



# **Report of the Audit and Compliance Committee of Enagás, S.A. and its consolidated group on the independence of the External Auditor**

**Financial Year 2016**

Madrid, 13 February 2017

## 1. INTRODUCTION AND BACKGROUND

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In line with the provisions of Article 529 quaterdecies.4.f) of the Corporate Enterprises Act<sup>1</sup>, in relation to the functions of the Audit and Compliance Committee, and under Article 7 of the Regulations of the Audit and Compliance Committee of Enagás S.A. and Subsidiaries (hereinafter, "Enagás"), this Committee must maintain appropriate relations with the External Auditor to receive information on any issues that may pose a threat to its independence, as well as any possible safeguards to be adopted. Similarly, prior to the issuing of the external auditor's report, the Committee must issue an annual report expressing an opinion on the independence of the external auditors.

This report shall in all cases include an assessment of those services that may compromise the independence of the auditor, considered separately and in their totality, other than statutory audits and how they relate to the requirement of independence or to the audit regulations.

Accordingly, the Audit and Compliance Committee of Enagás prepares this report, which it will publish on the website of Enagás sufficiently in advance of the holding of its General Shareholders' Meeting.

## 2. ANALYSIS OF THE INDEPENDENCE OF AUDITORS

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### Appointment of the new auditor

The General Shareholders' Meeting of the company held on 18 March 2016 agreed, among other matters, to appoint Ernst and Young S.L. (hereinafter, EY) as auditor of Enagás, S.A. and its consolidated Group for 2016, 2017 and 2018.

Law 22/2015, the Audit Act, introduced, among other things, **mandatory rotation of the accounts auditor** at the end of certain periods. Accordingly, the Enagás Group was required to rotate its Accounts Auditor in the first financial year starting after 17 June 2016. However, to show its alignment with trends in Corporate Governance, Enagás brought forward the mandatory auditor rotation and made the change through a transparent process resulting in the appointment of EY, following Deloitte, S.L.'s term as accounts auditor for the previous ten years.

### Role of the Audit Committee and Accounts Auditor's services

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<sup>1</sup> Audit Law 22/2015, of 20 July 2015, introduced among other things, changes to article 529 quaterdecies.4.f) of the Corporate Enterprises Act. This Act came into force on 17 June 2016, the wording of that article is as follows: "(...) Without prejudice to any other functions assigned to it in the Articles of Association, or pursuant thereto, in the Board Regulations, the Audit Committee shall have at least the following: (...) To issue annually, prior to the issue of the audit report, a report giving an opinion on whether the independence of the auditors or audit firms is compromised. This report shall in all cases include an assessment 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 accounts auditing regulations".

In order to ensure the independence of the external auditor, throughout the whole of 2016 the Audit and Compliance Committee has supervised compliance both by Enagás and EY with the existing regulations on the provision of services other than those of accounts auditing, **proceeding to authorize services other than those prohibited** in accordance with the applicable legislation (article 7 of the Regulations of the Audit and Compliance Committee of Enagás and Article 13 of the Audit Act in force).

The following lists the services provided by EY for 2016:

Description of the services	Amount (thousands of euros)
Audit	712
Other assurance services	239
<b>Total Audit and audit related services</b>	<b>951</b>
Other services (" <i>non-audit fees</i> ")	140
<b>Total</b>	<b>1,091</b>

#### Audit services:

The fees for "audit services" totalled 712 thousands of euros, which covered the financial audits of Enagás S.A and its Subsidiaries, other limited reviews of the group's interim financial statements and Certification of the Financial Information Internal Control System.

These contractual terms were proposed to the Board of Directors by the Audit Committee on 15 February 2016 and were approved by the General Shareholders' Meeting on 18 March 2016.

#### Other assurance services

The fees for "Other assurance services" totalled 239 thousands of euros, which covered the task of issuing three Comfort Letters, for a total of 125 thousands of euros, the Annual Corporate Governance Report, for 70 thousands of euros and the review of the non-financial Information in the Annual Report, for 44 thousands of euros.

#### Other services ("*non-audit fees*")

- Provided prior to appointment as Enagás' statutory Auditor:

Description of the services	Amount (thousands of euros)
Assistance in the definition of market margins for financing	3

operations	
Assistance in the definition of remuneration based on hourly ratios	4
Documentation of transfer prices 2013 and 2014	32
Documentation of Enagás México transfer prices	15
<b>TOTAL</b>	<b>54</b>

- Provided after appointment as Enagás' statutory Auditor:

Description of the services	Amount (thousands of euros)
Enagás México exchange rate fluctuation	3
Documentation of Enagás Peru transfer prices	2
Accreditation and analysis of charges for intra-group services	1
Encryption of the Directors' website	69
Expertise test and forensic analysis on a sample of systems	11
<b>TOTAL</b>	<b>86</b>

The Audit and Compliance Committee states, as the body charged with their approval, that the services provided by EY do not fall under the services prohibited by the terms of the Audit Act in force, and that the firm was selected to provide these services in order to take advantage of the synergies resulting from its status as the Accounts Auditor, thereby resulting in greater efficiency in the execution of its work and representing a lower cost, in economic terms and in terms of turnaround times, for Enagás.

