



Appendix II.

Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2015

The purpose of this report is to summarize the activities of the Audit and Compliance Committee of Enagás, S.A. during 2015.

Composition during 2015

During the year 2015, the composition of the Committee has remained unchanged.

Chairman

Mr. Martí Parellada Sabata, Independent Director

Members

Sociedad Estatal de Participaciones Industriales (SEPI), represented by its Deputy Chairman, Federico Ferrer Delso Proprietary director.

Mrs. Rosa Rodríguez Díaz, Independent Director.

Mr. Gonzalo Solana González, Independent Director.

Mr. Luis Valero Artola, Independent Director.

Secretary

Mr. Rafael Piqueras Bautista

As provided in the Company's constitutional documents, the Committee called on a number of persons related to matters under their competence for consultation. Accordingly, committee meetings were regularly attended by the Chief Executive Officer (Mr. Marcelino Oreja Arburúa), the Chief Financial Officer (Mr. Borja García-Alarcón Altamirano), and the successive Directors of Internal Audit (Mr. José Manuel Castro del Real and Mr. Isidro del Valle Santín). The Chief Risk Officer has also attended meetings of the Committee when the latter has addressed issues related to his functions.

The representatives of the External Auditor, Deloitte, S.L., have also attended regular meetings of the Committee.

Amendment to the legal regulations and corporate texts pertaining to the audit and compliance committee.

On December 4th, 2014, Law 31/2014, of December 3th, was published in the Boletín Oficial del Estado [Spanish Official State Gazette] amending the Spanish Limited Liability Companies Law. This law provides for legislative reform aimed at improving good governance at companies of all types generally, and furthermore includes specific measures for publicly traded corporations.

In line with the provisions of the Law, the General Shareholders' Meeting held on March 27th, 2014 approved the adaptation of the Company Bylaws to the innovations introduced by this Law into the Spanish Limited Liabilities Companies Law. The reform included the amendment to the regulation of the composition of the Audit and Compliance Committee and the adaptation of its functions and competences to the provisions of the Spanish Limited Liabilities Companies Law. Article 44 of the Bylaws was given the following wording:

“Article 44. - Audit and Compliance Committee

The Board of Directors shall appoint from among its members an Audit and Compliance Committee that shall comprise a minimum of three and a maximum of five Directors. No Executive Director may sit on this Committee. At least one member of the Committee must be independent and will be appointed in light of his or her knowledge and track record in matters of accountancy, auditing, or both. The Committee Chairperson shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote. The Chairman must be replaced every four years, and may be re-elected after the lapse of one year from his departure from office

The Audit and Compliance Committee shall possess functions and competences in the following areas, in addition to those that may be attributed to it in the Bylaws or the Regulations of the Board of Directors:

- To inform the General Shareholders’ Meeting on issues raised in the areas that lie within the Committee’s competence
- To oversee the effectiveness of the Company’s system of internal control, internal auditing and risk management, including taxation risks, as well as discussing with the auditors any significant weaknesses in the internal control system identified during the course of the audit;
- To oversee the process of preparation and presentation of statutory financial reporting
- To formulate proposals for the Board of Directors for selecting, appointing, re-electing and replacing the external auditors, along with the terms of their contract, regularly evaluate information on the auditing plan and its implementation, in addition to preserving their independence in the exercise of their functions.
- To liaise with the external auditor to obtain information on any issues that could compromise the latter’s independence for review by the Committee or any other subjects related to the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the auditors written confirmation of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them in conformity with the provisions of auditing legislation
- To issue an annual report, prior to the issue of the audit report, giving an opinion on the independence of the auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their totality, that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing
- To keep the Board of Directors informed, in advance, on all items provided for in the law, the Bylaws and the Regulations of the Board of Directors, in particular, in relation to:
 - 1.º The financial information that the Company must periodically publish;
 - 2.º The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and
 - 3.º Related party transactions.

The meetings of this Committee shall be called by its Chairman and shall be held at least four times a year. The company’s external auditor may attend Committee meetings and the Finance Director, head of the Enagás Internal Audit Unit, or any other senior manager of the company or group that the Committee deems appropriate, may also be asked to give account at meetings. The Committee may obtain support and assistance from the aforesaid Executives in the performance of its duties.”

For its part, the Board of Directors, at its meeting on February 23th, 2015, resolved to amend the Rules of Organization and Functioning of the Board to adapt them to the Law. Such amendment included that of Article 27 concerning the Audit and Compliance Committee. Likewise, the Regulations of the Audit Committee were modified as necessary.



The Committee issued its favourable reports on the proposed amendments to the aforementioned corporate texts. Furthermore, on February 18th, 2015, the Board of the Spanish National Securities Market Commission approved the new Corporate Governance Code of listed companies, which was published on February 24th, 2015. Similarly, the reform of the Spanish Limited Liability Companies Law through Law 22/2015, of July 20th, on Auditing, took place.

