ENAGÁS, S.A.

Financial statements
at 31 December 2015

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A.

BALANCE SHEET AT 31 DECEMBER 2015

(Thousands of Euros)

ASSETS	Notes	2015	2014
NON-CURRENT ASSETS		**5,477,284**	**5,392,661**
Intangible assets	Note 5	**17,483**	**22,381**
Research and development		64	49
Computer software		17,280	22,095
Other intangible assets		139	237
Property, plant and equipment	Note 6	**19,600**	**18,849**
Land and buildings		13,276	12,562
Plant and other items of property, plant and equipment		4,210	4,862
Work in progress and advances		2,114	1,425
Investment property	Note 7	**24,970**	**25,080**
Land		24,970	25,080
Non-current investments in Group companies and jointly controlled entities	Notes 9.2 and 21.2	**5,405,324**	**5,316,519**
Equity instruments		2,266,371	2,236,117
Loans to companies		3,138,953	3,080,402
Non-current financial assets	Note 9.1	**1,487**	**1,435**
Loans to third parties		763	750
Other financial assets		724	685
Deferred tax assets	Note 18.8	**8,420**	**8,397**
CURRENT ASSETS		**622,602**	**579,419**
Inventories	Note 10	**19**	**20**
Raw materials and other supplies		19	20
Trade and other receivables		**14,042**	**27,583**
Trade receivables		-	40
Trade receivables from Group companies and associates	Notes 11 and 21.2	13,209	21,833
Other receivables		250	186
Payables to employees		129	89
Current tax assets	Note 18.2	-	4,822
Other receivables from public authorities	Note 18.2	454	613
Current investments in Group companies and jointly controlled entities	Notes 9.2 and 21.2	**538,976**	**480,801**
Loans to companies		308,976	323,641
Other financial assets		230,000	157,160
Current prepayments and accrued income		**2,021**	**380**
Cash and cash equivalents	Note 12	**67,544**	**70,635**
Cash		67,544	4,933
Cash equivalents		-	65,702
TOTAL ASSETS		**6,099,886**	**5,972,080**

EQUITY AND LIABILITIES	Notes	2015	2014
EQUITY	Note 13	**2,082,904**	**2,041,487**
SHAREHOLDER'S EQUITY		**2,086,969**	**2,045,568**
Share capital		**358,101**	**358,101**
Registered capital		358,101	358,101
Reserves		**1,501,254**	**1,460,808**
Legal and bylaw reserves		71,620	71,620
Other reserves		1,429,634	1,389,188
Profit for the year		**353,666**	**350,801**
Interim dividend	Note 3	**(126,052)**	**(124,142)**
VALUATION ADJUSTMENTS		**(4,065)**	**(4,081)**
Hedging transactions		(4,065)	(4,081)
NON-CURRENT LIABILITIES		**3,565,977**	**3,451,520**
Non-current provisions	Note 14.1	**1,615**	**1,717**
Provisions for long-term employee benefit obligations		-	102
Other provisions		1,615	1,615
Non-current financial liabilities	Notes 15.1	**1,526,064**	**1,541,803**
Bank borrowings		1,523,749	1,538,285
Derivatives	Note 16	2,264	2,689
Other financial liabilities		51	829
Non-current payables to Group companies and associates	Notes 15.3 and 21.2	**2,036,782**	**1,906,871**
Deferred tax liabilities	Note 18.9	**1,516**	**1,129**
CURRENT LIABILITIES		**451,005**	**479,073**
Current financial liabilities	Note 15.2	**358,670**	**349,068**
Bonds and other marketable securities		229,944	229,823
Bank borrowings		124,931	116,088
Derivatives	Note 16	3,780	3,142
Other financial liabilities		15	15
Current payables to Group companies and associates	Notes 15.3 and 21.2	**45,205**	**80,509**
Trade and other payables	Note 17	**47,130**	**49,496**
Payable to suppliers		14,513	16,011
Payable to suppliers - Group companies and associates	Note 21.2	525	2,806
Other payables		689	1,439
Payables to employees		4,834	3,465
Current tax liabilities	Note 18.2	1,082	100
Other payables to public authorities	Note 18.2	25,487	25,675
TOTAL EQUITY AND LIABILITIES		**6,099,886**	**5,972,080**

Notes 1 to 25 to the accompanying financial statements are an integral part of the balance sheet at 31 December 2015

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A.

INCOME STATEMENT FOR 2015

(Thousands of Euros)

	Notes	2015	2014
CONTINUING OPERATIONS		**425,461**	**426,386**
Revenue	Notes 20.1 and 21.1	**543,346**	**565,755**
Services rendered		160,122	190,658
Dividend income from Group companies and jointly controlled entities	Note 21.1	383,224	375,097
In-house worked performed on company assets	Note 6	**686**	**1,130**
Procurements	Note 20.2	**(29)**	**(34)**
Raw materials and other consumables used		(29)	(34)
Other operating income		**1,145**	**1,615**
Non-core and other operating income		1,145	1,615
Employee benefits expense	Note 20.3	**(41,547)**	**(35,955)**
Wages, salaries and similar expenses		(30,746)	(28,349)
Social Security and other benefits		(10,801)	(7,606)
Other operating costs		**(64,739)**	**(67,329)**
External services		(54,239)	(65,040)
Taxes other than income tax		(10,479)	(2,289)
Losses, impairment and changes in trade provisions		(21)	-
Amortisation and depreciation	Notes 5 and 6	**(13,292)**	**(16,662)**
Impairment losses and gains (losses) on disposal of assets		**(109)**	**(22,134)**
Impairment and other losses	Note 7	(110)	(22,131)
Gains (losses) on disposals and other		1	(3)
OPERATING PROFIT		**425,461**	**426,386**
Finance revenue	Note 20.4	**400**	**5,863**
Marketable securities and other financial instruments		400	5,863
- Third parties		400	5,863
Finance costs	Note 20.4	**(85,968)**	**(98,616)**
Borrowings from Group companies and associates	Note 21.1	(57,553)	(59,161)
Borrowings from third parties		(28,415)	(39,455)
Exchange differences	Notes 19 and 20.4	**1,991**	**5,653**
NET FINANCE COST		**(83,577)**	**(87,100)**
PROFIT BEFORE TAX		**341,884**	**339,286**
Income tax	Note 18.6	11,782	11,515
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**353,666**	**350,801**
DISCONTINUED OPERATIONS		**-**	**-**
PROFIT FOR THE YEAR		**353,666**	**350,801**

Notes 1 to 25 to the accompanying financial statements are an integral part of the income statement for 2015

ENAGÁS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2015
A) STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Thousands of Euros)

	Notes	2015	2014
PROFIT FROM INCOME STATEMENT (I)		**353,666**	**350,801**
Income and expense recognised directly in equity			
- Cash flow hedges		(4,144)	(7,141)
- Tax effect		1,036	1,667
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	Note 13.3	**(3,108)**	**(5,474)**
Transfers to income statement			
- Cash flow hedges		4,166	5,788
- Tax effect		(1,042)	(1,736)
TOTAL INCOME AND EXPENSE TRANSFERRED TO INCOME STATEMENT (III)	Note 13.3	**3,124**	**4,052**
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		**353,682**	**349,379**

Notes 1 to 25 to the accompanying financial statements are an integral part of the statement of recognised income and expense for 2015

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ENAGÁS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2015

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Share capital	Share premium and Reserves	Profit for the year	Interim dividend	Valuation adjustments	Total equity
ADJUSTED BALANCE AT 1 JANUARY 2014	**358,101**	**1,383,726**	**379,469**	**(120,083)**	**(2,659)**	**1,998,554**
Total recognised income and expense	**-**	**-**	**350,801**	**-**	**(1,422)**	**349,379**
Transactions with shareholders	**-**	**-**	**(182,304)**	**(124,142)**	**-**	**(306,446)**
- Dividends paid	-	-	(182,304)	(124,142)	-	**(306,446)**
Other changes in equity	**-**	**77,082**	**(197,165)**	**120,083**	**-**	**-**
BALANCE AT 31 DECEMBER 2014	**358,101**	**1,460,808**	**350,801**	**(124,142)**	**(4,081)**	**2,041,487**
Adjustments due to changes in policies in 2014	-	-	-	-	-	-
Restatements for 2014 errors	-	-	-	-	-	-
ADJUSTED BALANCE AT 1 JANUARY 2015	**358,101**	**1,460,808**	**350,801**	**(124,142)**	**(4,081)**	**2,041,487**
Total recognised income and expense			**353,666**		**16**	**353,682**
Transactions with shareholders	**-**	**-**	**(186,213)**	**(126,052)**	**-**	**(312,265)**
- Dividends paid	-	-	(186,213)	(126,052)	-	(312,265)
Other changes in equity	**-**	**40,446**	**(164,588)**	**124,142**	**-**	**-**
BALANCE AT 31 DECEMBER 2015	**358,101**	**1,501,254**	**353,666**	**(126,052)**	**(4,065)**	**2,082,904**

Notes 1 to 25 to the accompanying financial statements are an integral part of the statement of total changes in equity for the year ended 31 December 2015

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A.

STATEMENT OF CASH FLOWS FOR 2015

(Thousands of Euros)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**343,961**	**222,224**
Profit for the year before tax		**341,884**	**339,286**
Adjustments to profit		**(351,147)**	**(326,282)**
- Amortisation and depreciation	Notes 5 and 6	13,292	16,662
- Impairment losses	Note 7	110	22,131
- Changes in provisions		(82)	(314)
- Gains (losses) on derecognition and disposal of non-current assets		(1)	2
- Finance revenue	Notes 20.1 and 20.4	(448,582)	(457,726)
- Finance costs	Note 20.4	85,968	98,616
- Other income and expense		(1,852)	(5,653)
Changes in working capital		**(3,201)**	**4,814**
- Inventories		(1)	(6)
- Trade and other receivables		8,676	14,817
- Other current assets		(1,640)	(259)
- Trade and other payables		(10,234)	(9,721)
- Other current liabilities		-	(7)
- Other non-current assets and liabilities		(2)	(10)
Other cash flows from operating activities		**356,424**	**204,406**
- Interest paid		(70,156)	(85,157)
- Dividends received		310,384	217,937
- Interest received		60,170	63,654
- Income tax received (paid)		56,011	7,651
- Other cash inflows/(outflows)		15	321
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(108,873)**	**(685,114)**
Payments for investments		**(243,481)**	**(821,261)**
- Group companies and associates		(234,299)	(812,044)
- Intangible assets and property, plant and equipment		(9,144)	(9,195)
- Other financial assets		(38)	(22)
Proceeds from disposals		**134,608**	**136,147**
- Group companies and associates		134,608	136,147
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(238,218)**	**240,587**
Proceeds from and payments on financial liabilities		**74,047**	**547,033**
- Issue of bonds and other marketable securities		623,773	975,759
- Issue of bank borrowings		107,681	-
- Issue of borrowings from Group companies and associates		193,531	744,446
- Repayments of bonds and other marketable securities		(624,228)	(1,029,810)
- Repayment of bank borrowings		(112,235)	(133,362)
- Repayment of borrowings from Group companies and associates		(114,475)	(10,000)
Payments of dividends and remuneration on other equity instruments		**(312,265)**	**(306,446)**
- Dividends		(312,265)	(306,446)
EFFECT OF CHANGES IN EXCHANGE RATES (IV)		**40**	416
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(3,091)**	**(221,887)**
Cash and cash equivalents at beginning of year		70,635	292,522
Cash and cash equivalents at end of year		67,544	70,635

Notes 1 to 25 to the accompanying financial statements are an integral part of the statement of cash flows for the year ended 31 December 2015

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

1.- General Information

1.1 Company activity

Enagás, S.A. was incorporated in Spain on 13 July 1972 in accordance with the Spanish Limited Liability Companies Law. Its corporate purpose is:

- The regasification, basic and secondary transport and storage of natural gas, by means of or through the corresponding owned or third-party gas infrastructures and facilities, and the performance of ancillary or related activities.

- The design, construction, commissioning, exploitation, operation and maintenance of all manner of gas infrastructures and complementary facilities, including control, remote control and telecommunications networks of any kind and electric grids, owned by it or third parties.

- The performance of all the duties related to the technical management of the gas system.

- The transport and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, by means of or through the corresponding owned or third-party infrastructure, and the design, construction, commissioning, exploitation, operation and maintenance of all manner of complementary infrastructure and facilities required to this end.

- The business of exploiting the heat, cooling and energy properties associated with or deriving from its core businesses.

- The provision of a broad range of services, including: engineering, construction, and advisory and consultancy services, in connection with the businesses constituting its corporate purpose, and participation in activities related to the management of the natural gas market to the extent compatible with the business activities vested in the Company by law.

The foregoing activities may be carried out by the Company itself or through investees with an identical or similar corporate purpose, subject to the scope and limits laid down in prevailing oil and gas legislation. Under prevailing legislation, regulated transport and technical management activities of the system must be performed by two wholly-owned subsidiaries (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). The following activities also form part of the corporate purpose:

- Management of the corporate group comprising the Company's equity investments in the companies constituting that group.

- The provision of assistance or support services to the Group companies and investees, to which end the Company may also extend any guarantees and securities deemed opportune.

Its registered office is at Paseo de los Olmos 19, 28005 Madrid. The bylaws and other public information about the Company are available at www.enagas.es and its registered office.

In addition to the operations performed directly by Enagás, S.A., it is also the Parent of a group of companies that includes investments in subsidiaries, associates, jointly controlled operations and joint ventures, engaging in various activities and which comprise, together with Enagás, S.A., the Enagás Group ("the Group"). Consequently, pursuant to prevailing legislation, Enagás, S.A. is required to prepare consolidated financial statements for the Group in addition to its own separate financial statements, which also include information on its investments in subsidiaries, associates, jointly controlled operations and joint ventures. The financial statements of Enagás S.A. and its consolidated Group at 31 December 2015 were prepared by the Board of Directors at a meeting held on 15 February 2016. The separate and Group financial statements for 2014 were approved by the shareholders of Enagás, S.A. at the Annual General Meeting held on 27 March 2015, and were subsequently filed with the Madrid Mercantile Registry.

The main aggregates of the consolidated financial statements of the Enagás Group for 2015 and 2014 are as follows:

	2015	2014
Total assets	7,751,918	7,711,859
Equity	2,391,572	2,260,316
Revenue	1,196,366	1,206,192
Net profit	412,662	406,533

These accompanying financial statements are presented in thousands of euros (unless expressly stated otherwise) as this is the functional currency of the principal economic area in which Enagás, S.A. operates.

2.- Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework applicable to the Company

These financial statements were drawn up by the directors pursuant to the regulatory financial reporting framework applicable to the Company, as set out in:

a) The Spanish Commercial Code and other business legislation.

b) The Spanish General Accounting Standards approved by Royal Decree 1514/2007.

c) Compulsory regulations approved by the Spanish Institute of Accountants and Auditors (ICAC) pursuant to Spanish General Accounting Standards and supplementary regulations.

d) Any other applicable Spanish accounting regulations.

2.2 True and fair view

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, provide a true and fair view of the Company's equity, financial position, results of operations, changes in the statement of changes in equity and cash flows during the year. These financial statements, which were drawn up by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is expected that they will be approved without any changes.

2.3 Non-compulsory accounting principles applied

No non-compulsory accounting principles have been applied. The directors also drew up these financial statements in due consideration of all the compulsory accounting principles and regulations with a significant effect on the statements.

2.4 Critical issues regarding measurement and estimation of uncertainty

The results and determination of assets and liabilities disclosed in the financial statements are sensitive to the accounting principles and policies, measurement bases and estimates used by the Company's directors.