Accordingly, the Audit Committee confirms that it is notified, on a quarterly basis, of the percentage of any service other than that of the actual audit conducted by EY, relative to the fees for the Audit of the Financial Statements of Enagás SA and Subsidiaries, in order to comply with Law 22/2015, the Audit Act, which states that "non-audit services, for three consecutive years, must be less than 70% of the average of the fees paid for audit services". At the close of 2016, this percentage was 53.32%.

In addition, the Audit and Compliance Committee has respected **the limits on the concentration of the auditor's business** established by that article<sup>2</sup>. Accordingly, EY billed Enagás 1,091 thousands of euros for audit and related services in 2016. This amount does not represent a significant percentage of the total annual income of the said auditor.

With regard to the **fees** for audit services, the Audit and Compliance Committee believes that they have not been influenced or determined by the provision of additional services to the Enagás Group, nor have they been based on any form of contingency or condition other than changes in the circumstances that were the basis for setting fees.

With regard to the **contractual terms** provided in article 19 of the Audit Act in force, given that Enagás' net turnover is in excess of 50 million euros, the Audit and

<sup>2</sup> The current Audit Law 22/2015, which entered into force on 17 June 2016, includes a chapter exclusively devoted to public interest entities. Specifically, Article 41 sets at 15% the maximum percentage that the auditor's fees can represent of its total annual income: "when the fees accrued on the provision of audit and non-audit services to the audited entity by the auditor or audit firm represent, in each of the last three consecutive years, more than 15 percent of the total annual income of the auditor or audit firm, the said auditor or audit firm shall refrain from conducting the audit in the following year".

Compliance Committee found that the requirement to **rotate the signing audit partner** seven years after initial appointment is satisfied. As 2016 is the first year of EY's term as the Enagás Accounts Auditor, compliance with this provision will be monitored in the future. The signing audit partner for this financial year was David Ruiz-Roso Moyano.

### Relations with Accounts Auditors

Moreover, as indicated in section 4.e) of the Corporate Enterprises Act, Enagás's Audit Committee has established appropriate relations with the Accounts Auditor, in order to receive all the information necessary to evaluate their independence and to evaluate the process of preparation of the audit of accounts.

Finally, note that in accordance with good governance practice, the Accounts Auditor appeared before the Board of Directors on the occasion of the approval of the six-monthly interim Financial Statements and of the preparation of the annual accounts. It is agreed that, following this trend, the auditor shall do this twice a year, when the six-monthly interim Financial Statements are approved and when the annual accounts are prepared.

During 2016, EY appeared at the following sessions:

Meeting	Date	Contribution of the Accounts Auditor
Audit Committee	18 April 2016	Progress of the limited review of the financial statements for the first quarter of 2016.
Audit Committee	18 July 2016	Presentation of the report on the review of the interim financial statements.
Audit Committee	17 October 2016	Progress of the limited review of the financial statements for the third quarter of 2016.
Board of Directors	18 July 2016	Presentation of the report on the review of the interim financial statements.

Finally, it should be mentioned that the Accounts Auditors have provided Enagás' Audit and Compliance Committee with **written confirmation of their independence** from the company and the Group companies, as well as information on the additional services provided by the auditors or by persons or entities related to them.

This written confirmation, which is included as a Declaration of Independence in **Appendix 1**, has been signed by Enagás' signing audit partner, Mr David Ruiz-Roso Moyano, and has been issued in accordance with the provisions of the Audit Act. By means of the said independence declaration it is also stated that the auditor has not been found to be subject to any of the **incompatibilities** contained in the Law during the year 2016.

### 3. CONCLUSION

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Given the above, the Audit Committee declares that during 2016 the Accounts Auditor carried out its work fully independently of Enagás and its Subsidiaries.

For the due legal purposes, it is stated that this report was approved by the Audit and Compliance Committee at its meeting on 13 February 2017, before the Accounts Audit report was issued, as established in the Corporate Enterprises Act and the Good Governance Code of Listed Companies.

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

## **APPENDIX 1: DECLARATION OF INDEPENDENCE ISSUED BY THE AUDITORS**

**Due to confidentiality reasons, the declaration of independence issued by the auditors will not be published.**