As a result of this, the Board of Directors, at its meeting on December 18th, 2015, agreed to a new amendment to the Rules of Organization and Functioning of the Board to include that of Article 27 concerning the Audit and Compliance Committee. It also agreed to amend the Regulations of the Audit Committee as necessary. The Board will include as a point on the Agenda at the next General Shareholders' Meeting, the proposal to amend Article 44 of the Bylaws in order to adapt it to the Audit Law and the recommendations of the Corporate Governance Code of listed companies. The Committee has reported favourably on the aforementioned proposals.

Committee activities

The Committee has met five (5) times in 2015. The Chairman of the Committee has reported to the Board the discussions held at each of the meetings of the Committee at the next meeting thereof.

The main areas in which the Audit and Compliance Committee has focused its activity during 2015 are summarized below.

Committee activities relating to the formulation and approval of the Enagás Financial Statements for 2014 Report on the independence of the external auditor.

As in previous years, the Audit Committee was entrusted with the task of discussing and analysing the financial statements prior to their authorization for issue by the Board of Directors. To this end the members of the Committee met with the Company's External Auditors (Deloitte S.L.) on February 23th, 2015, and also with Enagás' Chief Financial Officer and Director of Internal Audit.

Both the External Auditors and the financial officers of the Company offered the Committee their views on the financial statements. Differences in accounting criteria in no case exceeded the materiality threshold above which Deloitte's opinion on the financial statements could be affected. Deloitte informed the Audit Committee that its report would be without reservations or qualifications.

The External Auditors delivered to the Committee a letter in which they state that "in connection with the audit of the consolidated financial statements of Enagas, S.A. and subsidiaries (Enagás Group) for the year ended December 31st, 2014, we confirm that to our best knowledge, the team in charge of the audit and Deloitte, S.L., with the extensions that apply to them, have complied with the independence requirements applicable under the provisions of the revised text of the Audit Law, issued by Royal Legislative Decree 1/2011, of July 1st, and its implementing regulations." The document then includes below the total amount of the fees paid to Deloitte for the year 2014, classified by type of service.

For its part, the Committee unanimously adopted the following:

Report on the independence of the auditors

Pursuant to the provisions of article 529 quaterdecies of the Spanish Limited Liability Companies Law, the Audit and Compliance Committee of Enagás, S.A. issues this report prior to issuance by Deloitte S.L. of its audit report on the individual and consolidated financial statements of Enagás, S.A. and its Group for the year ended December 31st, 2014, stating the following:

- The Company has maintained appropriate liaisons with the auditors so as to obtain information on any issues that could compromise their independence, for appraisal by the Audit and Compliance Committee or any other subjects related to

the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in auditing standards.

- The Audit and Compliance Committee has received from the auditors written confirmation of their independence with regard to Enagás and any entity directly or indirectly related to it, and information on any kind of additional services provided to such entities by the auditors or persons or entities related to the auditors, pursuant to the provisions of the 19/1988 Audit Act of July 12th.

In view of the information that has been provided, the Audit and Compliance Committee of Enagás has not identified any issues that call into question compliance with the regulations in force in Spain for the audit activity as regards auditor independence and, in particular, the Committee confirms that it has not identified any matters of this nature relating to the provision of additional services to those of the audit, taken individually and as a whole, of any kind.

February 23th, 2015

The following conclusions emerged from the Audit Committee's examination of the 2014 financial statements:

- That the financial statements of Enagás and its Consolidated Group, as submitted to the Committee, gave a true and fair view of the Company's equity and results of operations for the year.
- That the financial statements contained sufficient information to be clearly understood, in addition to a sufficient description of the risks faced by the Company.
- That the statements respected the generally accepted accounting principles and regulations, on the same terms applied in previous years.
- That the principles of equality of treatment for shareholders and transparency of information reported to the markets had been abided by.

The Committee accordingly resolved to recommend that the Board of Directors of Enagás authorize the financial statements for its issue. At a meeting held on February 23th, 2015, the Board of Directors adopted the Committee's recommendation and authorized the financial statements for issue in line with the terms indicated by the Committee. The financial statements and directors' report for 2014 were approved at the General Shareholders' Meeting held on March 27th, 2015.

In addition to the above task, as in previous years, the Chairman of the Audit Committee, Mr. Parellada, intervened at the Ordinary General Shareholders' Meeting of the Company held on March 27th, 2015, to explain the most important elements of the financial statements to the Company's shareholders and to ensure that they had all the information they needed to be able to vote on the financial statements, which were adopted as proposed by the Board of Directors.

Quarterly accounting reviews

Throughout 2015, the Committee continued to review the interim financial statements and the limited quarterly reports issued by the auditors.

Specifically it analysed, in conjunction with Deloitte, the reports issued by the latter for the first, second and third quarters, respectively. Performing these reviews enables the Committee to minimize the impact of any accounting issues arising in the course of the year, and the members of the Committee and Board of Directors to keep abreast of the opinions of the Company's external auditors on annual developments in the balance sheet and income statement.

The Audit Committee considers that both the quarterly reviews carried out by the External Auditor and the Committee's own analysis of these reports are essential to ensure strict control over the Company's accounting, and they also facilitate the issue of an unqualified audit report at year-end.