The Company's 2015 financial statements include estimates made by senior management of the Company – subsequently ratified by the directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates related basically to the following:

- The useful life of property, plant and equipment and intangible assets (see Notes 4.1 and 4.2).
- The measurement of assets to determine impairment losses (see Notes 4.2 and 4.5.1).
- Provisions for invoices pending issue (see Notes 4.5.1 and 4.5.2).
- The calculation of provisions and contingencies (see Note 4.10).
- The calculation of income tax and deferred tax assets (see Note 4.8).
- Market value of certain financial instruments.

Although these estimates were made on the basis of the best information available at 31 December 2015 regarding the facts analysed, it is possible that future events may require these to be modified (upwards or downwards) in the years ahead. This would be carried out prospectively, recognising the effects of the changes to accounting estimates in the financial statements.

There were no significant changes in the estimates made at the end of 2014 during the twelve-month period ended 31 December 2015 and no significant changes are expected in future years.

2.5 Comparison of information

The information included in these notes to the financial statements for 2014 is presented solely and exclusively for comparison purposes with the information for 2015.

2.6 Grouping of items

Certain items on the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are grouped to make them easier to understand, although where individual data are significant, specific information has been included in the respective notes to these financial statements.

2.7 Changes in accounting policies

In 2015 there were no significant changes in accounting policies with respect to those applied in 2014.

3.- Distribution of profit

The proposed distribution of profits for the year as drawn up by the Company's Board of Directors to be submitted for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2015
Interim dividend	315,129
Voluntary reserves	38,537
Total	**353,666**

At its meeting on 23 November 2015, the Company's Board of Directors resolved to pay an interim dividend against 2015 profit of 126,052 thousand euros (0.528 euros per share, before tax). The Company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of the Spanish Limited Liability Companies Law.

The provisional accounting statements drawn up by the Company in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of the 2015 interim dividends were as follows:

	Thousands of euros
	Provisional accounting statement at 31 October 2015
Accounting profit	60,193
Interim dividend from Group companies	300,000
Income available for distribution	**360,193**
Forecast interim dividend	**(126,052)**
Forecast cash at banks and on hand between 31 October and 31 December:	
- Cash at banks and on hand	150,971
- Collections forecast for the period	95,623
- Credit facilities and loans granted by financial entities	1,650,000
- Payments forecast for the period (including prepaid income tax)	(58,759)
Forecast cash at banks and on hand	**1,837,835**

The aforementioned interim dividend was paid on 17 December 2015.

The proposed before-tax final dividend (0.792 euros per share) is subject to shareholder approval at the Annual General Meeting and is not recognised as a liability in these financial statements. If approved, this before-tax final dividend would amount to 189,077 thousand euros.

4.- Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company in the preparation of its financial statements for 2015 and 2014, in accordance with the Spanish General Accounting Standards, were as follows:

4.1 Intangible assets

Intangible assets are generally valued initially at their acquisition price or production cost. They are subsequently measured at cost less any accumulated amortisation and impairment losses, if any.

The criteria used to recognise impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those used for property, plant and equipment (see Note 4.2).

a) Expenditure on research and development:

95% of research costs are capitalised and amortised during the first year and the remaining 5% the following year, provided the costs are assigned to specific projects, clearly quantified, and there is a firm belief in the technical success and the economic and commercial profitability of the projects.

Development costs are capitalised and amortised on a straight-line basis over their useful life, provided the costs are assigned to specific projects, clearly quantified, and there is a firm belief in the technical success and the economic and commercial profitability of the projects.

b) Computer software:

The acquisition and development costs incurred in relation to the basic computer systems are recognised with a charge to "Intangible assets" in the balance sheet. Maintenance costs related to computer systems are charged to the income statement in the year in which they are incurred. They are measured at the amount paid for ownership or the right to use the software programs, or the production cost if developed internally by the Company. They are amortised over a period of four years.

Intangible assets with a finite useful life are amortised over that period, with the following amortisation rates:

	Amortisation rate	**Useful life**
Development costs	5%-50%	20-2
Other intangible assets	20%	5
Computer software	25%	4

4.2 Property, plant and equipment

Property, plant and equipment are valued initially at acquisition or production cost, with the exception of revaluations made as a result of balance-sheet restatements in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria laid down at the end of this note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset, after deducting, where appropriate, the carrying amount of the replaced assets. In contrast, regular maintenance, upkeep and repair expenses are charged to profit and loss in the year in which they are incurred.

Capitalised costs include:

1. Finance costs associated with the financing of infrastructure projects accrued solely during the construction period if this is over a year. In 2014, the average net rate of capitalisation used to calculate the amount of the borrowing costs to be capitalised was 2.86%. No costs of this kind were capitalised in 2015.

2. Employee benefits expense directly related to work in progress. The amounts capitalised for these items are recognised in the accompanying income statement under "In-house work performed on company assets".

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Company's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates:

	Amortisation rate	Useful life (years)
Buildings	3%-2%	33.33-50
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6.25

Impairment of property, plant and equipment and intangible assets

At the end of each reporting period (in the case of goodwill or intangible assets with indefinite useful lives), or whenever there are indications of losses in value (for all other assets), the Company performs an “impairment test” to ascertain whether these losses in value will reduce the recoverable value of the assets below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be the present value of the estimated future cash flows. The Company uses value in use in most cases to calculate the recoverable amount of its property, plant and equipment.

To estimate value in use, the Company draws up pre-tax cash flow projections based on the latest budgets approved by the directors. These budgets include the best available estimates of the revenue and expense of each element based on industry forecasts, past experience and future expectations.

These projections cover the coming fifteen years and the flows for future years are estimated by applying reasonable growth rates, which in no case may be increased after the last year.

The present value is calculated by discounting the cash flows at a pre-tax rate that reflects the business’ cost of capital. The discount rate is based on current interest rates and the risk premiums commonly used by analysts covering the business.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference with a charge to “Impairment losses and gains (losses) on disposals of assets” in the accompanying income statement

4.3 Investment property

“Investment property” in the balance sheet reflects the value of the land that is held to earn a gain on its sale as a result of capital appreciation, as described in Note 7.

Investment property is measured as described in Note 4.2 on property, plant and equipment. If there is no determined use for the land, its recoverable value matches its fair value less costs to sell.

In the aforementioned measurement process, the Company procured the advisory services of the appraisal firm Jones Lange LaSalle España, S.A., which issued a report on 22 December 2015 (see Note 7).

4.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases

As of 31 December 2015 and 2014, the Company had no finance leases.

Operating leases

In operating leases in which the Company acts as the lessee, expenses resulting therefrom are charged to income in the year in which they are incurred.

Any proceeds or payments in connection with an operating lease will be treated as advance proceeds or payment and recognised in the income statement over the lease term as the benefits of the leased asset are received or given.

4.5 Financial instruments

4.5.1 Financial assets

Classification

The financial assets held by the Company are classified as follows:

a) Loans and receivables: These are financial assets arising from the sale of goods or the rendering of services in the normal course of business, or financial assets which do not arise from the ordinary course of business, and are not equity instruments or derivatives, which have fixed or determinable payments and are not traded on an active market.

b) Equity investments in Group companies and jointly controlled entities: Group companies are considered to be those related to the Company through a relationship of control. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more partners.

Initial measurement

Financial assets are initially measured at the fair value of the consideration given, plus directly attributable transaction costs.

In the case of equity investments in Group companies that exercise control over subsidiaries, from 1 January 2010, onwards the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

Subsequent measurement

Loans and receivables are measured at amortised cost.

Investments in the capital of Group companies and jointly controlled entities are measured at cost, less, where applicable, any accumulated impairment losses. These valuation adjustments are calculated as the difference between the carrying amount and the recoverable amount, understood as the greater of fair value less costs to sell and the present value of future cash flows arising from the investment. In the absence of any better evidence of the recoverable amount, the equity of the investee is taken into account, corrected in view of any unrealised gains at the date of measurement (including any goodwill).

At each reporting date at least, the Company performs an impairment test on financial assets not measured at fair value through profit or loss. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the income statement. Specifically, with respect to the valuation adjustments concerning trade and other receivables, the criterion employed by the Company to calculate any adjustments is to recognise impairment provisions at the difference between the recoverable amount of the receivables and their carrying amount. The recoverable amount of receivables is calculated by discounting estimated future cash flows using the effective interest rate at the outset of the transaction.

The Company derecognises a financial asset when the rights to the asset's cash flows expire or are transferred, and substantially all the risks and rewards inherent to ownership of the asset have been transferred, such as outright sales of assets, transfers of trade loans in factoring operations whereby the Company does not retain any credit or interest rate risk, sales of financial assets with a repurchase agreement at fair value or securitisations of financial assets whereby the transferor does not retain subordinated financing, does not issue any type of guarantee, and does not assume any other kind of risk.

However, the Company does not derecognise financial assets which it sells while retaining substantially all the risks and rewards of ownership, and instead recognises a financial liability equal to the consideration received, such as discounted bills, with-recourse factoring, sales of financial assets with a repurchase agreement at a fixed price or at the selling price plus interest and securitisations of financial assets whereby the transferor retains subordinated financing or other types of guarantees that substantially absorb all the expected losses.

4.5.2 Financial liabilities

Financial liabilities include the Company's trade payables that arose from the purchase of goods and services in the normal course of its business, or non-trade payables that cannot be considered to be derivative financial instruments.

These payables are initially recognised at the fair value of the consideration received, adjusted by directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Derivative liabilities are recognised at fair value using the same criteria as financial assets held for trading as described in the preceding section.

The Company derecognises financial liabilities once the obligations generating them have been extinguished.

4.5.3 Equity instruments

An equity instrument represents a residual interest in the equity of the Company, after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity as the proceeds received, net of issue costs.

With regard the impairment test relating to the investees, the discount rate applied in 2015 was between 4.48% and 11% depending on the country of application of each one of the equity instruments of the Company (4.39%-11% in 2014). The sensitivity test of the discount rate of 0.5% and -0.5% carried out at the 2015 year-end indicates that the Company shows no sign of significant risks associated with potential reasonable variations. Therefore, Company management considers that, given the abovementioned ranges, there will be no adjustments due to impairment.

4.5.4 Derivatives and hedging transactions

The Company uses derivative financial instruments to hedge against the risks to which its future cash flows are exposed. These risks relate to changes in interest rates. The Company arranges financial hedges for this type of transaction.

In order for these financial instruments to qualify as hedges they are designated as such from the outset, and the hedge relationship is documented. In addition, the Company verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) the hedge's effectiveness. A hedge is effective if it is expected, prospectively, that the changes in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

The Company uses cash flow hedges: the portion of the gain or loss in fair value of the hedging instrument that is determined to be an effective hedge is recognised, net of the corresponding tax effect, under "Equity – Valuation adjustments – Hedging transactions" in the accompanying balance sheet. The accumulated loss or gain in said heading is transferred to the income statement in the same period in which the item object of the hedge affects the profit(loss) when settled. The portion of the gain or loss deemed to be an ineffective hedge is recognised directly in the income statement as finance revenue or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument deferred in equity at that time remains in equity until the forecast transaction takes place. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

The Company calculates credit risk when measuring derivative liabilities. This adoption requires that an adjustment be made to the Company's valuation techniques for obtaining the fair value of its derivatives. The Company includes a bilateral credit risk adjustment for the purpose of reflecting its own risk and that of the counterparty in the fair value of the derivatives.

To determine the credit risk adjustment, a technique has been applied based on the calculation through total expected exposure simulations (which include both current exposure and potential exposure), adjusted for the likelihood of non-compliance over time and the severity (or potential loss) assigned to the Company and to each of the counterparties.

The credit risk adjustment has been more specifically obtained using the following formula:

EAD * PD * LGD

- EAD (Exposure at default): Exposure at the time of non-compliance at each point of time. The EAD is calculated by simulating market price curve scenarios (e.g.: Monte Carlo).
- PD (Probability of default): Likelihood that one of the counterparties will fail to comply with payment commitments at each point of time.
- LGD (Loss given default): Severity = 1- (recovery rate): Percentage of loss that ultimately arises when one of the counterparties has failed to comply.

The total expected exposure of the derivatives is obtained using observable market inputs, such as interest rate, exchange rate and volatility curves in accordance with market conditions on the measurement date.

The inputs applied to obtain the Company's own credit risk and counterparty risk (determination of the probability of default) are based mainly on the application of the credit spreads relating to the Company or comparable companies that are currently traded in the market (CDS curves, IRR debt issues). Where own or comparable company credit spreads were not available, and in order to maximise the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS (Credit Default Swaps) quoted on the market.

To adjust the fair value to the credit risk, credit improvements relating to guarantees or collateral have also been used when determining the severity rate to be applied to each of the positions. A single severity rate is taken into consideration over time. If there are no credit improvements relating to guarantees or collateral, the minimum recovery rate has been set at 40%.

At 31 December 2015, the application of this standard did not have a significant impact on the Company.

4.5.5 Cash and cash equivalents

Liquid financial assets, deposits and liquid financial investments that may be transformed into a determinable amount of cash within less than three months, and where the risk of changes in their value is immaterial, are considered cash equivalents.

4.6 Inventories

Inventories are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the direct cost of materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

The Company recognises the appropriate write-downs as an expense in the income statement when the net realisable value of the inventories falls below their acquisition or production cost.

4.7 Foreign currency transactions

The Company's functional currency is the euro. Consequently, transactions in currencies other than the euro are considered to be foreign currency transactions and are recognised by applying the prevailing exchange rates.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any gains or losses arising are taken directly to the income statement in the year in which they arise.

4.8 Income tax

As of 1 January 2013, Enagás, S.A., as the Parent of consolidated tax group 493/12, regulated by Title VII, Chapter VI of the Spanish Corporation Tax Law, files consolidated tax returns and its subsidiaries are as follows:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.

In 2015, the consolidated tax group 493/12 no longer included the company Enagás Altamira, S.L.U. as a result of a merger by absorption of the latter with Enagás Internacional, S.L.U.

Corporate Income Tax Law 27/2014, of 27 November, was approved on 28 November 2014. The most significant amendments introduced by that Law have been described in Note 18.1.

The income tax payable or receivable comprises the current tax payable or receivable and deferred tax income or expense.

Current tax is the amount paid by the Company in settlement of income tax during a particular year. Tax credits and other tax benefits applied to the taxable profit, excluding withholdings, prepayments and tax loss carryforwards effectively offset during the year, are deducted from the current tax.

Deferred tax expense or income corresponds to the recognition and derecognition of deferred tax assets and liabilities. These include taxable and deductible temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and the carry forward of unused tax credits and unused tax losses. These amounts are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those arising from initial recognition of goodwill or from other assets and liabilities in a transaction that does not affect taxable profit or accounting profit and is not a business combination.

Deferred tax assets are only recognised to the extent that it is considered likely the Company will have sufficient taxable profit in the future against which the deferred tax assets can be offset.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit respectively to equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Deferred tax assets not recognised on the balance sheet are also reassessed at the end of each reporting period and are recognised where it has become highly probable that they will be recovered through future taxable profits.

4.9 Income and expenses

In applying the criteria of Spanish Institute of Accountants and Auditors Official Bulletin (BOICAC) no. 79, on the classification for accounting purposes in separate financial statements of the income and expenses of holding companies that apply Spanish General Accounting Standards, approved by Royal Decree 1514/2007, and on the calculation of the Company’s revenue, the dividends and interest on loans received from its investees are included as an integral part of the Company's revenue (see Note 20.1).

Income and expenses are also recognised on an accruals basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Income is measured at the fair value of the consideration received, net of discounts and tax.

<u>Income</u>

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. Interest and dividends from financial assets accrued after the date of acquisition are in any case recognised as income on the income statement.

<u>Expenses</u>

Expenses are recognised in the income statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that an expense is recognised simultaneously with the recognition of the increase in the liability or the reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the prerequisites for capitalisation as an asset are not met.

4.10 Provisions and contingencies

While drawing up the Company's financial statements, the directors made a distinction between the following:

a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.

b) Contingent liabilities: possible obligations that arise from past events the future emergence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are beyond the control of the Company.

