**REPORT PREPARED BY THE BOARD OF DIRECTORS OF ENAGÁS, S.A. FOR THE PURPOSES OF ARTICLES 297.1 B), 286 AND 506 OF THE CONSOLIDATED TEXT OF THE CORPORATE ENTERPRISES ACT JUSTIFYING THE PROPOSAL TO AUTHORISE THE BOARD TO CARRY OUT A CAPITAL INCREASE WITHIN FIVE YEARS IN THE TERMS SET OUT IN ARTICLE 297.1 B), WITH THE POWER TO EXCLUDE THE SHAREHOLDERS' PRE-EMPTIVE SUBSCRIPTION RIGHTS, PURSUANT TO ARTICLE 506, UP TO A LIMIT OF TWENTY PERCENT OF THE CAPITAL. THE PROPOSAL IS LISTED AS ITEM 5 ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING SCHEDULED FOR 30 AND 31 MARCH 2017, AT THE FIRST AND SECOND CALL, RESPECTIVELY.**

## 1. Purpose of the Report

The Board of Directors of Enagás, S.A., at its meeting of 13 February 2017, and in compliance with the provisions of articles 286 and 506 of the Consolidated Text of the Corporate Enterprises Act ("LSC"), has prepared the following report justifying the proposal to authorise the Board of Directors to pass a resolution to increase the share capital in accordance with article 297.1 b) of the LSC, in one or more share issues, to a maximum amount equivalent to half of the capital in existence at the time of the authorisation, and within five years of the date of the General Meeting's resolution. The authorisation includes the power to exclude the shareholders' pre-emptive subscription rights to acquire new shares, with a limit of 20% of the share capital at the time of the authorisation. Therefore, this report is also issued for the purposes of article 506 of the LSC in order to justify the proposal for the delegation of this power.

The General Shareholders' Meeting held on 30 March 2012 authorised the Board to increase the capital pursuant to article 297 1 b) of the LSC. Seeing as five years have elapsed since the previous authorisation, it is now advisable to renew it.

## 2. Rationale for the proposal

Article 297.1 b) of the LSC provides that the General Shareholders' Meeting, subject to the requirements set for the amendment of the Articles of Association, may delegate to the directors the power to increase the capital, in one or more share issues, by the amount they deem appropriate, without having to consult the General Shareholders' Meeting in advance. Under no circumstances may the capital increases exceed half of the company's share capital at the time of the authorisation. Furthermore, they must be carried out through cash contributions within a maximum period of five years from the date of the General Meeting's resolution. As a result of the delegation of power, the directors are entitled to reword the article of the Articles of Association relating to the share capital, after the increase has been agreed and completed. Article 286 of the LSC, referred to in article 297.1 b) of the same Act, provides that the directors shall prepare a written report justifying the proposal.

The market requirements for companies, and particularly listed companies, provide that the companies' governing and administrative bodies may avail themselves of the possibilities provided by the regulatory framework for companies in order to be able to address, in a timely and effective manner, the needs that arise during the normal course of business of a large corporation. However, it is often impossible to anticipate the company's capital requirements or the delays and increased costs of having to hold a General Shareholders' Meeting before being able to carry out a capital increase, thus hindering the company's ability to respond to challenges with the timeliness and speed required of the market. Therefore, the Board of Directors believes that it is in the best interests of the company and the business to allow the Board to increase the share capital and provide the company with new equity without having to hold a General Meeting, which incurs additional costs and delays. The General Shareholders' Meeting of 30 March 2012 adopted a resolution to facilitate the above. However, since five years have elapsed since its adoption, the resolution is about to expire. The Board of Directors believes that it is in the company's best interests to be able to maintain this legal instrument for raising equity.

Furthermore, article 506 of the LSC provides that, in listed companies, when the General Shareholders' Meeting delegates the power to carry out capital increases to the Directors, the latter may also be granted the power to exclude the shareholders' pre-emptive subscription rights in relation to new share issues when this is in the company's best interests. The notice of the General Shareholders' Meeting, in addition to indicating the proposal to delegate the power to carry out capital increases to the Directors, shall also include the proposal to exclude the shareholders' pre-emptive subscription rights. After the General Shareholders' Meeting has been called, a Directors' report justifying the proposal to delegate the above power shall be made available to the shareholders. The resolution to increase the share capital pursuant to the power delegated by the General Meeting must include a Directors' report and an auditor's report for each specific capital increase. The nominal value of the shares to be issued, in addition, where applicable, to the share premium, shall be the fair value indicated in the auditor's report. The above reports will be made available to the shareholders and submitted at the first General Meeting following the resolution to increase the share capital.