The Committee also reviews and approves financial information disclosed by the Company each quarter, in line with the good corporate governance recommendations it has adopted.

In particular, the Committee prepared a favourable report on the financial statements for the first half-year which, on its recommendation, were approved by the Board of Directors on July 20th, 2015.

Internal Control over Financial Reporting System (ICFR).

The Committee has supervised the Internal Control over Financial Reporting System (hereinafter, ICFR) applied by the Company. Both the ICFR and its application during the year are described in the Annual Corporate Governance Report which includes the favourable report of the External Auditor as an Annex. The Committee has reported favourably on the proposed Annual Corporate Governance Report

External auditor.

The Committee has sought to ensure the independence of the external auditor in the performance of its duties. According to the applicable provisions, it has sought the declaration of independence and has issued one of its own as set out above. In addition, following the recommendations of the Corporate Governance Code of listed companies, it has produced a specific report on the independence of the Auditor to be made available to shareholders when publishing the notice of the General Shareholders' Meeting. It has also approved the contracts that the Company has signed with the external Auditor, ensuring that they do not affect its independence.

The Committee proposed to the Board—for its proposal to the General Shareholders' Meeting—to renew Deloitte S.L. as the Auditor of Enagás, S.A. and its Consolidated Group in 2015. The proposal was approved by the General Shareholders' Meeting held on 27 March 2015.

The Committee has paid particular attention to the process of drafting the new Audit Law, particularly with regard to the appointment and incompatibilities of the auditors. Once the Audit Law had been published in the Official State Gazette, the Committee proceeded to hold a competition to appoint the External Auditor for the coming years with the requirements now determined by the Law. This competition was conducted subject to procedural rules that guarantee the absolute independence of its decision with respect to the services of the Company that could be affected by the auditing process and the free competition between the firms invited to participate in the said competition. The Committee has submitted a proposal to the Board on the appointment of an auditor for its inclusion in the Agenda of the next General Shareholders' Meeting.

Related-party transactions.

The Committee has assumed the functions that the discussed legal and corporate texts attribute thereto in relation to related-party transactions. Under the supervision of the Committee, the Company has published the required regular information in this respect, as well as that contained in the Annual Corporate Governance Report.

Following the recommendations of the Corporate Governance Code of listed companies, the Committee has produced a report on related-party transactions to be made available to shareholders when publishing the notice of the General Shareholders' Meeting.

Internal auditor.

In July, the Committee approved the appointment of Mr. Isidro del Valle Santín as Director of Internal Audit in place of Mr José Manuel Castro, as the latter has moved over to the role of Director of Compliance, a newly created post in the organization of the Company.

The Committee approved the Annual Internal Audit Plan for 2015 and the Internal Audit Budget for 2015. The Committee has ensured that the Internal Audit has adequate human and material resources to carry out its function. The Director of Internal Audit has reported regularly to the Committee on the development of the Annual Plan and the results of the audits.

Risk control in 2015.

The Audit Committee considers the work on risk control to be particularly important. Periodically, the Chief Executive and the Director of Risks have informed the Committee of the state of risk control and management at the Company.

The Committee reported favourably on the “Policy of Risk Control and Management” and “Anti-corruption policy”, which were subsequently approved by the Board.

On July 1st, 2015, Organic Law 1/2015, of March 30th, amending the Criminal Code came into force, which included developments in the area of the criminal liability of legal persons, such as the possibility of exemption from criminal liability for legal persons if they comply with certain conditions relating to the adoption and effective implementation of a Crime Prevention Model, while establishing the basic requirements that must be included in the Crime Prevention Model, among which are the establishment of a disciplinary system that adequately punishes non-compliance with the established measures, periodic review of the model, etc.

The Committee, at its meeting of July 20th, 2015, approved a new Crime Prevention Model aligned with these legislative developments. The Crime Prevention Model has been established as the ideal mechanism to prove due diligence on the part of the legal person in the prevention and detection of crime, and to repair the damage caused. It is a dynamic model that will continue to be adapted to internal and external changes.

At that same meeting, the Committee was informed of the creation of a new Regulatory Compliance Department which, under the organizational dependence of the General Secretary and therefore of the Chairman, will assume the relevant functions in this area

Report of proceedings of the Ethics Committee

The Committee has examined the activities of the Ethics Committee, and approved its report for 2015. The Committee has been informed in a timely fashion and in detail regarding the incidents arising in relation to the “Ethics Channel”. No significant incidents have been detected during the year in question.

Activities subsequent to year-end

In the opening months of 2016, the Committee continued with its usual activities, in particular assisting the Board of Directors in preparing the financial statements. As in the previous financial year, at a meeting on February 15th, 2016 the Audit and Compliance Committee issued a prior favourable report on the 2015 financial statements which will be submitted to the 2016 General Shareholders’ Meeting for adoption.

And for all appropriate legal reasons, it is hereby stated that the Audit and Compliance Committee approved this report at its meeting held on February 15th, 2016.

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