The financial statements include all provisions when it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements if they are considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences, and any adjustments arising from the restatement of these provisions are recognised as finance costs as they are accrued.

The compensation to be received from a third party when an obligation is settled is recognised as an asset, provided it is certain that reimbursement will be received, unless the risk has been contractually externalised so that the Company is not obliged to settle, in which case the reimbursement will be taken into consideration in estimating the amount of any provisions.

At year-end 2015, a number of lawsuits and claims had been filed against the Company in connection with the ordinary course of its business. The Company's legal advisors and its directors believe that the resolution of these proceedings and claims will have no significant effects on the financial statements for the years in which they are resolved beyond those recognised or indicated in these financial statements.

4.11 Termination benefits

Pursuant to current legislation, the Company is required to pay termination benefits to employees whose employment contracts are terminated under certain conditions. Therefore, termination benefits that may be reasonably quantified are expensed in the year in which the decision to terminate the employment relationship was taken. There are no redundancy plans warranting recognition of a provision in this connection.

4.12 Environmental assets and liabilities

Environmental assets are considered to be those used by the Company on an ongoing basis, the main aim of which is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Costs arising from the purchase of systems, equipment and facilities used to eliminate, restrict or control any impacts of normal gas operations on the environment are considered as capital investments.

Any environmental outlays other than expenditure on the purchase of assets are expensed currently.

With respect to any environmental contingencies that may arise, Enagás, S.A. considers these are sufficiently covered by the civil liability insurance policies it has taken out.

4.13 Pension obligations

Enagás makes contributions, in accordance with the approved pension plan adapted to the provisions of the Pension Plans and Funds Law, to a defined contribution plan called “Enagás Fondo de Pensiones”, whose fund manager is Gestión de Previsión y Pensiones, S.A. and custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Company’s obligations with respect to serving employees. The Group recognises certain vested rights for past service and undertakes to make monthly contributions averaging 4.21% of eligible salary (4.19% in 2014). It is a mixed plan covering retirement benefits, disability and death. The total number of people adhered to the plan as at 31 December 2015 totalled 334 participants (336 participants at 31 December 2014 (see Note 21.3).

The contributions made each year for this item are recognised under “Employee benefits expense” in the income statement (see Note 20.3). At year-end 2015 and 2014, there were no contributions payable for this item.

The Company has outsourced its pension obligations with its directors by means of a mixed group insurance policy. In addition to pension obligations, the cover provides benefits in the event of widowhood, death or disability.

4.14 Transactions with related parties

The Company carries out all its transactions with related parties at market value. The transfer prices are adequately documented and, therefore, the Company's directors consider that there are no significant risks in this connection that may lead to any significant liabilities in the future.

4.15 Current/non-current classification

Assets classified as current assets are all those related to the Company's normal operating cycle, generally one year, and other assets expected to mature, or to be sold or realised in the short term from the end of the reporting period, financial assets held for trading, with the exception of financial derivatives whose settlement term exceeds one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, with the exception of those financial derivatives whose settlement period exceeds one year and, in general, all obligations that mature or expire in the short term. All other liabilities are classified as non-current.

5.- Intangible assets

The changes in 2015 and 2014 in "Intangible assets" in the balance sheet and the main disclosures relating to this heading are as follows:

2015

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	9,597	357	-	-	9,954
Computer software	93,889	5,433	-	-	99,322
Other intangible assets	6,724	-	-	-	6,724
Total cost	**110,210**	**5,790**	**-**	**-**	**116,000**

Amortisation	Opening balance	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	(9,548)	(342)	-	-	(9,890)
Computer software	(71,794)	(10,248)	-	-	(82,042)
Other intangible assets	(6,487)	(98)	-	-	(6,585)
Total amortisation	**(87,829)**	**(10,688)**	**-**	**-**	**(98,517)**

Total intangible assets	Opening balance	Closing balance
Cost	110,210	116,000
Amortisation	(87,829)	(98,517)
Total, net	**22,381**	**17,483**

2014

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	8,888	709	-	-	9,597
Computer software	86,421	7,468	-	-	93,889
Other intangible assets	6,724	-	-	-	6,724
Total cost	**102,033**	**8,177**	**-**	**-**	**110,210**

Amortisation	Opening balance	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	(8,857)	(691)	-	-	(9,548)
Computer software	(58,830)	(12,964)	-	-	(71,794)
Other intangible assets	(6,212)	(275)	-	-	(6,487)
Total amortisation	**(73,899)**	**(13,930)**	-	-	**(87,829)**

Total intangible assets	Opening balance	Closing balance
Cost	102,033	110,210
Amortisation	(73,899)	(87,829)
Total, net	**28,134**	**22,381**

The accumulated additions to "Research and development" in 2015 correspond mainly to the research and development project for technology applied to pipe-based CO2 transmission amounting to 58 thousand euros, the power generation station project for renewable natural gas amounting to 114 thousand euros, the ISO TC67 LNG–Tanks Workgroup Continuity Project amounting to 49 thousand euros, and the project for transporting hydrogen through gas-pipelines amounting to 71 thousand euros.

The main additions recognised under "Computer software" in 2015 are detailed as follows:

- Software to develop IT and Data Centre infrastructure in the amount of 673 thousand euros.
- Technological Renewal Plan amounting to 592 thousand euros.
- Security Master Plan in the amount of 436 thousand euros.
- SAP licences for 394 thousand euros.
- Support Software and Evolution of Resource Systems for 292 thousand euros.
- Support Software and ECOFI Evolution Systems for 260 thousand euros.
- European information and communications platform systems in the amount of 150 thousand euros.
- Corporate platform performance software, for 146 thousand euros.
- Support Software and Evolution of Communication Systems for 146 thousand euros.

The transfers in the heading "Computer Software" in 2015 relate mainly to the following projects:

- Operating system upgrades and adaptations, for 288 thousand euros.
- Certification of new SAP components in the amount of 259 thousand euros.
- Development of technological architecture components for 167 thousand euros.
- HR Evolution System in the amount of 158 thousand euros.

Additions to “Prepayments and work in progress” in 2015 relate mainly to the following projects:

- SAP-BPC migration in the amount of 164 thousand euros.
- Operating system upgrades and adaptations, for 127 thousand euros.
- Automation of transfer prices amounting to 91 thousand euros.

At year-end 2015 and 2014, the Company was still using the following fully amortised intangible assets:

2015

Item	Carrying amount (gross)
Research and development	9,582
Computer software	63,661
Other intangible assets	6,300
Total	**79,543**

2014

Item	Carrying amount (gross)
Research and development	8,888
Computer software	44,844
Other intangible assets	6,043
Total	**59,775**

Intangible assets are not mortgaged or subject to any other similar encumbrances.

6.- Property, plant and equipment

The changes in 2015 and 2014 in “Property, plant and equipment” in the balance sheet and the main information affecting this heading are as follows:

2015

Cost	Opening balance	Additions	Disposals, derecognition or write-downs	Closing balance
Land and buildings	26,258	1,562	-	27,820
Plant and machinery	4,715	-	-	4,715
Other fixtures, tools and furniture	30,701	1,104	(34)	31,771
Prepayments and work in progress	1,425	689	-	2,114
Total cost	**63,099**	**3,355**	**(34)**	**66,420**

Depreciation	Opening balance	Provisions	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(13,696)	(848)	-	(14,544)
Plant and machinery	(2,691)	(455)	-	(3,146)
Other fixtures, tools and furniture	(27,863)	(1,301)	34	(29,130)
Total depreciation	**(44,250)**	**(2,604)**	**34**	**(46,820)**

Total property, plant and equipment	Opening balance	Closing balance
Cost	63,099	66,420
Depreciation	(44,250)	(46,820)
Total, net	**18,849**	**19,600**

2014

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	72,711	658	(47,111)	-	26,258
Plant and machinery	4,655	60	-	-	4,715
Other fixtures, tools and furniture	30,260	449	-	(8)	30,701
Prepayments and work in progress	1,207	318	(100)	-	1,425
Total cost	**108,833**	**1,485**	**(47,211)**	**(8)**	**63,099**

Depreciation	Opening balance	Provisions	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(12,757)	(939)	-	(13,696)
Plant and machinery	(2,242)	(449)	-	(2,691)
Other fixtures, tools and furniture	(26,523)	(1,344)	4	(27,863)
Total depreciation	**(41,522)**	**(2,732)**	**4**	**(44,250)**

Total property, plant and equipment	Opening balance	Closing balance
Cost	108,833	63,099
Depreciation	(41,522)	(44,250)
Total, net	**67,311**	**18,849**

At 31 December 2015, additions to “Land and buildings” included 188 thousand euros and 1,279 thousand euros relating to renovations and improvements of the installations of the headquarters and research and development centre in Zaragoza, respectively.

Additions recognised in “Prepayments and work in progress” at 31 December 2015 relate mainly to the Move Project for the amount of 569 thousand euros.

Likewise, in-house work performed on company assets increased property, plant and equipment by 686 thousand euros in 2015 (1,130 thousand euros in 2014).

At year-end 2015 and 2014, the Company was still using the following fully depreciated items of property, plant and equipment:

2015

Item	Carrying amount (gross)
Buildings	8,860
Plant and machinery	606
Other fixtures, tools and furniture	26,031
Total	**35,497**

2014

Item	Carrying amount (gross)
Buildings	8,809
Plant and machinery	533
Other fixtures, tools and furniture	24,925
Total	**34,267**

Property, plant and equipment are not mortgaged or subject to any other similar encumbrances.

The Company insures its assets so that no significant losses occur, on the basis of best market practices and depending on the nature and characteristics of the items of property, plant and equipment.

The Company also has insurance policies against third-party civil liability.

7.- Investment property

The changes in 2015 and 2014 in "Investment property" in the balance sheet and the main information affecting this heading are as follows:

2015

Cost	Opening balance	Additions	Transfers (additions or decreases)	Closing balance
Land	47,211	-	-	47,211
Total cost	**47,211**	**-**	**-**	**47,211**

Impairment losses	Opening balance	Additions	Transfers (additions or decreases)	Closing balance
Land	(22,131)	(110)	-	(22,241)
Total impairment	**(22,131)**	**(110)**	**-**	**(22,241)**

Total investment property	Opening balance	Closing balance
Cost	47,211	47,211
Impairment losses	(22,131)	(22,241)
Total, net	**25,080**	**24,970**

2014

Cost	Opening balance	Additions	Transfers (additions or decreases)	Closing balance
Land	-	-	47,211	47,211
Total cost	**-**	**-**	**47,211**	**47,211**

Impairment losses	Opening balance	Additions	Transfers (additions or decreases)	Closing balance
Land	-	(22,131)	-	(22,131)
Total impairment	**-**	**(22,131)**	**-**	**(22,131)**

Total investment property	Opening balance	Closing balance
Cost	-	47,211
Impairment losses	-	(22,131)
Total, net	**-**	**25,080**

In 2014, the land located at km 18 of the A-6 in Las Rozas (Madrid), which was initially acquired by the Company to build its headquarters, was reclassified from “Property, plant and equipment” to “Investment property” in the balance sheet.

In 2014, the Company's directors analysed the repercussions that the construction of the new headquarters at that site and the relocation would have, taking into consideration the Group's current circumstances and the expansion into international projects after the approval of the new regulatory framework regarding the reform of the Spanish Gas System, compared to remaining at the current location at Paseo de los Olmos, 19, by either purchasing the building from the owners or extending the current lease until 2020 and leasing a new building to cover its space requirements.

After the appropriate considerations, the Board of Directors approved a resolution to maintain the headquarters at their current location and to remain vigilant of the Group's international expansion and the real estate market to decide how to proceed with respect to the aforementioned land.

As explained in Note 4.3, the land has been measured at its acquisition cost. However, as indicated above, the Company's directors do not currently have a determined use for the land and therefore its recoverable value is calculated at its fair value less the necessary costs to sell.

At 31 December 2015, Jones Lang LaSalle España, S.A. issued an appraisal report dated 22 December 2015, in which the recoverable value of the land at that date amounted to 24,970 thousand euros, (25,080 thousand euros at 31 December 2014), resulting in the recognition of an additional impairment in 2015 of 110 thousand euros (22,131 thousand euros at 31 December 2014) under "Impairment losses and gains (losses) on disposals of fixed assets" in the income statement.

The aforementioned report from the independent expert did not include any limitation to the scope of the conclusions reached.

The market appraisal was performed by the independent expert in accordance with the Governing Rules of the Royal Institution of Chartered Surveyors (RICS), set out in the so-called “Red Book” - RICS Valuation - Professional Standards, January 2014. These market appraisals defined by RICS are internationally recognised by advisors and accountants for investors and corporations owning real estate assets, and by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

Investment properties are not mortgaged or subject to any other similar encumbrance.

The Company insures its assets so that no significant losses occur, on the basis of best market practices and depending on the nature and characteristics of the investment properties.

The Company also holds insurance policies against third-party civil liability.

8.- Leases

A.- OPERATING LEASES

At year-end 2015 and 2014, the Company was committed to the following minimum lease payments, pursuant to ongoing contracts, with no consideration taken of the effects of shared service charges, future CPI increases or future adjustments of contractually agreed rents:

Operating leases	**Nominal value**	
Minimum payments	**2015**	**2014**
Less than one year	3,392	5,759
Between one and five years	11,157	12,706
More than five years	-	2,514
Total	**14,549**	**20,979**

The operating lease and sublease payments recognised as an expense and income in 2015 amounted to 3,908 thousand euros (3,886 thousand euros in 2014).

The most significant operating lease agreement held by the Company as a lessee at year-end 2015 and 2014 is the lease of the 9,627.50 m2 office building in Madrid where the Company has its headquarters. The lease agreement has a term of until 31 December 2020. With regard the contingent rent, the agreement is indexed to the annual increase of the CPI.

9.- Financial investments (non-current and current)

9.1 Non-current financial assets

The breakdown of "Non-current financial assets" at year-end 2015 and 2014 is as follows:

Class / **Category**	**Non-current financial instruments**			
	Loans, derivatives and other		Total	
	2015	2014	2015	2014
Loans and receivables	1,487	1,435	1,487	1,435
Total	**1,487**	**1,435**	**1,487**	**1,435**

There were no changes due to impairment losses under this heading in 2015 or 2014.

9.2 Group companies and jointly controlled entities

The breakdown of "Non-current investments in Group companies and jointly controlled entities" at year-end 2015 and 2014 is as follows:

Category / Class	Non-current financial instruments					
	Equity instruments		Loans, derivatives and other		Total	
	2015	2014	2015	2014	2015	2014
Equity investments in Group companies and jointly controlled entities	2,266,371	2,236,117	-	-	2,266,371	2,236,117
Loans and receivables	-	-	3,138,953	3,080,402	3,138,953	3,080,402
Total	**2,266,371**	**2,236,117**	**3,138,953**	**3,080,402**	**5,405,324**	**5,316,519**

The most significant disclosures concerning Group companies and jointly controlled entities at year-end 2015 and 2014 are as follows:

Equity instruments

2015

Name / Registered address / Activity	% shareholding		Thousands of euros								
				Profit/(Loss)					Carrying amount		
	Direct	Indirect	Share capital	Operating	Net	Other equity	Total equity	Dividends received	Cost	Impairment during the year	Accumulated impairment
Enagás Transporte S.A.U.	100	-	532,089	611,895	427,719	1,400,674	2,360,482	383,224	1,961,450	-	-
Enagás GTS, S.A.U.	100	-	4,914	(13,136)	(9,500)	-	(4,586)	-	23,397	-	-
Enagás Financiaciones, S.A.U.	100	-	90	59,242	338	180	608	-	160	-	-
Enagás Internacional, S.L.U.	100	-	78,386	7,854	(6,761)	239,241	310,866	-	261,281	-	-
Gasoducto Morelos S.A.P.I. de CV (*)	50	-	20,889	9,778	(4,793)	5	16,101	-	10,934	-	-
Estación de Compresión Soto la Marina, S.A.P.I. de C.V. (*)	49.9	0.1	18,263	11,836	10,147	(10,329)	18,081	-	9,149	-	-
Enagas Peru SAC (*)	0.01	99.99	2,355	(660)	(533)	(132)	1,690	-	-	-	-
Enagas Mexico SA de CV (*)	0.01	99.99	1,416	(1,030)	(812)	(29)	575	-	-	-	-
									2,266,371		

(*) Figures stated according to IFRS.

