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 2014

Net profit rose 0.8% to 406,533 thousand euros compared with last year.

Revenue totalled 1,206,192 thousand euros.

The Enagás Group carries out its business operations primarily in Spain, where it develops and operates virtually all of its assets. In 2014, the Group leveraged its extensive track record developing and operating regasification plants and transmission networks around the world to make a number of international business investments and acquisitions in 2014.

In respect of operations in Spain, throughout 2014 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.

Total transmitted natural gas demand reached 397 TWh in 2014.

The total activity of the Spanish gas system (conventional, electrical, exports, tanker loads and transit to Portugal) totalled 393 TWh in 2014, 1.4% less than in 2013. This variance is fundamentally explained by the effect of temperatures, which were exceptionally high during the year and due to the decline in natural gas powered cogeneration. Taking into account the differences in temperature, demand would have increased by around 2% compared to 2013.

Demand for natural gas in transit in the system (exports, tanker loading and gas in transit to Portugal) increased by 40% in 2014. Specifically, loading of LNG tankers at regasification plants set a new record of 60TWh, up 89% compared with the previous year.

Investments in 2014 in property, plant and equipment and intangible assets amounted to 625 million euros, of which 147 million euros relate to regulated assets in Spain and 478 million euros relate to international investments.

On 31 December 2013, Order IET/2446/2013, of 27 December, 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.

The remuneration framework for these activities that was in force since 2002, based on the Oil and Gas Act 34/1998, of 7 October and subsequent published amendments, has largely been repealed after the entry into force of Royal Decree-Law 8/2014, of 4 July, ratified by Parliament and subsequently enacted as a law, and it was finally published as Law 18/2014.

There are therefore two regulatory periods in 2014. During the first period, the framework based on Law 34/1998 was applicable and was in force between 1 January until 4 July in accordance with Order IET/2446/2013 mentioned above, and during the second regulatory period, the remuneration established in Law 18/2014 was in force between 5 July until 31 December 2014.

Enagás reduced the CO2 emissions caused by its transport network and subterranean storage facilities by 11% and 29%, compared to 2013. The improvement of the energy efficiency of its facilities allows the ratio of self-consumption

to be improved by 27% compared to the gas loaded on tankers and by 34% with respect to the operating time below the technical minimum at the regasification plants.

The capital and reserves of the Enagás Group stood at 2,218,514 thousand euros at year end, while equity amounted to 2,260,316 thousand euros.

Share capital is represented by 238,734,260 fully paid ordinary bearer shares each with a par value of 1.50 euros.

At 31 December 2014, 81% of net debt was fixed-rate, while the average time to maturity of the debt at 31 December 2014 was 5.3 years.

In 2014, 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:

- Martorell – Figueres gas pipeline
- Gaviota drilling tower and wells
- Revamping of the dock at the Barcelona Plant.
- Power generation at the Barcelona plant.
- Third storage tank in the Bilbao plant.
- Expansion of position D-16 at the Llanera plant, plus a regulating valve.
- Regulating and metering stations at various points of the basic grid
- Expansion work at various points of the basic grid
- Expansion of the Llanera-Otero gas pipeline connection.
- Cushion gas for the Yela storage facility.

Overall, at the end of December 2014, 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 40% of the BBG regasification plant (Bilbao), 40% of the Altamira regasification plant (Mexico) and 20.4% of the Bahía de Quintero regasification plant (Chile)
- 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 should also be indicated that the Enagás Group also holds a 30% stake in COGA, the company responsible for operating and maintaining the gas transport infrastructure in Peru.

The following two events that took place in 2014 should be noted with respect to the development of new international projects:

- On 30 June 2014, the consortium formed by the Enagás Group and Odebrecht was the successful bidder for the South Peru Pipeline project which was put out to tender by the Government of Peru and Enagás holds 25% of the total project.

- In September 2014, the company acquired 16% of the shares in the Trans Adriatic Pipeline (TAP) project.