The proposal provides for the delegation of the power to exclude pre-emptive subscription rights when this is in the company's best interests, albeit up to a maximum total aggregate nominal value of 20% of the company's share capital on the date the resolution is adopted, pursuant to Recommendation 5 of the Good Governance Code for Listed Companies, published on 24 February 2015. The above delegation is justified by providing the necessary flexibility in relation to those resolutions concerning share capital increases. The Board of Directors considers that this additional possibility, which significantly increases the room for manoeuvre and the response capacity enabled by the delegation of the power to increase the share capital pursuant to article 297.1 b) of the LSC, is justified by the greater flexibility and agility it provides, and which is sometimes required in current financial markets in order to take advantage of the times when the markets are more favourable. Exclusion of the pre-emptive subscription right helps to reduce the costs of the operation and obtain better financial conditions in the interest of the company.

In any event, it is stated that the proposed resolution does not in itself constitute a capital increase. It is merely a power delegated to the Board of Directors by the General Shareholders' Meeting, the exercise of which will be at the discretion of the Board based on the circumstances at the time of making the decision and always in compliance with the provisions of the relevant legal regulation. Should the Board of Directors decide to avail itself of the power to exclude the shareholders' pre-emptive subscription rights in relation to a specific capital increase that might be agreed pursuant to the authorisation conferred by the General Meeting, the directors and the accounts auditor shall prepare the reports required under article 308 of the LSC. The reports will subsequently be made available to the shareholders on the company's website and will, moreover, be submitted at the first General Shareholders' Meeting following the adoption of the resolution to increase the share capital.

The powers delegated under the proposal are conditional upon the fact that all of the capital increases agreed by the Board of Directors, including those carried out following the powers delegated herein, those carried out pursuant to other authorisations of the General Meeting and those granted by the latter for the issue of convertible debentures at the meeting of 18 March 2016, do not exceed the limit of half of the current share capital provided for in article 297.1 b) in fine of the LSC or 20% of the total share capital in the event that the issuance of convertible securities excludes the shareholders' pre-emptive subscription rights. This authorisation to increase the share capital includes the power to issue and put into circulation, in one or more share issues, the shares representing the capital that are required to carry out the increase, and to amend the wording of the article of the Articles of Association relating to the capital amount. Furthermore, the proposal includes the request, when applicable, for permission to trade the shares issued by the company under this delegation of powers on official or non-official, organised or non-organised, Spanish or foreign secondary markets, enabling the Board of Directors to carry out the necessary formalities and actions at the competent bodies of the Spanish or foreign securities markets for the listing of the shares. Finally, it is proposed that the Board of Directors be expressly empowered to delegate, in turn, the powers covered by this proposed resolution.

## 3. Proposed resolution

Therefore, the following resolution is laid before the General Meeting:

"Authorise the Board of Directors to increase the share capital, in one or more share issues, and at any time, pursuant to the terms and limits set out in articles 297.1.b) and 506 of the Consolidated Text of the Corporate Enterprises Act , within five years of the date the resolution was adopted and to an amount equivalent to half of the current share capital, including, for the purpose of complying with the limit, the increases agreed in the exercise of this authorisation and any others that may be agreed in compliance with other authorisations granted or that may be granted by the General Meeting to the Board of Directors.

The capital increases covered by this authorisation will be carried out through the issue and circulation of new shares, with or without a premium, which will be paid for by monetary contributions. When not expressly provided for, the Board of Directors may determine the terms and conditions for capital increases as well as the characteristics of the shares, and it is free to offer the new unsubscribed shares within the deadline(s) for the exercise of the pre-emptive subscription rights. The Board of Directors may also provide that, when not fully subscribed, the share capital will be increased only by the amount of the subscribed shares, and proceed to reword the article of the Articles of Association relating to the share capital.

For capital increases carried out pursuant to this authorisation, the Board of Directors is expressly authorised to exclude, in whole or in part, the pre-emptive subscription rights in accordance with article 506 of the Consolidated Text of the Corporate Enterprises Act The power to exclude the pre-emptive subscription rights agreed by the Board in the exercise of the above delegation of powers or others agreed or that may be agreed by the General Meeting is conditional upon it not exceeding, in total, 20% of the company's current share capital.

The company will request, where applicable, the listing on official or non-official secondary markets, organised or non-organised, in Spain or abroad, of the shares issued by virtue of this authorization, enabling the Board to carry out the necessary formalities and actions at the competent bodies of the Spanish or foreign securities markets for listing the securities.

The Board of Directors is expressly empowered to delegate, in turn, the powers provided under this proposed resolution.

The authorisation to increase the capital conferred on the Board of Directors by a resolution of the General Shareholders' Meeting of 30 March 2012 is hereby rendered ineffective."

And for all appropriate legal reasons, it is hereby stated that he company's Board of Directors prepares this report at its meeting held on 13 February 2017.

The Secretary to the Board of Directors
Rafael Piqueras Bautista
**Enagás, S.A**