2014

Name / Registered address / Activity	% shareholding		Thousands of euros								
				Profit/(Loss)					Carrying amount		
	Direct	Indirect	Share capital	Operating	Net	Other equity	Total equity (1)	Dividends received	Cost	Impairment during the year	Accumulated impairment
Enagás Transporte, S.A.U.	100	-	532,089	595,459	447,376	1,340,989	2,320,454	375,097	1,961,450	-	-
Enagás GTS, S.A.U.	100	-	7,283	(10,818)	(7,717)	5,348	4,914	-	23,397	-	-
Enagás Financiaciones, S.A.U.	100	-	90	59,390	140	40	270	-	160	-	-
Enagás Internacional, S.L.U.	100	-	69,310	1,070	(8,854)	185,864	246,320	-	231,027	-	-
Gasoducto Morelos S.A.P.I. de CV (*)	50	-	19,989	(1,480)	(6,021)	5,188	19,156	-	10,934	-	-
Estación de Compresión Soto la Marina, S.A.P.I. de C.V. (*)	49.9	0.1	18,412	(17,063)	(12,455)	955	6,912	-	9,149	-	-
ENAGAS PERU SAC (*)	0.01	99.99	832	(238)	(240)	23	615	-	-	-	-
ENAGAS MEXICO SA DE CV (*)	0.01	99.99	836	(85)	(141)	28	724	-	-	-	-
									2,236,117		

(*) Figures stated according to IFRS.

These Group companies are not listed on securities markets.

In 2015 the following changes were made to the Company's equity instruments:

- On 25 Junes 2015, Enagás Internacional, S.L.U. increased share capital by 6,076,010 new shares, with a par value of one euro each and a total premium of 14,177 thousand euros, to repay the loan taken out with Enagás, S.A. on 30 June 2014 and the interest accrued until this date totalling 20,253 thousand euros (22,818 thousand dollars).
- On 25 June 2015, Enagás Internacional, S.L.U. increased its capital through the issue of 3,000,000 new shares, with a par value of one euro each and a total premium of 7,000 thousand euros, via a fully paid monetary contribution.

At 31 December 2015 and 2014, the Company analysed the recoverability of the equity investments in Group companies and jointly controlled entities in order to verify that the recoverable amount of these investments is greater than the value recognised in the Company's accounting records.

To calculate the recoverable amount of the Group companies, an updated cash flow analysis was drawn up based on future projections detailed for these investments (see Note 4.5.1).

At 31 December 2015 and 2014, the Company did not recognise any impairment losses on the value of the direct investments in Group companies.

Loans, derivatives and other

The balances of the long-term loans are broken down in the following table:

	Thousands of euros	
	2015	**2014**
Enagás Transporte, S.A.U.	2,697,712	2,646,425
Enagás Internacional, S.L.U.	400,291	410,565
Gasoducto Morelos S.A.P.I. de C.V.	30,950	23,412
Enagás GTS, S.A.U.	10,000	-
Total	**3,138,953**	**3,080,402**

The changes in the loans granted to Enagás Transporte, S.A.U. relate mainly to:

- Loans granted to this Company in 2015 totalling 488,477 thousand euros, of which 259,200 thousand euros were used to partially pay off 282,300 thousand euros of a previously granted loan of 750,000 thousand euros due in 2017 (see Note 15.3).
- Short-term reclassifications amounting to 122,500 thousand euros.
- Loan repayments, for 110.000 thousand euros.

The change in the loans granted to Enagás Internacional, S.L.U. relate mainly to:

- Provisions for long-term loans with this Company recognised in 2015 totalling 9,740 thousand euros.
- Offsetting of loans due to the share capital increase at Enagás Internacional, S.L.U., amounting to 20,253 thousand euros (20,000 thousand euros of principal at long term and 253 thousand euros of interest at short term).

The changes to the loans granted to Gasoducto Morelos S.A.P.I. de C.V. mainly relate to a long-term loan in dollars granted to said company in 2015 for the amount of 4,261 thousand euros.

In 2015, the Company granted Enagás GTS, S.A.U a participating loan totalling 10,000 thousand euros.

Enagás, S.A. has a credit facility granted to Enagás Transporte, S.A.U. for the total amount of 500,000 thousand euros (500,000 thousand euros at 31 December 2014), which had not been drawn down at 31 December 2015 or 2014.

Loans to Group companies are subject to market interest rates, whereby the average rates for 2015 and 2014 were 2.0%, and 2.6%, respectively.

The detail of these loans, by maturity, at year-end 2015 and 2014 is as follows:

2015

	2017	2018	2019	2020 and beyond	Total
Loans and receivables	630,331	151,742	491,742	1,865,138	3,138,953
Total	**630,331**	**151,742**	**491,742**	**1,865,138**	**3,138,953**

2014

	2016	2017	2018	2019 and beyond	Total
Loans and receivables	122,500	903,168	171,742	1,882,992	3,080,402
Total	**122,500**	**903,168**	**171,742**	**1,882,992**	**3,080,402**

The breakdown of “Current investments in Group companies and jointly controlled entities” at year-end 2015 and 2014 is as follows:

Class / Category	Current financial instruments			
	Loans, derivatives and other		Total	
	2015	2014	2015	2014
Loans and receivables	538,976	480,801	538,976	480,801
Total	**538,976**	**480,801**	**538,976**	**480,801**

The following loans were recognised under “Loans and receivables”:

- Loans with companies of the tax group, as the Parent of this tax group, for 166,588 thousand euros in 2015 (194,963 thousand euros in 2014). Once the final income tax return for 2014 was filed, Enagás, S.A. collected the account receivable for income tax from Group companies belonging to the consolidated tax group for 194,963 thousand euros (see Note 18.2).
- Loans granted in 2015 related mainly to the following:
    - Enagás Transporte, S.A.U., amounting to 133,936 thousand euros (122,500 thousand euros of principal and 11,436 thousand euros of interest).
    - Enagás Internacional, S.L.U., in the amount of 7,245 thousand euros, relating to interest.
    - Gasoducto Morelos S.A.P.I. de C.V., a VAT credit facility in Mexican pesos for a maximum amount of 5,321 thousand euros, of which a total of 2,560 thousand euros had been drawn down in 2015 and a total of 1,494 thousand euros had been repaid.
- At 31 December 2015, the interim dividend receivable distributed by Enagás Transporte, S.A.U. amounted to 230,000 thousand euros.

9.3 Information on the type and level of risk regarding financial instruments and capital

9.3.1 Qualitative information

Enagás, S.A. is exposed to certain risks which it manages using a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the Company is a predictable manner and with a medium-low aggregate risk profile.

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. A regulatory framework has been established through the "Risk Management and Control Policy and General Rules", which defines the basic principles that govern the function of risks and identifies the responsibilities of the different bodies of the Company.

The function of risk management and control is laid out along three lines of defence, which present differing roles and responsibilities:

- 1st line of defence: formed by the organisational units that assume the risks in the ordinary course of their activities. They are the owners of the risks and are responsible for their identification and measurement.
- 2nd line of defence: comprises the Risk Management Division, responsible for ensuring the proper functioning of the risk management and control system, defining the regulatory and methodological framework and carrying out the periodic monitoring and overall control of Company risks.
- 3rd line of defence: formed by the Internal Audit Division, responsible for supervising the efficiency of the established risk controls.

The governing bodies involved in risk management and control are:

- Audit and Compliance Committee: the main functions of which are to supervise the efficiency of the risk systems and to evaluate Company risks (identification, measurement and establishment of management measures);
- Risks Committee: the main functions of which are to establish the overall risk strategy and global risk limits of the Company, review the level of risk exposure and the corrective actions in the event of non-compliance.

The main financial and fiscal risks to which the Company is exposed are as follows:

Credit risk

Credit risk consists of the possible losses arising from a failure to pay the financial or quantifiable obligations owed by a counterparty to which Enagás, S.A. has extended net credit and is pending settlement or collection.

The credit risk relating to receivables from its business activity is very limited since the Company mainly carries out its activity with Group companies (see Note 11).

The Company is also exposed to the risk of possible failures of its counterparties to comply with transactions involving financial derivatives and the placement of cash surpluses. To mitigate this risk, cash is placed and derivatives are arranged in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates, and the future flows from assets and liabilities linked to floating interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of the debt over the long term and mitigates volatility on the income statement.

Depending on Enagás, S.A.'s estimates and debt structure targets, hedging transactions are carried out by arranging derivatives that mitigate these risks (see Notes 4.5 and 16).

Liquidity risk

Liquidity risk arises as a result of differences in the amounts, or the collection and payment dates, of the Company's various assets and liabilities.

The liquidity policy followed by the Company is oriented towards ensuring compliance with short-term payment commitments acquired without having to obtain funds under onerous conditions over the short term. Various management measures are used in this respect, such as maintaining committed credit facilities in a sufficient amount, and appropriate terms and flexibility, the diversification of hedging of financial needs through access to various markets and geographic areas, and the diversification of the maturity dates of issued debt.

9.3.2 Quantitative information

a) Interest rate risk:

	31.12.2015	**31.12.2014**
Percentage of borrowings benchmarked to fixed/hedged rates	83%	73%

Based on the above levels of fixed-rate borrowings and after carrying out an analysis of the Company’s sensitivity to a one percentage point variation in market interest rates, the Company estimates that the impact on its income statement of such a variation in the cost of servicing its floating-rate debt would be as follows:

	Thousands of euros			
	Change in interest rates			
	2015		2014	
	25 bps	-25 bps	25 bps	-25 bps
Change in finance cost	1,914	(1,914)	2,501	(2,501)

Given the aforementioned changes, the impact on equity of the contracted derivatives would not be significant.

9.3.3 Capital management

The Company carries out capital management at corporate level and its objectives are to ensure financial stability and obtain sufficient financing for investments, optimising the cost of capital in order to maximise the value created for the shareholder while maintaining its commitment to solvency.

The Company uses as an indicator for monitoring its financial position and managing capital, the level of consolidated leveraging, which is defined as the quotient resulting from dividing net consolidated assets (understood to be the sum of net financial debt and consolidated equity) by net consolidated financial debt.

Financial leveraging of the Enagás Group at 31 December 2015 and 2014 is as follows (consolidated figures):

	2015	**2014**
Bank borrowings	1,884,109	1,737,563
Bonds and other marketable securities (*)	2,573,658	2,867,972
Other financial liabilities (**)	3,887	4,958
Cash and cash equivalents	(224,628)	(551,449)
Net financial debt	4,237,026	4,059,044
Capital and reserves	2,318,911	2,218,514
Leverage ratio	**64.6%**	**64.7%**

(*) The value of the obligations is included at amortised cost.
(**) Does not include the EVE option to sell its interest in Enagás Transporte del Norte, S.L. (16,700 thousand euros at 31 December 2015 and 17,100 thousand euros at 31 December 2014), nor the financial liability that the group has with the EIGs which will be offset through the recognition of the tax los carryforwards that these companies generate (3,054 thousand euros in 2015 and 2,153 thousand euros in 2014).

The Company's financial leveraging at 31 December 2015 and 2014 amounted to 65.1% and 65.0%, respectively.

As a result, Enagás, S.A. has demonstrated its financial robustness, which is endorsed by the various rating agencies. The credit rating agency Standard & Poor's has raised the long-term rating of the Company from "BBB" in 2014 to "A-" with a stable outlook at 31 December 2015. Likewise, the rating for Enagás, S.A., by Fitch Ratings at 31 December 2015 is also "A-" with a stable outlook.

10.- Inventories

The Company has 19 thousand euros at 31 December 2015 (20 thousand euros in 2014) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

11.- Trade and other receivables

At 31 December 2015, the 13,209 thousand euros recognised under "Trade receivables from Group companies and associates" mainly relates to Enagás Transporte, S.A.U., Enagás GTS, S.A.U. and Enagás Internacional, S.L.U., for 9,101 thousand euros, 2,394 thousand euros and 821 thousand euros, respectively. At 31 December 2014, the balance amounted to 21,833 thousand euros and related mainly to Enagás Transporte, S.A.U., Enagás GTS, S.A.U. and Enagás Internacional, S.L.U., for 11,477 thousand euros, 8,036 thousand euros and 1,630 thousand euros, respectively. These balances relate mainly to the provision of corporate services by Enagás, S.A.

12. Cash and cash equivalents

The detail of "Cash and cash equivalents" at 31 December 2015 and 2014 is as follows:

	2015	2014
Cash at banks and on hand	67,544	4,933
Cash equivalents	-	65,702
Total	**67,544**	**70,635**

Moreover, as indicated in Note 15.1, Enagás, S.A. has undrawn credit facilities to shore up liquidity. In this regard, Enagás, S.A. had the following funds available at 31 December 2015 and 2014:

	2015	2014
Cash and cash equivalents	67,544	70,635
Other funds available (Note 15.1)	1,650,000	1,754,478
Total	**1,717,544**	**1,825,113**

There are no significant restrictions on the availability of cash and bank balances.

13.- Equity and Shareholders' equity

The share capital of Enagás S.A. amounted to 358,101 thousand euros at year-end 2015 and 2014, and was represented by 238,734,260 shares, each with a par value of 1.5 euros, all of the same class. The shares have been fully subscribed and paid and are admitted for trading on the Spanish Stock Exchange, including the Spanish computerised trading system (the continuous market).

All the shares of the Parent, Enagás, S.A., are listed on the four Spanish stock exchanges and are traded on the Spanish computerised trading system. On 31 December 2015, Enagás, S.A.'s share price closed at 26.000 euros, having marked a high for the year of 28.475 euros per share on 27 April.

It should be noted that after the publication of Additional Provision Thirty-One of Law 34/1998, on the Oil and Gas Industry, in force since the Oil and Gas Law 12/2011 was enacted on 27 May, it is stipulated that "no individual or legal entity may directly or indirectly hold more than 5% of Enagás, S.A.'s shares or exercise more than 3% of the voting rights at this parent. Under no circumstances may such shareholdings be syndicated". It also states that "those parties that operate within the gas sector, including those individuals or bodies corporate that directly or indirectly hold over 5% of the share capital of these companies may not exercise more than 1% of the voting rights in such company. These restrictions do not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated".

The most significant shareholdings in Enagás, S.A. at 31 December 2015 and 2014 are as follows (source: National Securities Market Commission (CNMV) website: www.cnmv.es):

	Shareholding %	
Company	**2015**	**2014**
Sociedad Estatal de Participaciones Industriales	5.000	5.000
Bank of America Corporation	3.614	-
Retail Oeics Aggregate	1.010	1.010
Fidelity International Limited	0.962	1.973
Oman Oil Company, S.A.O.C.	-	5.000

The following changes to the shareholder structure of Enagás, S.A. took place in 2015:

- On 13 February 2015, Fidelity International Limited reported a reduction of 0.962% of its shareholding to the CNMV, and ceased to be a significant shareholder in Enagás S.A. from that moment.

- On 20 May 2015, Oman Oil Holdings Spain, S.L.U. ceased to be a shareholder of Enagás, S.A. Oman Oil Holdings Spain, S.L.U. informed the CNMV on 19 May 2015 that it had initiated a private placement among eligible national and international investors of a packet of 11,936,702 shares, representing 5.00% of the share capital of Enagás S.A. The placement was performed by means of an "accelerated bookbuilt offer" through the placement entities Citigroup Global Markets Limited and Deutsche Bank A.G London Branch. On 20 May 2015, the placement entities mentioned above announced the termination of said process. As a result of this transaction, Oman Oil Holdings Spain, S.L.U. sold all of its shareholding in Enagás, S.A.