II.- Main business risks

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

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

1. Strategic and Business Risk

Business risk relates to losses caused by external factors such as regulation, economic growth patterns, competition levels, demand trends, structural industry factors, etc., as well as to potential losses resulting from incorrect decision-making in relation to the Company's business plans and 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 licenses, permits and authorization 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 authorization, 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 the Group operates. All of these risks may increase compliance expenses or delay projected income.

A part of the remuneration for natural gas regasification, transport and storage activities in Spain is affected by changes in the demand associated with each activity. Taking into account that Enagás' market shares are different in each activity there are risks associated with competition with respect to the various inflow sources of gas into the system (international connections or regasification plants). The degree to which regasification plants are used may have an impact on their operating costs.

Enagás' internationalization process means that its operations are exposed to the risks inherent to the investment, construction and operation of the assets in the various countries in which it operates. These risks include economic or political crises that affect operations, the expropriation of assets, changes in commercial, tax, accounting or employment legislation, restrictions applied to the movement of capital, etc.

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

2. Operational risk

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

Each year, the Enagás Group identifies the control and management activities that allow it to adequately and appropriately respond to these risks. The control activities that have been defined include our personnel training and capacities, the application of certain internal policies and procedures, maintenance plans and the definition of quality

indicators, the establishment of limits and authorizations, and quality, prevention and environmental certificates, etc., that allow the likelihood of the occurrence of these risk events to be minimized.

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, a Financial Reporting Internal Control System (FRICS) has been established, the details of which may be consulted in the Corporate Governance Report.

3. Credit and counterparty risk

Credit and counterparty risk consists of the possible losses deriving from a failure to comply with financial obligations by a counterparty to the Enagás Group, either due to debtor positions or the failure to comply with commercial agreements that are generally established in the long-term.

The Enagás Group monitors in detail this type of risk, which is particularly relevant in the current economic context. Among the activities carried out is the analysis of the risk level and the monitoring of the credit quality of counterparties, regulatory proposals to compensate Enagás 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 management measures for 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' business activity does not allow an active customer concentration risk management policy to be established. However, the globalization process that the Company is carrying out will facilitate the reduction of this potential risk.

The pertinent counterparty risk management information is disclosed in Note 17 to the consolidated financial statements.

4. Financial risk

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 affect the Company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates, and the future flows from assets and liabilities that accrue floating interest 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. To do so derivatives are obtained to act as hedges. The Enagás Group currently maintains a fixed or protected debt structure exceeding 70% to limit this risk.

Exchange rate risks relate 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 obtaining exchange-rate hedges to cover the volatility affecting the collection of dividends is also analyzed 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 detailed in Note 17 to the consolidated financial statements.

5. Criminal liability risk

Article 31 bis of Organic Law 5/2010 of 22 June 2010, which reforms Spain's Criminal Code, introduces 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 Criminal Liability Risk Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the Company.

6. Reputational risk

Reputational risk refers to any action, event or circumstance that could have a harmful 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 contemplates the potential reputational impact that materialisation of any of the risks listed in the model (operational, business, financial and counterparty risk) could have, or as a result of strictly reputational events arising from the action, interest or opinion of a third party.

The most relevant reputational risks for the Enagás Group derive from the materialization of incorrect business practices, the leaking of confidential information, external fraud and the failure to comply with regulatory and legal requirements. The management of certain risks strictly defined as reputational stemming from third-party action has also been considered key on account of its significance.

III.- Use of financial instruments

In February 2008, 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 the year. As a result, at 31 December 2014, 81% of total gross debt was hedged against interest rate increases.

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 is expected to increase by 0.5% compared with 2014.

The Enagás Group is considering making investments in 2015 of 430 million euros, 50% of which is intended to go towards new international acquisitions and 50% towards regulated assets in Spain.

V.- Research and development

The technological innovation initiatives carried out by the Group in 2014 comprised assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, focusing particularly on projects of strategic value for the Group.

