



Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2017

Audit and Compliance committee
February 19th, 2018

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Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2017

The purpose of this report is to summarize the activities of the Audit and Compliance Committee of Enagás S.A. during 2017.

1. Composition during 2017

At December 2017 the 31st, the composition of the Audit and Compliance Committee is as follows:

President

- D^a Isabel Tocino Biscarolasaga, Independent Director

Members

- State Company of Industrial Participations (SEPI), represented by its Vice President Mr. Bartolomé Lora Toro, Dominical Director.
- Mrs. Rosa Rodríguez Díaz, Independent Director
- Mr. Luis Valero Artola, Independent Director
- Mr. Martí Parellada Sabata, Independent Director.

Secretary

- Mr. Rafael Piqueras Bautista.

The main changes made in the composition of the Audit and Compliance Committee during 2017 are:

- In the last General Shareholder´s Meeting on March 31, 2017, the reelection of Mr Martí Parellada as External Director was approved, having reached the maximum period of 12 years, established in article 9 of the Regulations of the Board of Directors, as Director Independent. Therefore, the recomposition of the Audit and Compliance Committee is necessary, and it is essential to appoint an Independent Director as its Chairman.
- At the meeting on April 24, 2017, when the position of Chairman of the Audit and Compliance Committee was vacant, in accordance with corporate texts for the Board of Directors (article 38), the session was chaired by the Director, Mr. Luis Valero Artola.
- The Board of Directors, dated June 19, 2017, in accordance with the best practices of Corporate Governance and on the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, agreed:
 - Appoint Mrs. Isabel Tocino Biscarolasaga, President of the Audit and Compliance Committee, in her capacity as Independent Director.
 - At the same time, the Board agrees that Mr. Martí Parellada continue to perform his duties in the Committee as External Director.
 - Finally, it is agreed that Mr Gonzalo Solana González becomes a member of the Appointments, Remuneration and Corporate Social Responsibility Committee.

- On October 16, 2017, Mr. Bartolomé Lora Toro replaced Mr. Federico Ferrer Delso as a natural person representative of the legal entity SEPI.

The Board of Directors has appointed the members of the Audit and Compliance Committee taking into account their knowledge, skills, as well as their experience in accounting, auditing and risks. Thus, the Committee maintains a composition in accordance with the best practices of Good Corporate Governance.

All the information of the Directors, including their work experience and seniority in the Board of Directors of the Company is detailed in the Enagás Corporate Website:

www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion.

In accordance with the provisions of the corporate texts, the Audit and Compliance Committee was assisted by the Internal Audit Director Mr. Isidro del Valle Santín and the Internal Audit Manager Mrs. Rosa Sánchez Bravo, in her duties as adviser to the Commission

Similarly, during 2017, upon the invitation of the Chairman of the Commission, the Committee requested the presence of Managers, related to matters of its competence in accordance with the order established: the Chief Executive Officer Mr. Marcelino Oreja Arburúa, the Chief Financial Officer of Enagás Mr. Borja García-Alarcón Altamirano, They have also attended the meetings of the Committee when it has dealt with matters related to its functions, the Director of Risks and the Director of Execution.

However, the representatives of the External Auditor, Ernst & Young, S.L., have attended the ordinary meetings of the Committee.

2. Regulation of the Audit and Compliance Committee

The Audit and Compliance Committee is governed by the provisions of applicable laws and regulations, the provisions of the Articles of Association, the Regulations for the organization and operation of the Board of Directors of Enagás, SA, as well as its own Regulations for organization and operation, dated December 21, 2015.

3. Competencies of the Audit and Compliance Committee

The functions and competencies entrusted to the Audit and Compliance Committee in the Bylaws and in article 44 of the Regulations for the organization and operation of the Audit and Compliance Committee are

- Report at the General Shareholders' Meeting on the issues that arise in relation to those matters that fall within the competence of the Commission and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial information and the function that the Commission has played in this process.
- Oversee the effectiveness of the internal control of the Company and its Group, internal audit, and risk management systems and discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit, all it without breaking its independence. For such purposes, and where appropriate, may submit recommendations or proposals to the Board of Directors and the corresponding deadline for follow-up.