- Lastly, on 9 July 2015, Bank of America Corporation became a significant shareholder of Enagás, S.A. by reaching a shareholding of 3.614%.

13.1 Legal reserve

Pursuant to the Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At the end of 2015 and 2014, this reserve had reached the legally required minimum, in the amount of 71,620 thousand euros, as required by the Spanish Limited Liability Companies Law with the proposed distribution of 2003 profits.

13.2 Treasury shares

At year-end 2015 and 2014, the Company held no treasury shares (See Note 24).

13.3 Valuation adjustments

<u>Hedging transactions</u>

This heading refers to derivatives arranged by the Company and designated as cash flow hedges related to the debt (see Note 16).

The movements associated with these transactions in 2015 and 2014 were as follows:

2015

	Thousands of euros			
	Opening balance	**Change in fair value**	**Recognised in profit or loss**	**Closing balance**
Cash flow hedges	(5,151)	(4,144)	4,166	(5,129)
Taxes recognised in equity	1,070	1,036	(1,042)	1,064
Total	**(4,081)**	**(3,108)**	**3,124**	**(4,065)**

2014

	Thousands of euros			
	Opening balance	**Change in fair value**	**Recognised in profit or loss**	**Closing balance**
Cash flow hedges	(3,798)	(7,141)	5,788	(5,151)
Taxes recognised in equity	1,139	1,667	(1,736)	1,070
Total	**(2,659)**	**(5,474)**	**4,052**	**(4,081)**

13.4 Dividends

In addition to the interim dividend in 2015 (mentioned in Note 3), Enagás, S.A. distributed the 2014 before-tax final dividend in 2015. This dividend amounted to 186,213 thousand euros (0.78 euros per share) and was paid on 2 July 2015.

14.- Provisions and contingent liabilities

14.1 Provisions

The directors of Enagás, S.A. consider that the provisions recorded in the accompanying balance sheet adequately cover the risks for which they were recognised, and therefore do not expect such contingencies to give rise to additional liabilities. Given the nature of the risks covered by these provisions, it is not possible to make a reasonable estimate as to the timing of any payments that may arise.

The breakdown of provisions on the balance sheet at year-end 2015 and 2014 and the main changes recognised are as follows:

2015

Non-current provisions	Opening balance	Provisions	Reversals	Closing balance
Employee remuneration	102	-	(102)	-
Other liabilities	1,615	-	-	1,615
Total non-current provisions	**1,717**	**-**	**(102)**	**1,615**

2014

Non-current provisions	Opening balance	Provisions	Reversals	Closing balance
Employee remuneration	-	102	-	102
Other liabilities	2,033	-	(418)	1,615
Total non-current provisions	**2,033**	**102**	**(418)**	**1,717**

14.1.1 Employee remuneration

The termination of personnel agreed in 2014 was settled in 2015, for the amount of 102 thousand euros.

14.1.2 Other liabilities

The balance corresponding to the provisions for other liabilities at 31 December 2015 and 2014 mainly relate to obligations arising from claims and lawsuits.

14.2 Contingent liabilities

In 2015 there were no significant contingencies that needed to be disclosed in the Company's financial statements.

15.- Financial liabilities (non-current and current)

15.1 Non-current financial liabilities

The breakdown of non-current financial liabilities at year-end 2015 and 2014 is as follows:

	Thousands of euros					
Class / Categories	Non-current financial liabilities					
	Bank borrowings and finance leases		Derivatives and other financial liabilities		Total	
	2015	2014	2015	2014	2015	2014
Accounts payable	1,523,749	1,538,285	51	829	1,523,800	1,539,114
Derivatives	-	-	2,264	2,689	2,264	2,689
Total	**1,523,749**	**1,538,285**	**2,315**	**3,518**	**1,526,064**	**1,541,803**

The table below shows a breakdown, by maturity, of payables classified as “Bank borrowings and finance leases” and “Derivatives”:

2015

	Thousands of euros				
	2017	**2018**	**2019**	**2020 and beyond**	**Total**
Bank borrowings	151,742	151,742	141,742	1,078,523	1,523,749
Derivatives	921	635	652	56	2,264
Other	3	3	7	38	51
Total	**152,666**	**152,380**	**142,401**	**1,078,617**	**1,526,064**

2014

	Thousands of euros				
	2016	**2017**	**2018**	**2019 and beyond**	**Total**
Bank borrowings	122,500	151,742	171,742	1,092,301	1,538,285
Derivatives	2,080	301	145	163	2,689
Other	829	-	-	-	829
Total	**125,409**	**152,043**	**171,887**	**1,092,464**	**1,541,803**

At 31 December 2015, the Company had credit facilities with a limit of 1,650,000 thousand euros, which had not been drawn down (in 2014 it had credit facilities with a limit of 1,650,000 thousand euros, of which 5,522 thousand euros had been drawn down). Thus, at 2015 year-end it did not have any drawn down loans (110,000 thousand at the 2014 year-end).

The Company's directors believe that these amounts sufficiently cover potential short-term liquidity requirements based on commitments outstanding at the balance sheet date.

The average rate of interest on borrowings in euros in 2015 was 2.2% (2.8% in 2014). The Company has no borrowings in currencies other than the euro.

The directors consider that the fair value of the bank borrowings and other obligations at 31 December 2015 and 2014 does not differ significantly from their carrying amount. The sensitivity of the aforementioned fair value to fluctuations in interest rates is as follows:

	Thousands of euros			
	Change in interest rates			
	2015		2014	
	25 bps	-25 bps	25 bps	25 bps
Change in fair value of borrowings	7,148	(7,148)	9,002	(9,002)

Financing highlights in 2015 include:

- The change in “Debits and other payables” in 2015, is a result of the provision of the last available tranche for the amount of 110,000 thousand euros of the loan granted by the EIB in 2008 for a total of 1,000,000, thousand euros, recognised at long term, which has permitted the granting, by Enagás S.A., of loans of the same amount to Enagás Transport S.A.U. in 2015 (see Note 9.2). The term of this provision is established at 10 years, with a grace period of 4 years.
- Reclassifications to short term amounting to 122,500 thousand euros (see Note 15.2).

- With regard to the line of multi-currency financing obtained in 2013 under the Club Deal arrangement, this was renewed in 2014, with an agreed increase of the amount to 1,500,000 thousand euros and an extension of the term to December 2019. Enagás, S.A. has the option to request an extension for an additional year or two, subject to approval by the lenders. In 2015, the Company, executed the first extension provided for in the contract until 2020 for an amount of 1,450,000 thousand euros. No drawdowns had been made on this financing in 2015.

In 2015, Enagás, S.A. acted as guarantor in the transactions listed below carried out by Enagás Financiaciones, S.A.U. (see Note 23.4):

- On 23 January 2015, Enagás Financiaciones S.A.U., issued 10-year bonds for the amount of 600,000 thousand euros with an annual coupon of 1.25%, guaranteed by Enagás, S.A. Part of this bond, specifically 259,200 thousand euros, was used to partially repay 282,300 thousand euros from a previous bond issue for the amount of 750,000 thousand euros with a coupon of 4.25%, maturing on 5 October 2017. The funds corresponding to this issue were paid on 6 February 2015.

- On 10 March 2015, Enagás Financiaciones S.A.U., issued 8-year bonds for the amount of 400,000 thousand euros with an annual coupon of 1.00%, guaranteed by Enagás, S.A. The bonds were swapped in their entirety for bonds issued previously for the same amount with a floating interest rate maturing in 2016. The funds corresponding to this issue were paid on 25 March 2015.

- On 18 May 2015, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) program in the amount of 4,000,000 thousand euros, registered with the Luxembourg Stock Market in 2012, for which Enagás, S.A. acted as guarantor.

15.2 Current financial liabilities

The breakdown of "Current financial liabilities" at year-end 2015 and 2014 is as follows:

	Thousands of euros							
Class	**Current financial instruments**							
	Bank borrowings and finance leases		Bonds and other marketable securities		Derivatives and other financial liabilities		**Total**	**Total**
Category	2015	2014	2015	2014	2015	2014	**2015**	**2014**
Accounts payable	124,931	116,088	229,944	229,823	15	15	**354,890**	**345,926**
Derivatives	-	-	-	-	3,780	3,142	**3,780**	**3,142**
Total	124,931	116,088	229,944	229,823	3,795	3,157	**358,670**	**349,068**

The change in 2015 in “Bank borrowings and finance leases” is due mainly to reclassifications from long term in the amount of 122,500 thousand euros (see Note 15.1) and the repayment of loans in the amount of 110,000 thousand euros, which has been possible due to the settlement of loans performed by Enagás Transporte, S.A.U. in 2015 (see Note 9.2).

With regard to the obligations and other marketable securities, the Company recognises the Euro Commercial Paper (ECP) programme under this heading for a maximum amount of 1,000,000 thousand euros, listed on the Irish Stock Exchange in 2011, and renewed on 18 May 2015. Banco Santander, S.A. is the arranger of the programme, an entity which acts as a designated dealer together with 9 other banks. At 31 December 2015, the amount recognised under “Bonds and other marketable securities” on the liability side of the accompanying balance sheet totalled 229,944 thousand euros (229,823 thousand euros at 31 December 2014), and issues and redemptions were mainly made in 2015 for a nominal amount of 624,000 thousand euros.

15.3 Payables to Group companies and jointly controlled entities

The breakdown of “Non-current payables to Group companies and jointly controlled entities” at year-end 2015 and 2014 included the balance of the long-term loans granted to Enagás, S.A. by Enagás Financiaciones, S.A.U. and Enagás Internacional, S.L.U., the breakdown being:

	Thousands of euros	
	2015	**2014**
Enagás Financiaciones, S.A.U.	2,032,504	1,906,871
Enagás Internacional, S.L.U.	4,278	-
Total	**2,036,782**	**1,906,871**

The average interest rate for 2015 corresponding to the loans received from Enagás Financiaciones, S.A.U. and Enagás Internacional, S.L.U. was 2.7% (3.31% for 2014). The detail by maturity is as follows:

<u>2015</u>

	Thousands of euros				
	2017	2018	2019	2020 and beyond	Total
Loans and accounts payable	468,589	-	-	1,568,193	2,036,782
Total	**468,589**	**-**	**-**	**1,568,193**	**2,036,782**

<u>2014</u>

	Thousands of euros				
	2016	2017	2018	2019 and beyond	Total
Loans and accounts payable	399,954	751,425	-	755,492	1,906,871
Total	**399,954**	**751,425**	**-**	**755,492**	**1,906,871**

The change in loans granted by Enagás Financiaciones, S.A.U. to Enagás S.A. relate mainly to:

- Credit facilities granted by Enagás Financiaciones, S.A.U. in 2015 for 905,652 thousand euros, of which 259,200 thousand euros have been used to partially repay a previous loan extended for 750,000 thousand euros maturing in 2017 and 400,000 thousand euros have been used to fully repay the loan for the same amount previously extended and maturing in 2016.
- Repayments amounting to 94,467 thousand euros.

In 2015, Enagás Internacional, S.L.U. granted the Company a long-term loan in dollars for the amount of 4,261 thousand euros.

"Current payables to Group companies and jointly controlled entities" at the year-end of 2015 and 2014 mainly contains the balance of the interest and short-term loans granted to Enagás, S.A. by the other Group companies, as well as the payables to companies of the tax group as Parent thereof for 17,412 thousand euros (7,719 thousand euros in 2014). Once the final income tax return for 2014 had been filed, Enagás, S.A. paid the account payable for income tax to Group companies belonging to the consolidated tax group amounting to 7,719 thousand euros (see Note 18.2). The breakdown of these items, by company, is set out below:

	Thousands of euros	
	2015	**2014**
Enagás Financiaciones, S.A.U.	32,514	74,158
Enagás GTS, S.A.U.	3,781	2,639
Enagás Internacional, S.L.U.	8,910	3,712
Total	**45,205**	**80,509**

16.- Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to business, operating and cash flow risks. Within the framework of these operations, the Company arranged interest rate swaps (IRS) under market conditions.

The Company has met the requirements set out in Note 4.5.4 regarding the measurement bases for financial instruments to qualify as hedges. Specifically, they have been formally designated as hedges, and they have been tested for effectiveness.

These instruments are offset and settled by differences, whereby the actual risk for Enagás, S.A. arises from the net position thereof and not from the amount contracted.

The fair value of the derivative financial instruments arranged by the Company at 31 December 2015 and 2014 is detailed below:

2015

					Fair value (thousands of euros)	
Company	**Classification**	**Rate**	**Amount arranged (thousands of euros)**	**Maturity**	**Assets**	**Liabilities**
Interest rate swap	Cash flow hedge	Floating to fixed	475,000	Jan-2017	-	3,022
Interest rate swap	Cash flow hedge	Floating to fixed	100,000	May-2017	-	412
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Dec-2019	-	1,207
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Jan-2020	-	862
Interest rate swap	Cash flow hedge	Floating to fixed	65,000	Mar-2020	-	541
Total			**940,000**		**-**	**6,044**

In respect of cash flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Amount arranged (thousands of euros)	Currency	Maturity	Total	2016	2017	2018 and beyond
475,000	Euros	January 2017	3,022	2,848	174	-
100,000	Euros	May 2017	412	300	112	-
150,000	Euros	December 2019	1,207	297	298	612
150,000	Euros	January 2020	862	210	211	441
65,000	Euros	March 2020	541	125	126	290
940,000			**6,044**	**3,780**	**921**	**1,343**

2014

					Fair value (thousands of euros)	
Company	**Classification**	**Rate**	**Amount arranged (thousands of euros)**	**Maturity**	**Assets**	**Liabilities**
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	Jun-15	-	1,061
Interest rate swap	Cash flow hedge	Floating to fixed	475,000	Jan-17	-	3,945
Interest rate swap	Cash flow hedge	Floating to fixed	100,000	May-17	-	81
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Dec-19	-	396
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Jan-20	-	222
Interest rate swap	Cash flow hedge	Floating to fixed	65,000	Mar-20	-	126
Total			**1,140,000**		**-**	**5,831**

In respect of cash flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Amount arranged (thousands of euros)	Currency	Maturity	Total	2015	2016	2017 and beyond
200,000	Euros	Jun-15	1,061	1,061	-	-
475,000	Euros	Jan-17	3,945	1,901	1,901	143
100,000	Euros	May-17	81	34	34	13
150,000	Euros	Dec-19	396	78	78	240
150,000	Euros	Jan-20	222	44	43	135
65,000	Euros	Mar-20	126	24	24	78
1,140,000			**5,831**	**3,142**	**2,080**	**609**

No new hedging operations were arranged in 2015.

17.- Trade and other payables

The breakdown of “Trade and other payables” at year-end 2015 and 2014 is as follows:

	2015	2014
Payable to suppliers	14,513	16,011
Payable to suppliers - Group companies and associates	525	2,806
Other payables	689	1,439
Payables to employees	4,834	3,465
Current tax liabilities (Note 18.2)	1,082	100
Other payables to public authorities (see Note 18.2)	25,487	25,675
Total	**47,130**	**49,496**

“Current payables to suppliers - Group companies and associates”, the balance of which at 31 December 2015 was 525 thousand euros, relates mainly to the following:

- Enagás Financiaciones, S.A.U., 294 thousand euros.
- Enagás GTS, S.A.U., 182 thousand euros.

“Current payables to suppliers - Group companies and associates”, the balance of which at 31 December 2014 was 2,806 thousand euros, relates to the following:

- Enagás Transporte, S.A.U., 2,417 thousand euros.
- Enagás Internacional, S.L.U., 372 thousand euros.