The most significant activities carried out by area in 2014 were:

a) **Production (LNG).** The uncertainty associated with the energy balance at plants has been determined in a minimal technical situation, together with its effect on the shrinkage ratio. Further knowledge has been gained regarding the energy flows involved with loading tankers and their influence on measurement differences. The Group also participated in the new revision of the "LNG Custody Transfer Handbook". The Group has also implemented the "LNG Tanker Quality" application at Enagás plants to automatically determine the average quality of the LNG transferred. It has also continued with the marketing of the MOLAS2012 software and a comparison has been performed of the chromatographs of the Plants with LCE in the loading/discharging of tankers, tanks and transfer to the network.

b) **Transport.** The Group collaborated with a European project to adopt a common position with respect to the quantitative evaluation of gas leaks in gas transport facilities and studies have been performed at the European level of the development of Power to Gas technology, evaluating operating and financial repercussions that could result from the injection of moderate amounts of hydrogen into the natural gas network. A Spanish project also commenced to design natural gas production plants based on hydrogen produced through electrolytes using the excess from renewable energies and the CO2 content of biogas.

c) **Storage.** The impact of the new dew point and hydrocarbon limits that are established by the new European legislation on AASS and measurement equipment.

d) **Operation.** The SPOL tool (Logistics Optimization and Planning System) has been adapted to the new regulatory changes introduced in 2014 and to the new infrastructure operating scenario (production at lower than the technical minimum initially established for the Plants and the prioritisation of AASS production). The "Acoustic study of Compression Plants" was completed and another simular study of the Cartagena Plant started. Finally, the Group continued with the development of a model to determine the gas quality through simulation (NGQT), taking the first steps to obtain system certification.

e) **Safety.** Work proceeded on various projects and studies related to the analysis of risks involving gas pipelines and Enagás facilities. As an example, the Safety and Quantitative Risk Analysis of the AASS in Serrablo, and that for all of the EECC and the pipelines and positions in Castilla la Mancha. A method for analysing risks relating to parallel pipelines was developed and participation in the development of important international databases continued.

f) **Metering.** Work continued to improve the measurement of sulphur compounds, dew points and hydrocarbon levels in natural gas in the laboratory as well as in the field. Studies are under way on how to improve the level of uncertainty (CMC) in accredited laboratories measuring gas flow in Zaragoza. A model is being developed to estimate the uncertainty of measuring energy in the transport network in order to improve the limitations on calculating shrinkage.

g) **Projects of general interest.** A project has started to be rolled out that will cover all of the company's facilities and is intended to deepen energy efficiency both from the standpoint of optimising consumption and producing electricity from residual energy from the process: pressure, heat and cold. Launch of new infrastructures and services to analyse biogas (recently accredited)

and sulphur compounds. Start of the development of an evolution of the VUM software, which is a tool used in the metrology verification procedures at measuring stations.

h) **Other matters**. Concluding of an agreement with the Spanish Metrology Centre for the recognition of the Zaragoza LACAP as a Collaborating Laboratory. The Group has also collaborated with different 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.

VI.- Transactions with treasury shares

The Group did not buy or sell treasury shares in 2014.

VII.- Additional information

This additional disclosure is included to comply with article 116 bis of Spain's Securities Market Act 24/1988, of 28 July).

a) The structure of capital, 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
03-05-02	358,101,390.00	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) as stated on the CNMV website:

Name or corporate name of shareholder (*)	Number of direct voting rights	Number of indirect voting rights	% total voting rights
OMAN OIL COMPANY, S.A.O.C. (**)	0	11,936,702	5.000
FIDELITY INTERNATIONAL LIMITED	0	4,710,880	1.973
RETAIL OEICS AGGREGATE	0	2,410,274	1.010

(*) Among the most significant changes in the shareholder composition in 2014, Kutxabank, S.A. ceased to hold a significant interest in Enagás on 16 June 2014. Specifically, on 10 March 2014 Kutxabank, S.A. reported to the CNMV the sale of 0.020% of the share capital of Enagás, and it's stake fell from 5%.

Kutxabank, S.A. then reported to the CNMV the sale of 4.962 % of the share capital of Enagás on 16 June 2004, and ceased to be a significant shareholder in Enagás at that time. Kutxabank, S.A. maintains a 0.018% of the share capital of Enagás.

