS.

1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with law, the company's bylaws and the present Regulations.

2.- Directors must place their office at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:

- a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.
- b) When they are in serious breach of their obligations as directors.
- c) When they may put the interests of the company at risk or harm its name and reputation. If a director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Companies Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.
- d) When the circumstances motivating their appointment as directors no longer exist.
- e) When Independent Directors no longer fulfil the criteria required under article 9.
- f) When the shareholder represented by a Significant-Shareholder Appointed Directors sells its entire interest. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

Should the Board of Directors not deem it advisable to have a Director tender his/her resignation in the cases specified under letters d), e) and f), the Director must be included in the category that, in accordance with these Rules and Regulations, is most appropriate based on his/her new circumstances.

3.- The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee.

4.- After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the Articles of Association:

ARTICLE 26. – SPECIAL QUORUM.

In order to enable the Ordinary or Extraordinary General Shareholders' Meeting to validly resolve to issue bonds, increase or reduce capital, transform, merge or spin-off the Company and, in general, to amend the bylaws in any

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way, it will be necessary, at first call, that the shareholders in attendance (either in person or represented) hold at least fifty per cent of the share capital with voting rights.

At second call, attendance of at least twenty-five percent of the paid up voting capital shall be sufficient.

g) *The powers of board members and in particular the power to issue or buy back shares*

The powers delegated to the Executive Chairman, Antonio Llardén Carratalá, by the company's Board of Directors, were granted in the public deed executed on 9 February 2007 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 324 in his notarial archive, and recorded in Volume 20,090, Book 0, File 172, Section 8; Sheet M-6113; Entry 668 of the Madrid Mercantile Register.

On 25 March 2014 the Board of Directors of Enagás, S.A. delegated to MARCELINO OREJA ARBURÚA the powers that the Board of Directors considered had to be delegated to the Chief Executive Officer within statutory limits, in accordance with article 43 of the Company's Articles of Association and article 19 of the Board Regulations. These powers were granted in the public deed executed on 28 May 2014 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 1,306 in his notarial archive, and recorded in Volume 32,018, Book 0, File 5, Section 8, Sheet M-6113, Entry 777 of the Madrid Mercantile Register.

Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the tenth resolution adopted at the General Shareholders' Meeting held on 11 May 2007 is currently in force. Its terms are:

"To grant the Board of Directors the broadest powers required by law to increase the Group's share capital, once or several times, within a maximum period of five years from the date of the Meeting, under the terms of article 153.b) of the Spanish Companies Law, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the Company bylaws regarding share capital. The Board of Directors was also empowered to cancel pre-emption rights, in full or in part, in accordance with article 159 of the Spanish Companies Law."

h) *Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.*

No agreements of this kind exist.

i) *Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.*

The Company has an agreement with the Executive Chairman, the Chief Executive Officer and eight of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute, or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute, provided the resolution is certified by means of conciliation between the parties, legal judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

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All such contracts have been approved by the Board of Directors.

VIII.- The average payment period to suppliers.

The Group's average payment period was 22 days.

IX.- Events after the balance sheet date

After the close of the period, on 2 February 2016, the Appointments and Remuneration Committee presented a Long-Term Bonus plan for 2016 to 2018 to the General Shareholders' Meeting, scheduled for 18 March 2016, for its approval. The proposed plan consists of an extraordinary, multi-year and mixed bonus, payable in cash and shares in the company, linked to the achievement of a strategic objectives, aligning the interests of the beneficiaries of the Plan with the achievement of value in the long-term for shareholders. The Plan may not exceed the delivery of as total of 307,643 shares.

In the case that the Bonus Plan is approved by the General Shareholders' Meeting, the basic characteristics of which shall be the object of development in its corresponding rules, which must also be approved by the Board of Directors.

Since 1 January 2016 and the date on which these Consolidated Annual Accounts were drawn up, no events have occurred that would significantly affect the profit (loss) of the Group or its equity.

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Enagás, S.A. and Subsidiaries

On 15 February 2016, the Board of Directors of Enagás, S.A. authorised the consolidated financial statements and management report for the year ended 31 December 2015, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce.

DECLARATION OF RESPONSIBILITY. For the purposes of article 8.1 b) of Spanish Royal Decree 1632/2007, of 19 October 2007, the undersigned directors state that, to the best of their knowledge, the annual consolidated financial statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the Group and that the Group's management report includes a fair analysis of the performance and results of the businesses and the situation of the Group, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the annual consolidated financial statements or management report.

Chairman

Mr. Antonio Llardén Carratalá

Chief Executive Officer

Mr. Marcelino Oreja Arburúa

Directors

Sociedad Estatal de Participaciones Industriales-SEPI
(Represented by Mr. Federico Ferrer Delso)

Mr. Antonio Hernández Mancha

Mr. Luis Javier Navarro Vigil

Ms. Ana Palacio Vallelersundi

Mr. Martí Parellada Sabata

Mr. Jesús Máximo Pedrosa Ortega

Mr. Ramón Perez Simarro

Ms. Rosa Rodríguez Díaz

Mr. Gonzalo Solana González

Ms. Isabel Tocino Biscarolasaga

Mr. Luis Valero Artola

Secretary to the Board

Mr. Rafael Piqueras Bautista