“Payable to suppliers” corresponds to amounts owed for the purchase of materials by and services rendered to Enagás, S.A., which are recognised under “External services” and “Property, plant and equipment”.

17.1 Information on average payment period. Additional provision three. “Disclosure requirement” set out in Law 15/2010, of 5 July.

Below follows the information required by the Additional provision three of Law 15/2010 of 5 July (amended by Final provision two of Law 31/2014 of 3 December), prepared in accordance with the Resolution of the ICAC of 29 January 2016 regarding information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial operations.

In accordance with Additional provision one of the above-mentioned resolution, this being the first financial year of application, no comparative information is presented.

The disclosures required under Additional provision three of Spanish Law 15/2010, of 5 July, are as follows:

	2015
	Days
Average payment period to suppliers.	30
Ratio of operations paid	29
Ratio of operations pending payment	45

	Amount (thousands of euros)
Total payments made	132,503
Total payments pending	4,789

In accordance with the Resolution of the ICAC, the calculation of the average payment period to suppliers considers the commercial operations corresponding to the delivery of goods or rendering of services accrued since the date of the entry into force of Law 31/2014 of 3 December.

Suppliers, for the exclusive purposes of providing the information set forth in this Resolution, are considered to be trade payables owed to suppliers of goods and services included in the items “Payable to suppliers”, “Payable to suppliers - Group companies and associates” and “Other payables” under current liabilities in the balance sheet.

"Average payment period to suppliers" is understood to be the time that passes between the delivery of the goods or rendering of the service by the supplier and the material payment for the operation.

The maximum payment term applicable to the Company in 2015 under Spanish Law 3/2004 of 29 December establishing measures to combat late payments in business transactions is approximately 60 days. In order to obtain the foregoing information, payment obligations that have been the object of withholdings as a result of embargoes, writs of execution, administrative enforcement proceedings, or other similar acts handed down by legal or administrative bodies were excluded.

18.- Taxation

18.1 Tax reform approved and main implications for the Company

As a consequence of the entry into force of the new Corporation Tax Law 27/2014, of 27 November, on 1 January 2015, there was a drop in the rate of Corporation Tax to 28% for financial year 2015 (in 2014, Corporation Tax was 30%).

Furthermore, for 2016 and thereafter, there is an additional reduction planned for the Corporation Tax rate to 25%. As a result of this decline and from an accounting point of view, at 2015 year-end the deferred tax assets and liabilities recognised in 2015 were restated at the tax rate at which they are expected to be recovered or cancelled in the future.

18.2 Current balances with the tax authorities

The breakdown of current balances with the tax authorities is as follows:

Tax receivable

	2015	2014
Tax refunds receivable	-	4,822
VAT refundable	454	613
Total	**454**	**5,435**

Tax payable

	2015	2014
Tax withholdings payable	24,108	24,250
Income tax payable	1,082	100
VAT payable	821	950
Social security payable	558	475
Total	**26,569**	**25,775**

In 2015 Enagás, S.A. paid 136,462 thousand euros on account of 2015 income tax (180,420 thousand euros in 2014). As mentioned in Note 4.8, Enagás, S.A. acts as the Parent of the tax group and, therefore, the payments on account made in 2015 relate to the amount payable by the tax group.

At 31 December 2015, the balance of income tax payable relates to the balance payable by the tax group for 2015 income tax.

At 31 December 2014, the balance of tax refunds receivable mainly included the balance receivable for 2014 income tax, the refund of which, amounting to 4,822 thousand euros, was received in 2015.

In addition, given that Enagás, S.A. acts as the Parent of the tax group, in 2015 the Company settled its respective balances with other companies of the tax group for 2014 income tax. Specifically, the Company collected 194,963 thousand euros, the amount recognised at 2014 year-end, under “Current loans to Group companies and jointly controlled entities” (see Note 9.2), and paid 7,719 thousand euros, the amount recognised at year-end 2014 under “Current payables to Group companies and jointly controlled entities” (see Note 15.3).

18.3 Income tax

The Company has filed consolidated tax returns since 1 January 2013 with several Group companies (see Note 4.8), which means that the results of the tax group and the tax credits and tax relief are calculated on an aggregate basis.

Income tax is calculated on the basis of the Group's accounting profit/loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the Group's taxable profit/tax loss.

18.4 Reconciliation of accounting profit to taxable profit

The reconciliation of accounting profit to taxable profit for income tax purposes is as follows:

<u>2015</u>

	Thousands of euros		
	Increases	Decreases	Total
Accounting profit before tax	**341,884**		**341,884**
Permanent differences:	**2,118**	**(383,224)**	**(381,106)**
Other items (foreign fines and taxes)	1,713	-	1,713
Donations	405	-	405
Exemption for dividends	-	(383,224)	(383,224)
Temporary differences:	**1,925**	**(1,906)**	**19**
Arising in the current year:			
Provision for remuneration payable	787	-	(138)
Provisions for fixed assets	110	-	110
Other	397	(925)	397
Arising in prior years:			
Other	76	-	76
Depreciation deduction limit, R.D.L. 16/2012	-	(981)	(981)
Unrestricted depreciation regimes, Law 4/2008 and Law 13/2010	555	-	555
Taxable income	**345,927**	**(385,130)**	**(39,203)**

2014

	Thousands of euros		
	Increases	Decreases	Total
Accounting profit before tax	**339,286**		**339,286**
Permanent differences:	**1,234**	**(375,097)**	**(373,863)**
Other items (foreign fines and taxes)	1	-	1
Donations	1,233	-	1,233
Exemption for dividends	-	(375,097)	(375,097)
Temporary differences:	**7,830**	**(2,304)**	**5,526**
Arising in the current year:			
Depreciation deduction limit, R.D.L. 16/2012	4,780	-	4,780
Provision for remuneration payable	705	(139)	566
Provisions for litigation	1,616	-	1,616
Arising in prior years:			
Unrestricted depreciation regimes, Law 4/2008 and Law 13/2010	729	-	729
Provisions for litigation	-	(2,165)	(2,165)
Taxable income	**348,350**	**(377,401)**	**(29,051)**

Permanent differences include the dividends received from companies belonging to the tax group as well as donations and other items.

18.5 Taxes recognised in equity

The breakdown of taxes recognised directly in equity in 2015 and 2014 is as follows:

2015

	Thousands of euros		
	Increases	Decreases	Total
Current tax:			
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in the year (Note 13.3):			
Measurement of other financial assets (*)	1,036	(1,042)	(5)
Total deferred tax	**1,036**	**(1,042)**	**(5)**
Total tax recognised directly in equity	**1,036**	**(1,042)**	**(5)**

2014

	Thousands of euros		
	Increases	Decreases	Total
Current tax:			
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in the year (Note 13.3):			
Measurement of other financial assets (*)	1,667	(1,736)	(69)
Total deferred tax	**1,667**	**(1,736)**	**(69)**
Total tax recognised directly in equity	**1,667**	**(1,736)**	**(69)**

(*) In 2015, the Company proceeded to revise the deferred tax asset and liability amounts recognised under equity at the tax rate at which they are expected to be recovered or cancelled, in accordance with the tax reform (see Note 18.1).

18.6 Reconciliation of accounting profit to the income tax expense

The reconciliation of accounting profit to the income tax expense is as follows:

	2015	2014
Accounting profit before tax	**341,884**	**339,286**
Tax rate of 28% (*)	95,728	101,786
Impact of permanent differences	**(106,710)**	**(112,159)**
Tax credits:	**(494)**	**(1,903)**
Depreciation deduction limit	(20)	-
Environmental	-	(32)
Investment in R&D&I	(332)	(1,440)
Donations	(142)	(431)
Adjustments to income tax (**)	**(306)**	**761**
Total tax expense recognised in the income statement	**(11,782)**	**(11,515)**

(*) The payment for 2014 corresponds to 30% of the profit before tax (see Note 18.1).
(**) In accordance with the tax reform (see Note 18.1), in 2015 the Company proceeded to revalue the deferred tax assets and liabilities, recognised in 2015, at the tax rate at which they are expected to be recovered or cancelled. This heading also includes the income tax adjustments for 2014.

18.7 Breakdown of income tax expense

The breakdown of the income tax expense is as follows:

	2015	2014
Current tax:		
Continuing operations	(11,470)	(10,618)
Discontinued operations	-	-
Deferred tax:		
Continuing operations	(6)	(1,658)
Discontinued operations	-	-
Adjustments to income tax:		
Continuing operations	(306)	761
Discontinued operations	-	-
Total tax expense	**(11,782)**	**(11,515)**

18.8 Deferred tax assets recognised

The breakdown of this heading at year-end 2015 and 2014 is as follows:

	2015	2014
Temporary differences (deferred tax assets):		
Provision for remuneration	3,887	3,689
Provisions for litigation	500	404
Derivatives	1,355	1,359
Depreciation deduction limit, R.D.L. 16/2012	2,208	2,483
Other	28	-
Unused tax credits and other	442	462
Total deferred tax assets	**8,420**	**8,397**

These deferred tax assets were recognised on the balance sheet since the Company's directors consider that, based on the best estimates of future results, it is likely that these assets will be recovered.

Article 7 of Law 16/2012, of 27 December, establishing several tax measures to consolidate public finances and to encourage economic activity, introduced limits on tax deductible depreciation with regard to corporation tax. This limit means that companies that do not comply with the requirements established in sections 1, 2 or 3 of article 108 of the Consolidated Corporation Tax Law can deduct the book depreciation/amortisation of property, plant and equipment, intangible assets and investment properties in the tax periods that begin in 2013 and 2014 up to a limit of 70% of that which would have been tax deductible if that percentage had not been applicable, in accordance with sections 1 and 4 of article 11 of that law. This article establishes that as from 2015, this depreciation/amortisation can be deducted on a straight-line basis over 10 years or over the useful life of the asset. In this regard, the Company has decided to do apply depreciation to the deferred tax asset recognised at the close of 2014 (2,483 thousand euros) on straight line basis over 10 years. Based on this legislation, the deferred tax asset applied in this regard in 2015 amounted to 275 thousand euros.

The Company also proceeded to recognise the items covered by Transitional Provision Thirty-Seven of Law 27/2014 under “Unused tax credits and other”. This transitional provision establishes that taxpayers that are subject to the tax rate set in article 29.1 of this Law, as is the case of the Company, and that were subject to the depreciation/amortisation limitation established in article 7 of Law 16/2012 of 27 December, will be entitled to a 5% deduction of the amounts making up the tax base for that tax period as a result of the depreciation/amortisation not deducted in the tax periods beginning in 2013 and 2014. This deduction is 2% for the tax periods which begin in 2015. Based on this legislation, the deduction applied during the period amounts to 20 thousand euros.

In accordance with the tax reform (see Note 18.1), in 2015 the Company proceeded to revalue the deferred tax assets recognised in 2015 at the tax rate at which they are expected to be recovered or cancelled.

The Company does not have any deferred tax assets that are not recognised in the accompanying balance sheet.

18.9 Deferred tax liabilities

The breakdown of this heading at year-end 2015 and 2014 is as follows:

	2015	2014
Deferred tax liabilities:		
Unrestricted depreciation	576	731
Margin for engineering services	817	272
Other	123	126
Total deferred tax liabilities	**1,516**	**1,129**

With regard to deferred tax liabilities, in 2009 and 2010, Enagás, S.A. availed itself of the unrestricted depreciation tax incentive tied to preserving jobs, enacted under Law 4/2008, of 23 December.

Likewise, in 2011 and 2012 the Company availed itself of the unrestricted depreciation tax incentive provided for in Royal Decree 13/2010, of 3 December, extending the unrestricted depreciation regime for new investments in fixed assets attached to core business activities and waiving the job preservation obligations. The timeline for applying this tax incentive was also extended until 2015.

However, on 31 March 2012, Royal Decree 12/2012 abolished the unrestricted depreciation regime for new investments as of that date. In any event, the amounts pending application with respect to the investments made up until 31 March 2012 may benefit from this incentive, up to a limit of 40% of the tax base for those relating to the 2009-2010 period, and of 20% for those relating to the 2011-2012 period.

As a result of the above, the deferred tax applied by Enagás S.A. in 2015 amounted to 155 thousand euros (219 thousand euros in 2014), corresponding to an adjustment to taxable income of 555 thousand euros.

In accordance with the tax reform (see Note 18.1), in 2015 the Company proceeded to revalue the deferred tax liabilities recognised in 2015 at the tax rate at which they are expected to be recovered or cancelled.

18.10 Years open for inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.

At the end of 2015, Enagás, S.A. had open for inspection all applicable tax returns from 2011 to 2015, with the exception of income tax, the returns of which are open to review from 2010 to 2015.

The Company's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying financial statements.

19.- Foreign currency balances and transactions

The detail of the most significant balances and transactions in foreign currency, valued at the year-end exchange rate and the average exchange rates for the year, is as follows at 31 December 2015 and 2014:

	2015	**2014**
Loans to Group companies	28,513	19,785
Payable to Group companies	4,410	-

The detail, by type of financial instrument, of the exchange differences recognised in profit or loss for the year is as follows:

<u>2015</u>

	Transactions settled in the year	Unmatured balances	Total
Loans to Group companies	-	1,701	1,701
Payable to Group companies	-	(19)	(19)
Other exchange differences	309	-	309
Total	**309**	**1,682**	**1,991**

<u>2014</u>

	Transactions settled in the year	Unmatured balances	Total
Loans to Group companies	3,457	2,006	5,463
Other exchange differences	190	-	190
Total	**3,647**	**2,006**	**5,653**

20.- Income and expenses

20.1 Revenue

The Company primarily conducts its business in Spain, and the distribution of its revenue in 2015 and 2014, by business activity, is as follows:

Revenue	Thousands of euros	
	2015	**2014**
Services rendered	**160,122**	**190,658**
Income from long-term loans to Group companies and associates	64,959	76,748
Services to Group companies and jointly controlled entities	95,163	113,679
Dividend income from Group companies and jointly controlled entities	-	231
Dividend income from Group companies and jointly controlled entities	**383,224**	**375,097**
Total	**543,346**	**565,755**

The dividends received in 2015 include 300,000 thousand euros and 83,224 thousand euros relating to the interim dividend for 2015 and the final dividend for 2014, respectively, received from Enagás Transporte, S.A.U.

The dividends received in 2014 include 322,160 thousand euros and 52,937 thousand euros relating to the interim dividend for 2014 and the final dividend for 2013, respectively, received from Enagás Transporte, S.A.U.

It is worth noting that income from marketable securities was calculated by using the effective interest method.

The breakdown, by geographical market, of the revenue for 2015 and 2014 is as follows:

Geographical market	2015	2014
Spain	539,911	561,524
Latin America	3,435	4,231
Total	**543,346**	**565,755**

20.2 Procurements

The consumption of raw materials is accounted for by purchases of other gas-related items, such as odorisation equipment, spare parts, gases and oils, used in the research and development centre amounting to 29 thousand euros and 34 thousand euros at 31 December 2015 and 2014, respectively.

20.3 Employee benefits expense and Social Security and other benefits

Details of employee benefits expense in 2015 and 2014 are as follows:

	2015	2014
Employee benefits expense:		
Wages and salaries	29,400	25,917
Termination benefits	1,346	2,432
Social security	5,214	4,715
Other employee benefit expenses	4,788	2,120
Contributions to external pension funds	799	771
Total	**41,547**	**35,955**

It should be noted that the workforce underwent restructuring in 2015, and this resulted in termination agreements being signed with three employees (five employees in 2014) 62 years of age or older.

The breakdown of "Social Security and other benefits" in 2015 and 2014 is as follows:

	2015	2014
Social Security and other benefits:		
Social security	5,214	4,715
Contributions to pension plans	1,587	1,476
Other benefits	4,000	1,415
Total	**10,801**	**7,606**

The contributions made by the Company to the pension plan in this connection amounted to 799 thousand euros in 2015 (771 thousand euros in 2014), recognised under "Employee benefits expense – Social Security and other benefits" in the accompanying income statement. Furthermore, it includes a Directors' Savings Plan for the amount of 828 thousand euros.