(**) Through:

Name or corporate name of shareholder	Number of direct voting rights	% total voting rights
OMAN OIL HOLDINGS ESPAÑA, S.L.U.	11,936,702	5.000
Total	**11,936,702**	**5.000**

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
ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.024
MARCELINO OREJA ARBURÚA	1,260	0	0.001
MR. SULTAN HAMED KHAMIS AL BURTAMANI	1	0	0
LUIS JAVIER NAVARRO VIGIL	1,405	7,075	0.004
MARTÍ PARELLADA SABATA	910	0	0
RAMÓN PÉREZ SIMARRO	100	0	0
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5.000
TOTAL	**11,996,785**	**7,075**	**5.029**

(*) Through:

Name or corporate name of shareholder	Number of direct voting rights	% total voting rights
NEWCOMER 2000, S.L.U.	7,075	0.003
Total	**7,075**	**0.003**

d) Any restrictions on voting rights

Additional Provision 31 of the Oil and Gas Act 34/1998, of 7 October, in force since the enactment of Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the parent company (ENAGÁS, S.A.), nor may they 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 said parent company of over 1%. These restrictions do not apply to direct or indirect 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 calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of the Securities Market Act 24/1988, of 28 July, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. 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 and those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Act 24/1988, of 28 July.

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

Non-compliance with the limitation on a stake in the capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Act. Responsibility shall lie with the individuals or bodies corporate that end up as owners of the securities or whoever the excess stake in the capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. In any event, the regime of penalties laid down in the law shall be applied.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties."

That same Additional Provision Thirty One, section 3, states that:

3. The restrictions of shareholding percentages and the non-transferability of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by article 66 of Act 34/ 1998, of 7 October, on the Oil and Gas Industry, the management of the transmission network and the technical management of the national gas system".

Meanwhile, article 6 bis of the Company's Articles of Association ("Limitations to ownership of share capital"), establishes that:

"No individual or body corporate may hold a direct or indirect interest in the shareholder structure of the company responsible for technical system management of more than 5% of the share capital, 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 latter of more than 5%, may not exercise voting rights in Enagás, S.A. in excess of 1%. These restrictions do not apply to direct or indirect 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 calculating the stake in that shareholder structure, the applicable Oil and Gas legislation shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical system management, which are regulated businesses under Oil and Gas legislation.

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, without any limitation of power, to all acts embodied in the corporate purpose.

The Board of Directors shall be composed of a minimum of 6 members and a maximum of 15, appointed by the General Meeting.

Directors shall be elected by vote. For this purpose, shares that are voluntarily pooled to constitute an amount of 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 fashion 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.

The following cannot be Directors or, if applicable, natural-person representatives of a body-corporate director:

a) Natural or legal persons who hold the post of director in more than 5 (five) companies whose shares are admitted to trading on national or foreign markets.

b) Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

Article 37.- Posts.

The Board of Directors shall appoint its Chairman.

The Board of Directors may appoint an Independent Director, on the proposal of the Appointments, Remuneration and Corporate Responsibility Committee, to perform the following duties, under the title of Lead Independent Director:

a) To request the Chairman of the Board of Directors to convene that body when the said Coordinating Independent Director deems it appropriate.
b) To request that items be included on the Agenda of the meetings of the Board of Directors.
c) To coordinate and give voice to the concerns of non-executive directors; and to oversee the Board's evaluation of its Chairman and, where appropriate, the Chief Executive Officer.
d) To perform as a Deputy Chairman the functions of the Chairman as regards the Board of Directors, if the Chairman is absent, ill or unable to act as Chairman for whatever reason. In the absence of a Lead Independent Director, for the purposes of this section the most senior Director in age shall act as Chairman.

The Chairman and the Secretary to the Board of Directors and the Deputy Secretary, if any, if re-elected to the Board by a resolution of the General Meeting, shall continue to perform the offices hitherto held on the Board without need of being freshly elected, subject to the power of revocation of such offices that rests with the Board of Directors.

Regulations governing the organisation and functioning of the Board of Directors

Article 3.- Quantitative and qualitative composition.

1.- Within the minimum and maximum limits set forth under Article 35 of the Company's current Articles of Association, 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 Shareholders' 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 members of the Board of Directors may belong to this category.

b) Non-executive directors: These directors shall in turn fall into three categories:

b1) Significant-Shareholder Appointed 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 who, 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 Non-executive Directors: Non-executive Directors who are not Significant-Shareholder Appointed 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 Shareholders' 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 relationship between Significant-Shareholder Appointed Directors and Independent Directors should match the proportion between the capital represented on the board by Significant-Shareholder Appointed Directors and the remainder of the Company's capital.

The following cannot be directors or, if applicable, natural-person representatives of a body-corporate director:

a) Natural persons or bodies corporate who hold the post of director in more than 5 (five) companies whose shares are admitted to trading on national or foreign markets.

b) Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

c) Directorships may not be exercised by natural persons or bodies-corporate that exercise control or rights in a company carrying out functions of production or sale of natural gas, or by any other natural persons or bodies-corporate the presence of whom or which on the Board, pursuant to the legislation applicable to the Oil and Gas sector, may affect the Company's status as technical transmission operator.

Article 8.- Appointment of Directors.

1.- Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions of the Spanish Limited Liability Companies Law and the Company's Articles of Association.

2.- Candidates must be persons who, in addition to satisfying the legal and statutory requirements of the post, have acknowledged prestige and appropriate professional knowledge and experience to perform their tasks.

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, Remuneration and Corporate Responsibility Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes.

3.- Selection procedures must be free of any implied bias against female 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 directors appointed for their personal and professional qualities who are in a position to perform their duties without being influenced by any connection with the Company, its significant shareholders or its management. As such, under no circumstances may the following be classified as Independent Directors:

a) Past employees or Executive Directors of Group companies, unless three or five years have elapsed, respectively, from the end of the employment relationship.

b) Those who have received some payment or other form of compensation from the Company or its Group on top of their directors' fees, unless the amount involved is not significant. 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) Partners, now or in the past three years, in the external auditor or the firm responsible for the audit report, during the said period, of Enagás, S.A. or any other within its Group.

d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.

e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or

senior officer of a company that has or has had such dealings. Business relationships shall be defined as relationships whereby the Company serves as a provider of goods or services, including those of a financial nature, or as an advisor or consultant.

f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past three years. Patrons or trustees of any foundation that receives donations shall not be included under this section.

g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the company's executive directors or senior officers.

h) Any person not proposed for appointment or renewal by the Appointments, Remuneration and Corporate Responsibility 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.- Duration of post 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, Remuneration and Corporate Responsibility 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 Director should not stay on as such for a continuous period of more than 12 years.

Article 12.- Cessation of Directors.

1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Articles of Association and these Rules and Regulations.

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

a) When they are affected by instances of incompatibility or prohibitions laid down in Law, in the Articles of Association, and in these Regulations.

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 213 of the Spanish Limited Liability 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 reason for which they were appointed as directors no longer exists.

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 shall not propose the removal of Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a proposal from the Nomination Committee.

4.- After a Director resigns from his/her post, he/she may not work for a competitor for a period of two years, unless exempted from this duty or the duration of the duty is shortened by the Board of Directors.

Bylaw provisions affecting the amendment of the Articles of Association:

Article 26. – Special quorum.

An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the Articles of Association, issue bonds, remove or restrict the pre-emptive subscription right for new shares, and restructure, merge or split the company, transfer all the assets and liabilities thereof, or move the registered office to outside Spain, if, at the original date and time specified in the notice of meeting, there are present, in person or by proxy, shareholders representing at least fifty percent of voting subscribed capital.