20.4 Finance revenue and costs

The breakdown of finance revenue and costs is as follows:

	2015	2014
Finance revenue	400	5,863
Finance revenue	**400**	**5,863**
Finance and similar costs	(107)	(264)
Interest on loans	(85,861)	(98,352)
Finance costs	**(85,968)**	**(98,616)**
Change in fair value of financial instruments	**-**	**-**
Exchange differences	**1,991**	**5,653**
Impairment losses and gains (losses) on disposal of financial instruments	**-**	**-**
Net finance cost	**(83,577)**	**(87,100)**

It should be noted that expenses for interest on loans were calculated by using the effective interest method.

21.- Related party transactions and balances

21.1 Related party transactions

The Company's "related parties", in addition to subsidiaries, associates and jointly controlled entities, are considered to be "key personnel" of its management team (members of the Board of Directors, management and their close family members), and entities over which key management personnel could exercise significant or total control as established in Order EHA/3050/2004, of 15 September, and CNMV Circular 1/2008, of 30 January.

Below is a breakdown of the related party transactions of Enagás, S.A. in 2015 and 2014, distinguishing between significant shareholders, Board members, executives, Group employees, companies or entities, and other related parties. The terms of transactions with related parties are equivalent to those made on an arm's-length basis, and the corresponding remuneration in kind has been recorded.

2015

	Thousands of euros				
	31/12/2015				
Income and expense	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	**Total**
Expenses:					
Finance costs	-	-	57,553	2,518	**60,071**
Services received	-	-	1,896	386	**2,282**
Other expenses	-	1,007	-	-	**995**
Total expenses	**-**	**1,007**	**59,449**	**2,904**	**63,348**
Income:					
Finance revenue (Note 20.1)	-	-	64,942	17	**64,959**
Dividends received (Note 20.1)	-	-	383,224	-	**383,224**
Services rendered (Note 20.1)	-	-	95,163	-	**95,163**
Other income	-	-	165	-	**165**
Total income	**-**	**-**	**543,494**	**17**	**543,511**

2014

Income and expense	Thousands of euros				
	31/12/2014				
	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	**Total**
Expenses:					
Finance costs	-	-	59,161	1,346	**60,507**
Services received	-	-	1,775	976	**2,751**
Other expenses	-	1,083	-	-	**1,083**
Total expenses	**-**	**1,083**	**60,936**	**2,322**	**64,341**
Income:					
Finance revenue (Note 20.1)	-	-	76,746	2	**76,748**
Dividends received (Note 20.1)	-	-	375,097	-	**375,097**
Services rendered (Note 20.1)	-	-	113,679	-	**113,679**
Other income	-	-	396	-	**396**
Total income	**-**	**-**	**565,920**	**2**	**565,922**

2015

Other transactions	Thousands of euros			
	2015			
	Significant shareholders	Group employees, companies or entities	Other related parties	**Total**
Debt securities of related parties (see Note 23.4)	-	2,774,115	-	**2,774,115**
Guarantees and sureties granted - Others (Note 23.4)	-	94,835	148,768	**243,603**
Dividends and other profits paid out	30,051	-	-	**30,051**

2014

Other transactions	Thousands of euros			
	2014			
	Significant shareholders	Group employees, companies or entities	Other related parties	**Total**
Debt securities of related parties (see Note 23.4)	-	2,117,263	-	**2,117,263**
Guarantees and sureties granted - Others (Note 23.4)	-	101,062	153,078	**254,140**
Dividends and other profits paid out	39,785	-	-	**39,785**

During 2015 and 2014, the Banco Santander Group complied with the aforementioned definition of "related party".

Of the transactions indicated in the preceding table, 2,518 thousand euros in finance costs for 2015 corresponds to this related party (1,346 thousand euros in 2014), (including the finance costs arising from interest rate hedges) and 148,768 thousand euros in guarantees and sureties granted at 31 December 2015 (153,078 thousand euros at 31 December 2014).

Additionally, the Company has a multi-currency club deal as finance which at 31 December 2015 had not been drawn down. In this operation, the related party represents 9.63% of the total of the banks that have underwritten this source of finance.

21.2 Balances with related parties

The balances in the balance sheet with related parties are as follows:

2015

	2015		
Balances	**Group employees, companies or entities**	**Other related parties**	**Total**
Long-term equity instruments (see Note 9.2)	2,266,371	-	**2,266,371**
Financing agreements: loans and capital contributions (lender)			
Non-current loans to companies (Note 9.2)	3,138,953	762	**3,139,715**
Current loans to companies (Note 9.2)	142,388	-	**142,388**
Current receivable relating to consolidated income tax (Note 9.2)	166,588	-	**166,588**
Dividends and other benefits received at short term (Note 9.2)	230,000	-	**230,000**
Trade receivables (Note 11)	13,209	-	**13,209**
Financing agreements: loans and capital contributions (borrower)			
Non-current payables (Note 15.3)	2,036,782	-	**2,036,782**
Current payables (Note 15.3)	27,793	-	**27,793**
Current payables relating to consolidated income tax (Note 15.3)	17,412	-	**17,412**
Trade payables (Note 17)	525	-	**525**

2014

Balances	2014		
	Group employees, companies or entities	**Other related parties**	**Total**
Long-term equity instruments (see Note 9.2)	2,236,117	-	**2,236,117**
Financing agreements: loans and capital contributions (lender)			
Non-current loans to companies (Note 9.2)	3,080,402	-	**3,080,402**
Current loans to companies (Note 9.2)	128,678	-	**128,678**
Current receivable relating to consolidated income tax (Note 9.2)	194,963	-	**194,963**
Dividends and other benefits received at short term (Note 9.2)	157,160	-	**157,160**
Trade receivables (Note 11)	21,833	-	**21,833**
Financing agreements: loans and capital contributions (borrower)			
Non-current payables (Note 15.3)	1,906,871	-	**1,906,871**
Current payables (Note 15.3)	72,790	-	**72,790**
Current payables relating to consolidated income tax (Note 15.3)	7,719	-	**7,719**
Trade payables (Note 17)	2,806	-	**2,806**

21.3 Director and senior management remuneration

The remuneration received in 2015 and 2014 by the members of the Board of Directors and by senior management of Enagás, S.A., broken down by item, was as follows:

2015

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Directors	2,014	1,007	170	12	33
Senior management	1,682	-	87	41	13
Total	**3,696**	**1,007**	**257**	**53**	**46**

2014

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Directors	2,016	1,083	145	13	31
Senior management	1,778	-	84	36	23
Total	**3,794**	**1,083**	**229**	**49**	**54**

The salary of the Executive Chairman has not increased since 2008 and that of the CEO has not increased since he joined the Company in 2012.

The Board of Director's attendance fees have not risen since 2008. Changes between financial years correspond to actual attendance by directors at meetings.

Executive directors and senior management form part of the group covered by the mixed group insurance policy for pension commitments. Of the premium paid in 2015, 271 thousand euros corresponded to executive directors (276 thousand euros in 2014) and 246 thousand euros to senior management (297 thousand euros in 2014).

The aforementioned remuneration distributed to each of the members of the Board of Directors in 2015 and 2014, excluding insurance premiums and pension plans, was as follows:

	Thousands of euros	
DIRECTORS	**2015**	**2014**
Antonio Llardén Carratalá (Executive Director) [1]	1,749	1,737
Marcelino Oreja Arburúa [2]	561	552
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	72
Sultan Hamed Khamis Al Burtamani [3]	11	32
Jesús David Álvarez Mezquíriz (Independent Director) [3]	20	76
Dionisio Martínez (Independent Director) [5]	-	26
José Riva Francos (Independent Director) [5]	-	21
Ramón Pérez Simarro (Independent Director)	76	76
Martí Parellada Sabata (Independent Director)	81	80
Teresa García-Milà Lloveras (Independent Director) [5]	-	20
Miguel Angel Lasheras Merino (Independent Director) [5]	-	20
Luis Javier Navarro Vigil (External Director)	76	76
Isabel Sanchez García (Independent Director) [5]	-	20
Jesús Máximo Pedrosa Ortega (Proprietary Director)	76	76
Rosa Rodriguez Díaz (Independent Director)	76	70
Ana Palacio Vallelersundi (Independent Director) [4]	80	60
Isabel Tocino Biscalorasaga (Independent Director) [4]	81	60
Antonio Hernández Mancha (Independent Director) [4]	76	60
Luis Valero Artola (Independent Director) [4]	76	53
Gonzalo Solana González (Independent Director) [4]	76	57
Total	**3,191**	**3,244**

[1] The difference in the remuneration of the Executive Chairman in 2015 with respect to 2014 was exclusively due to the increase of the withholdings on account of compensation in kind, with said compensation in kind being the same in both years.

In 2015, the Executive Chairman received fixed remuneration of 960 thousand euros and a variable remuneration of 575 thousand euros, as approved by the Board; he also received Board meeting attendance fees of 64 thousand euros (fixed remuneration plus attendance fees), and 150 thousand euros in other remuneration in kind. His combined pay came to 1,749 thousand euros. He is also the beneficiary of a life insurance policy for which the premium for the year was 33 thousand euros, while 7 thousand euros were contributed to his pension plan. The Group has outsourced its pension commitments to its directors through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death and employment disability. The Executive Chairman is one of the beneficiaries covered by this policy. The total premium paid during the year in respect of the Executive Chairman was 177 thousand euros.

[2] The difference in the remuneration of the Executive Chairman in 2015 is exclusively due to valuation differences in the compensation in kind, which has been the same in both years.

In 2015, the Executive Chairman received fixed remuneration of 300 thousand euros and a variable remuneration of 180 thousand euros, as approved by the Board; he also received Board meeting attendance fees of 64 thousand euros (fixed remuneration plus attendance fees), and 17 thousand euros in other remuneration in kind. His combined pay came to 561 thousand euros. He is also the beneficiary of a life insurance policy for which the premium for the year was 0,5 thousand euros, while 5 thousand euros were contributed to his pension plan. The CEO is also part of the group of beneficiaries covered by the mixed group pension plan described above and the premium paid during the year in respect of the CEO was 93 thousand euros.

[3] Both directors stood down in 2015.

[4] Directors appointed at the General Shareholders' Meeting in 2014 held in March (remuneration for 2014 corresponds to the period from March to December 2014).

[5] Directors who stood down at the General Shareholders' Meeting in 2014 held in March (remuneration for 2014 corresponds to the period from January to March 2014).

21.4 Other disclosures concerning the Board of Directors

In keeping with the provisions of article 229 et seq. of the Spanish Limited Liability Companies Law, these notes include disclosures relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies with a corporate purpose that is similar or complementary to that of Enagás, S.A. have been considered to be those companies engaged in the transport, regasification, distribution or supply of natural gas, as regulated by the Oil and Gas Law 34/1998.

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to the Group by directors at 31 December 2015 and 2014 are as follows:

2015

Director	Company	No. of shares	% shareholding
Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Jesús Máximo Pedrosa Ortega	Iberdrola	3,382	0.00%
Jesús Máximo Pedrosa Ortega [1]	Iberdrola	7,472	0.00%

2014

Director	Company	No. of shares	% shareholding
Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Jesús Máximo Pedrosa Ortega	Iberdrola	3,382	0.00%
Jesús Máximo Pedrosa Ortega [1]	Iberdrola	7,472	0.00%
Gonzalo Solana González	Endesa	25	0.00%
Gonzalo Solana González	Iberdrola	1,072	0.00%

[1] Through Inversores Asfis as joint and several director with a 60% shareholding.

Positions held or duties performed by the Company's directors at companies engaging in an activity that is identical, similar or complementary that were disclosed to Enagás, S.A. at 31 December 2015 and 2014 are as follows:

2015

Director	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	MIBGAS	Director

2014

Director	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Sultan Hamed Khamis al Burtamani	Oman Oil Company, S.A.O.C.	Director of Business Development

No activities that are identical, similar or complementary to those of Enagás, other than those listed above, are carried out by its directors as independent professionals or as employees.

At the end of 2015, neither the members of the Company's Board of Directors nor persons associated with them, as defined by article 229 of the Spanish Limited Liability Companies Law, reported to the other members of the Board of Directors any direct or indirect conflict of interest with the Company's interests.

22.- Environmental information

Enagás, S.A., as the head of the Enagás Group, endeavours to protect the environment and its biodiversity, to boost energy efficiency, lower its emissions and to promote the responsible use of resources within its environmental management strategy, designed to mitigate its impact on its surroundings.

The Company has embodied environmental protection in its strategic programmes and policy through an Environmental Management System (EMS) developed and certified by LLOYDS and prepared in accordance with the requirements of the UNE EN ISO 14001 standard. The EMS ensures compliance with applicable environmental legislation and continual improvement of environmental behaviour during the activities of the Zaragoza laboratory and Project Management in New Infrastructure Developments.

In 2015, LLOYD'S, the Spanish accreditation agency, issued the corresponding audit reports on the EMS with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in this field.

Enagás, S.A. goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and installations, assessing risks and promoting eco-efficiency, practising responsible waste and residue management, minimising its carbon footprint and attempting to help combat climate change.

The Company also incorporates environmental criteria into its contractor and supplier dealings and takes environmental issues into consideration when it issues tenders for supply of products and services.

In 2015, the environment-related investments made by Enagás, S.A. in on-balance sheet assets amounted to 331 thousand euros. In 2014, this amount was 23 thousand euros. Environmental expenses incurred by the Company in 2015 totalled 255 thousand euros (41 thousand euros in 2014) and are recognised under "Other operating costs" on the accompanying income statement.

Potential contingencies, indemnities and other environmental risks to which the Company is exposed are sufficiently covered by civil liability insurance policies.

Enagás, S.A. did not receive any grants or income in 2015 or 2014 as a result of its activities relating to the environment.

23.- Other disclosures

23.1 Employees

The average number of employees in 2015 and 2014, by professional category, was as follows:

Category	2015	2014
Managers	65	48
Technicians	293	247
Administrative staff	66	66
Manual workers	2	7
Total	**426**	**368**

At 31 December 2015, the total number of employees was 458 (388 employees in 2014). The distribution of the professional categories by gender was as follows:

	2015		2014	
Category	Men	Women	Men	Women
Managers	55	19	42	9
Technicians	181	133	162	108
Administrative staff	12	56	14	50
Manual workers	2	-	3	-
Total	**250**	**208**	**221**	**167**

It should be noted that "Managers" includes the seven men and one woman making up the Company's senior management.

23.2 Auditors' fees

Fees for financial audit and other services performed in 2015 and 2014 by the Company's auditor, Deloitte, S.L., or by a firm in the same group or related to the auditor, were as follows:

Item	2015	2014
	Services provided by the auditor and its related parties	**Services provided by the auditor and its related parties**
Audit services (1)	191	168
Other assurance services (2)	321	493
Total audit and audit-related services	**512**	**661**
Other services	29	45
Total professional services	**29**	**45**

(1) Audit services: This heading includes the services provided to complete the bylaw-stipulated audit of the Company's financial statements for 191 thousand euros and 168 thousand euros for the periods 2015 and 2014, respectively.

(2) Other assurance services related to the audit: Nearly all of this amount relates to work carried out required to review the effectiveness of the internal control systems.

23.3 Greenhouse gas emission rights

At 31 December 2015 and 2014, Enagás, S.A. did not have any technical facilities that generated greenhouse gas emissions.

23.4 Commitments and guarantees

The breakdown of the commitments and guarantees of the Company at 31 December 2015 and 2014 is as follows:

2015

Commitments and guarantees	Thousands of euros			
	2015			
	Group employees, companies or entities (see Note 21.1)	Other related parties (see Note 21.1)	Third parties	**Total**
Debt securities of related parties	2,774,115	-	-	**2,774,115**
Guarantees and sureties granted - Others	94,835	148,768	330,484	**574,087**

2014

Commitments and guarantees	Thousands of euros			
	2014			
	Group employees, companies or entities (see Note 21.1)	Other related parties (see Note 21.1)	Third parties	**Total**
Debt securities of related parties	2,117,263	-	-	**2,117,263**
Guarantees and sureties granted - Others	101,062	153,078	339,975	**594,115**

"Debt securities of related parties" includes corporate guarantees for the amount of 2,774,115 thousand euros at 31 December 2015 (2,117,263 thousand euros at 31 December 2014) as detailed below:

	Thousands of euros	
	2015	**2014**
E. Financiaciones debt security	2,227,700	1,960,000
E. Transporte derivative security	147,514	-
E. Internacional debt security for the financing of Swedegas	97,883	-
E. Internacional debt security for la Caixa line of credit	137,138	-
GSP bridging loan security	138,016	74,202
E. Internacional debt security for the financing of TAP	-	83,061
Swedegas security commitment	25,864	-
Total	**2,774,115**	**2,117,263**

The abovementioned securities correspond mainly to:

- The GSP project amounting to 138,016 thousand euros (74,202 thousand euros at 31 December 2014). These corporate securities will be released when the debt is refinanced.
- The securities pledged by Enagás, S.A. in the issue of bonds by Enagás Financiaciones, S.A.U., of particular note are:
  - On 27 March 2014, Enagás Financiaciones S.A.U. issued 8-year bonds for 750,000 thousand euros with an annual coupon of 2.50%, guaranteed by Enagás, S.A. The payment date was 11 April 2014.
  - On 23 January 2015, Enagás Financiaciones S.A.U., issued 10-year bonds for the amount of 600,000 thousand euros with an annual coupon of 1.25%, guaranteed by Enagás, S.A. Part of this bond, specifically 259,200 thousand euros, was used to partially repay 282,300 thousand euros from a previous bond issue for 750,000 thousand euros with a coupon of 4.25%, maturing on 5 October 2017. The funds corresponding to this issue were paid on 6 February 2015 (see Note 15.1).

- On 10 March 2015, Enagás Financiaciones S.A.U., issued 8-year bonds for the amount of 400,000 thousand euros with an annual coupon of 1.00%, guaranteed by Enagás, S.A. The bonds were swapped in their entirety for bonds issued previously for the same amount with a floating interest rate maturing in 2016. The funds corresponding to this issue were paid on 25 March 2015 (see Note 15.1).

- The security for the amount of 25,864 thousand euros acquired on 31 December 2015 in the Financing Agreement existing between Knubbsäl Topholding AB, in which, Enagás, S.A. undertakes to extend a corporate guarantee in favour of the financing entities if the current Financing Agreement has not been cancelled or refinanced six months prior to its due date, this being July 2022. The maximum security commitment granted by Enagás, S.A. amounts to 25,864 thousand euros (SEK 237,500 thousand), and in accordance with the foregoing, this corporate guarantee will not be granted prior to January 2022. In the event that it needs to be granted, this corporate guarantee may only be executed by the financing entities in the case of non-payment by Knubbsäl Topholding AB on the due date of the Financing Agreement.

"Guarantees and sureties granted - Others" includes mainly the following items amounting to 574,087 euros at 31 December 2015 (600,526 euros at 31 December 2014):

- Performance bonds on obligations for granted concessions, cross-collateralised by Enagás, for 89,711 thousand euros (95,939 thousand euros at 31 December 2014).

  The guaranties and sureties granted with Group companies at 31 December 2015 include the technical guarantee provided vis-à-vis third-parties by the Group Enagás Transporte, S.A.U. for 5,123 thousand euros and cross-collateralised by Enagás, S.A.

  The guaranties and sureties granted with other related parties at 31 December 2015 include the guarantees granted before the Federal Electricity Commission ("CFE") for the service contracts relating to the Morelos Gas Pipeline and Soto de la Marina Compression Station projects for 9,201 thousand euros and 8,156 thousand euros, respectively, which have been granted by the related company Banco Santander.

- Guarantees pledged during bid processes for 3,267 thousand euros (2,638 thousand euros at 31 December 2014). Included within this amount and classified as guarantees with third parties, at 31 December 2015, the Enagás Group held a guarantee for the amount of 875 thousand euros for a bidding process in which Enagás Internacional has been identified as the preferred industrial partner to become a shareholder. The aim of this project is the development, construction and operation of a regasification plant. The transaction is currently in the negotiation phase, subject to the fulfilment of certain exceptions included in the bid by the Enagás Group.

- Furthermore, the financial guarantees granted as security for the loans provided by the European Investment Bank to Enagás, S.A. for 430,000 thousand euros (450,000 thousand euros in 2014), of which 125,000 thousand euros have been granted by the related entity Banco Santander in 2015 (130,000 thousand euros in 2014).

- Technical guarantees granted vis-à-vis third parties to cover certain responsibilities that may arise from the execution of the agreements that make up its activity, amounting to 28,628 thousand euros at 31 December 2015 (23,748 thousand euros in 2014), of which 6,411 thousand euros correspond to sureties formalised with Banco Santander (both at 31 December 2015 and 2014), an entity that complies with the definition of related party as defined in Note 21.1.

Directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying balance sheet as a result of the transactions described in this note.

24.- 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 2016-2018 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 strategic objectives, aligning the interests of the Plan's beneficiaries with the attainment of long-term value for shareholders. The Plan may not exceed the delivery of a total of 307,643 shares.

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

Between 1 January 2016 and the date on which these financial statements were drawn up, no events occurred that would significantly affect Company earnings or equity.

25.- Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2-1). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

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

MANAGEMENT REPORT OF ENAGÁS, S.A.

I.- Performance of Enagás, S.A. in 2015

Since July 2012, Enagás, S.A. has performed its activities as the Parent of the Enagás Group, through investments in the share capital of the companies constituting the Group, providing assistance and support services to these same companies.

The commitment assumed by the Company in performing these activities is that of creating value for all of its stakeholders.

Net profit was 353,666 thousand euros, an increase of 0.8% on the previous year.

Revenue amounted to 543,346 thousand euros, down 4% on that obtained in the previous year.

Investments in 2015 amounted to 9,145 thousand euros (9,662 thousand euros in 2014) (see Notes 5 and 6).

At year end, Enagás, S.A.'s shareholders' equity stood at 2,086,969 thousand euros, and equity totalled 2,082,904 thousand euros.

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

II. Main business risks

Enagás, S.A. is exposed to various risks inherent to the sector, to the market in which it operates and to the activities it performs, which, should they arise, may prevent it from achieving its objectives and executing its strategies successfully.

The Enagás Group, the parent of which is Enagás, S.A., 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:

- the establishment of a risk appetite framework that is consistent with the established business goals and the market context in which the Company is developing its activities;
- the consideration of standard types of risk to which the Company is subject;
- 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 Company's risk level;
- transparency in the information provided to third parties, guaranteeing its reliability and rigour.

The integral analysis of all risks permits the appropriate control and management thereof, understanding the relationships between them and facilitating 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 Enagás, S.A.'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 wrong decisions in relation to the Company's business plans and strategies.

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

Similarly, the new developments of infrastructures are subject to the obtainment of 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) the obtainment of authorisation, ii) the processes relating to environmental impact studies, iii) public opposition in the affected communities, and iv) changes in the political environment. All of these risks may increase costs or delay projected income.

Growth in demand may also bring negative effects with different impacts 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 return received by these activities. The degree to which regasification plants are used may have a negative impact on forecasted operating costs, due to greater internal consumption and greenhouse gas emissions.

In the medium to long term, the evolution of demand is a factor that creates opportunities for building new projects for natural gas transport, regasification and underground storage infrastructures, and such evolution may alter or delay decisions to undertake such projects.

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 law suits undertaken.

Enagás S.A. 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, competition, business plans, strategic decisions, etc., together with the management measures for keeping such risks at acceptable levels.

2. <u>Operational and Technological Risks</u>

During the performance of the activities carried out by Enagás, S.A. 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.

Enagás, S.A. 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 employee training, the application of certain internal policies and procedures, the establishment of limits and authorisations, and quality certificates, etc., that allow the likelihood of the occurrence of these risk events to be minimised.

To mitigate the negative economic impact that some of these risks could have on Enagás, S.A. should they arise, a series of insurance policies have been taken out.

Some of these risks could affect the reliability of the financial information prepared and reported by Enagás, S.A. 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. <u>Credit and Counterparty Risks</u>

Credit and counterparty risk consists of the possible losses arising from a failure to pay the financial or quantifiable obligations owed by a counterparty to which Enagás, S.A. 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 at long term. Enagás, S.A. monitors in detail this type of risk, 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 Enagás, S.A. 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, S.A.'s business activity does not allow an active customer concentration risk management policy to be established.

Information concerning counterparty risk management is disclosed in Note 9.3 to the financial statements.

4. Financial and Fiscal Risks

Enagás, S.A. is subject to the risks arising from the volatility of interest and exchange rates, as well as changes in other financial variables that could affect the Company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that accrue 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 this moment the Company maintains a fixed or protected debt structure of over 70% to limit this risk.

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. The purpose of the foreign currency risk management of Enagás, S.A. is to obtain a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the subsidiary 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.

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

With regard the fiscal risks, the Company is exposed to possible amendments to the tax regulation frameworks and to uncertainty due to possible differences in the interpretations of the tax legislation in effect, with potential negative impacts on its earnings.

The financial risk management policy is set out in Note 9.3 to the financial statements.

5. Reputational Risk

Reputational risk refers to any action, event or circumstance that could have a harmful effect on the perceptions and opinions of groups of interest with respect to the Company.

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

6. Compliance Risk and Model

The Company 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 policies and procedures.

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

7. 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, Enagás, S.A. 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, Enagás, S.A. has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and to hold the Company harmless from any liability.

III. Use of financial instruments

The Enagás Group's financial management is centralised with the Parent, Enagás, S.A. In February 2008, the Board of Directors of Enagás, S.A. approved an interest rate hedging policy devised to align the Company's finance costs with the target rate structure set in 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 the Enagás Group's total net debt was hedged against interest rate increases at 31 December 2015 (81% in 2014).

IV.- Outlook

Enagás, S.A., as the Parent of the Enagás Group, will guarantee the proper functioning of the Spanish gas system and monitor the security of supply, encouraging competitiveness transparently and without discrimination.

Likewise, it will optimise the Spanish gas system coordinating the various players and proposing measures to improve its functioning. It will continue to develop the transport grid and will manage its infrastructures in a manner which is safe, efficient, profitable and committed to the environment.

It will do all of the foregoing in collaboration with the regulators, providing quality service to its customers, creating value for its shareholders and contributing to the sustainable development of the Company.

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 the technical requirements to obtain the certification of the system in collaboration with the Spanish Metrology Centre.

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 to contrast measurements taken in the laboratory against those 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 its facilities and is intended to boost energy efficiency both from the standpoint of optimising consumption and producing electricity from residual energy from the processes: pressure heat and cold. Various comparisons and tests 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 sent 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.

VI. Transactions with treasury shares

The Company did not carry out any transactions involving treasury shares in 2015.

VII.- Corporate Governance Report

The Corporate Governance Report of Enagás, S.A. is attached to this Management Report as a separate section.

VIII.- Additional information

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

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 attached thereto and the percentage of total share capital represented.*

Capital structure of the Parent:

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 shares.*

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 rights on Company shares:

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.

(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 into 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 systems operator and sets ceilings on shareholdings in the Company. The new wording of this additional provision reads:

"Additional Provision Twenty. Technical systems operator.

ENAGAS, S.A. shall undertake the duties, rights and obligations of technical systems 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 systems manager, or exercise more than 3% of the company's voting rights. Such shares cannot, under any circumstances, 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 systems 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 Securities Market Law 24/1988, of 28 July, those whose ownership corresponds to:

a) Any person acting on his own behalf but on account of the aforesaid, by agreement 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 agreement with that body corporate.

b) Shareholders together with which the former exercises control over a dominant company in accordance with article 4 of Securities Market Law 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.

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 person or body corporate found to be holders of the securities or to any person who may be attributed the excess interest in share capital or voting rights pursuant to the preceding paragraphs. In any event, the enforcement system envisaged by this law shall be applied."

Accordingly, Transitional Provision Six of Law 12/2007, of 2 July, stipulates that within four months from 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 systems 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, of 7 October, shall be suspended from the entry into force of this provision.

The Spanish National Energy Commission 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 6 bis ("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 shares be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings therein of more than 5%, may not exercise voting rights 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 Twenty 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) Rules governing the appointment and replacement of Board members and the amendment of the Company's bylaws

<u>Bylaw provisions</u> 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.

Persons who are subject to any of the situations referred to in article 124 of the Consolidated 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 also be responsible for appointing a Secretary, and may also appoint a Deputy Secretary, who shall act as Secretary when necessary. The Deputy Secretary need not be a director. In lieu of both, the youngest shall act as Secretary to the Board.

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, notwithstanding the powers of proposal enjoyed by shareholders, the Board of Directors shall propose to the General Shareholders' Meeting the number of directors that at each stage it deems appropriate in the interest of the Company. 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 to be an Internal or Executive Director for the purposes of these Regulations.

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

b) External Directors: These directors shall in turn fall into three categories:

b1) Proprietary Directors: Directors who own an equity interest equal to or greater than that which is considered significant by 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 these 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 so 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 by the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Corporation Law and Company Bylaws.

2.- Those appointed to directorship must be people who, in addition to meeting the legal and bylaw-stipulated requirements, enjoy acknowledged prestige and the appropriate professional knowledge and experience to perform their tasks efficiently.

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 proposed by the Appointments and Remuneration Committee. When the Board of Directors does not follow the Committee's recommendations, it must explain the reasons for this, and such reasons must be duly recorded in the minutes.

3.- The process of filling board vacancies shall have no implicit 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 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, under no circumstances, qualify as Independent Directors:

a) Those 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 such relationship.

b) Those 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 this section, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, whenever 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) Those 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) Executive Directors or senior officers of another company in which an Executive Director or senior officer of Enagás, S.A. is an External Director.

e) Those 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 to be those with suppliers of goods or services, including financial advisory and consultancy services.

f) Those who are significant shareholders, Executive Directors or senior managers of any entity that receives, or has 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 involved in any 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. Proprietary 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 Directors once 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, it should be attempted to adequately rotate Independent Directors. 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 these 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.

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.

c) When the circumstances motivating their appointment as directors no longer exist, Executives.

d) When Independent Directors no longer fulfil the criteria required under article 9.

e) When the shareholder represented by a Proprietary Director 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 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 the 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 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 of his notarial archive, and recorded in Volume 20,090, Book 0, Page 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 the statutory limits set, 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 of his notarial archive, and recorded in Volume 32,018, Book 0, Page 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, payable through monetary contributions, 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 exclude pre-emption rights, 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.

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

IX.-Average payment period to suppliers.

The Company's average payment period to suppliers was 30 days.

X.-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 2016-2018 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 strategic objectives, aligning the interests of the Plan's beneficiaries with the attainment of long-term value for shareholders. The Plan may not exceed the delivery of a total of 307,643 shares.

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

Between 1 January 2016 and the date on which these financial statements were drawn up, no events occurred that would significantly affect Company earnings or equity.

On 15 February 2016, the Board of Directors of Enagás, S.A. authorised the 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 Limited Liability Companies Law 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 financial statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the Company's equity, financial position and results and that the management report includes a fair analysis of the performance and results of the businesses and the Company's position, 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 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

Ms. Jesús Máximo Pedrosa Ortega

Mr. Ramón Perez Simarro

Ms. Rosa Rodríguez Diaz

Mr. Gonzalo Solana González

Ms. Isabel Tocino Biscarolasaga

Mr. Luis Valero Artola

Secretary to the Board

Mr. Rafael Piqueras Bautista