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 Chair, MR. ANTONIO LLARDÉN CARRATALÁ, by Enagás' Board of Directors, were granted in the public deed dated 9 February 2007 executed before the Notary Public of Madrid Pedro de la Herrán Matorras, with number 324 in his notarial archive and is recorded in Volume 20,090, Book 0, File 172, Section 8; Sheet M-6113; Entry 668 of the Madrid Companies 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 dated 28 May 2014 executed before the Notary Public of Madrid

Mr. Pedro de la Herrán Matorras, with number 1,306 in his notarial archive and is recorded in Volume 32,018, Book 0, File 5, Section 8, Sheet M-6113, Entry 777 of the Madrid Companies 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 ninth resolution adopted at the General Shareholders' Meeting held on 30 March 2012 is currently in force. Its terms are:

> "To empower the Board of Directors, as broadly as is legally necessary, so that, in accordance with article 297.1(b) of the Spanish Limited Liability Companies Law, it may, at any time, increase share capital, in one or more transactions, within a period of five years as of the date of this General Meeting by a maximum amount of 179 million euros through the issuance of new shares, with or without voting rights or issue premium, and with consideration for such new shares being monetary contributions, entitling the Board to set the terms and conditions of the capital increase and the characteristics of the shares; freely offer the new unsubscribed shares with a period or periods of preferred subscription; establish that, in the event of incomplete subscription, the capital shall be increased only in the amount of the subscriptions made; and provide new wording for the article of the Company's Articles of Association governing share capital."

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.

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

VIII.- The average payment period to suppliers.

The Group's average payment period for suppliers is 33.01 days and the maximum period established in the late-payment legislation is not exceeded. The Company carries out a series of defined control activities within its Financial Reporting Internal Control System that mainly consist of the performance of regular monitoring of accounts payable to suppliers, compliance with the conditions established in agreements with them and the analysis of the status of those accounts in order to reduce the average payment period for suppliers.

IX.- Events after the balance sheet date

On 14 January 2015, Enagás Transporte, S.A.U. concluded an agreement with a fund managed by Deutsche Asset & Wealth Management to acquire 30% of BBG (in which Enagás already holds a 40% stake) and 30% in Saggas. These companies are the owners of the Bilbao and Sagunto regasification plants, respectively. BBG, the Seller, Enagás Transporte, S.A.U. and EVE subsequently concluded a new purchase agreement on 21 January 2015, making the preceding agreement null and void and agreeing that Enagás Transporte, S.A.U. would acquire 10% in BBG, and EVE 20%. Notwithstanding the above, these acquisitions are subject to the relevant approval from the regulatory authorities, which has yet to be resolved at the date on which these consolidated financial statements were prepared.

On 6 February 2015, Enagás Financiaciones, S.A.U. issued bonds in the Euromarket in the amount of 600 million euros, secured by Enagás, S.A., as part of its Guaranteed Euro Medium Term Note Programme debt issue programme (EMTN programme), registered with the Luxembourg Financial Sector Oversight Committee (CSSF) on 13 May 2014. This issue matures on 6 February 2025 and has an annual coupon of 1.25% and an issue price of 99.08. Part of the bonds have been swapped for 282,300 thousand euros of the bonds issued in October 2012 for a total amount of 750,000 thousand euros with a coupon of 4.25% and maturing on 5 October 2017. These latter bonds were also issued by Enagás Financiaciones, S.A.U. and secured by Enagás, S.A.

On 28 January 2015, Enagás Transporte, S.A.U. concluded an agreement with Unión Eléctrica de Canarias Generación, S.A.U. and Sociedad para el Desarrollo Económico de Canarias, S.A. to acquire 47.18% and 10.88% of the stake that those shareholders held, respectively, in Gascan. Under this transaction in which Enagás Transporte, S.A.U. would wholly own Gascan, the provisions of Law 17/2013, State Administration, of 29 October would be met to guarantee the supply and increase competition in island and non-mainland electrical systems and therefore the ownership of the regasification plants that are planned for the Canary Islands must be held by the business group that forms part of the natural gas technical management system (Enagás GTS, S.A.U., wholly owned by Enagás, S.A.). The total amount of the transaction, which covers both the price of the shares and the participating loans of those shareholders, totals 8,989 thousand euros.

No events having a material impact on the Group's consolidated financial statements have occurred between 31 December 2014 and the date of authorising the accompanying consolidated financial statements for issue.