- Oversee the preparation and presentation of mandatory financial information and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of their recruitment and regularly collecting information on them the audit plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establish the opportune relations with the external auditor to receive information on those issues that may pose a threat to their independence, for their consideration by the Commission, and any other related to the process of developing the audit of accounts and, where appropriate, the authorization of services other than those prohibited, in the terms contemplated in the applicable regulations, as well as those other communications provided for in the regulations governing the activity of auditing accounts and audit standards. In any case, they must receive annually from the account auditors the declaration of their independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind provided and the corresponding fees. received from these entities by the external auditor, or by the persons or entities linked to it in accordance with the provisions of the regulations governing the activity of auditing accounts
- Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditors or audit companies is compromised. This report must contain, in any case, the motivated assessment of the provision of each and every one of the additional services referred to in the previous section individually considered and as a whole, other than the legal audit and in relation to the regime of independence or with the regulations governing account auditing
- Reporting, in advance, to the Board of Directors on all the matters set forth in the Law, the Bylaws and the Regulations of the Board and, in particular, on:
 - the financial information that the Company must periodically publish,
 - the creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and
 - transactions with related parties.

4. Activities of the Audit and Compliance Committee during 2017

The Committee has met seven times during 2017. The President of the Audit and Compliance Committee has reported on the matters discussed in each of the meetings of the Committee to the Board at its next meeting.

The most important aspects regarding the activity of the Audit and Compliance Committee in 2017 are summarized below.

4.1. In relation to Financial Information

Committee activities relating to the formulation and approval of the Enagás Financial Statements for 2016, the supervision of the Quarterly accounting reviews and the Internal Control over Financial Reporting System.

Formulation and approval of the Enagás Financial Statements for 2016

The Audit and Compliance Committee met on February 6, 2017 with the purpose of moving forward the closing of the Financial Statements for the year 2016, both with the Chief Financial Officer, the Director of Internal Audit and the external auditors (Ernst & Young SL, hereinafter EY). The external auditors and the Chief Financial Officer presented the preliminary results of the 2016 accounting close.

Subsequently, at its session of February 13, 2017, as on previous occasions, it analyzed and discussed the annual accounts prior to their formulation by the Board of Directors. For this, the members of the Committee met with the external auditors EY of the Company for the year 2016, as well as with the General Financial Director and the Director of Internal Auditing of Enagás.

The external auditors and financial officers of the Company submitted to the members of the Committee their opinions regarding the financial statements. The discrepancies that could arise, in any case reached a threshold of materiality that could affect the opinion of EY on the financial statements. EY indicated to the Audit and Compliance Committee that its report would not contain exceptions or reservations.

The study of the Audit and Compliance Committee on the 2016 accounts ended with the following conclusions:

- "That the annual accounts of Enagás and its consolidated group for 2016, as presented to it, faithfully and adequately reflected the Company's equity and results.
- That they held the necessary information for their adequate understanding, as well as a sufficient description of the risks of the Company.
- That the accounts respected the accounting principles and rules of general acceptance, in the same terms as those of previous years.
- That the principle of equal treatment of Shareholders and transparency in the information provided to the markets had been respected.

Therefore, the Commission agreed to recommend to the Board of Directors of Enagás the formulation of the accounts. The Board of Directors, in its session of

February 13, 2017, following the recommendation of the Commission, formulated the accounts in the same terms that had been pointed out by the Commission.

Finally, as in previous years, Mr. Parellada, Chairman of the Audit and Compliance Committee on that date, took part in the Ordinary General Meeting of the company, held on March 31, 2017, to explain to the Shareholders the most important aspects of the annual accounts and ensure that the Shareholders had all the necessary information to be able to vote on the Annual Accounts that were approved according to the proposal of the Board of Directors.

Supervision of the Quarterly Financial reviews as of March 31, June 30 and September 30, 2017

Throughout 2017, the Commission has continued its work of reviewing the interim financial statements on the occasion of quarterly and half-yearly closing, analyzing the Company's intermediate economic-financial information, based on the Reports and the analysis provided by the Financial Director, with the support of the Internal Audit Director who analyzes the information with the independence approach required by the Commission.

Additionally, E&Y presented a report with its conclusions of the limited reviews carried out corresponding to the first, second and third quarter.

With this activity developed by the Committee, the impact of any accounting aspect that manifests itself throughout the year is minimized, and allows the members of the Committee and the Board to keep informed of the opinion of the external auditors and the Management of the Company in relation to the annual evolution of the balance sheet and the profit and loss account.

As a result of its work, the Commission raised in its sessions in April, July and October 2017, reports to the Board regarding the Economic-Financial Information of Enagás.

The Audit and Compliance Committee considers that both the quarterly reports made by the External Auditor and the analysis carried out by the Committee itself are an important instrument when carrying out strict accounting control. And facilitate the issuance, at the end of the year, of a report without qualifications

In addition, the Commission knows and approves, in accordance with the recommendations of good corporate governance that it has assumed, the financial information that the Company makes public every quarter.

In particular, the Commission reported favorably on the financial statements corresponding to the first half of the year and which were approved by the Board of Directors, following the recommendation of the Committee, at its meeting of July 13, 2017.

Internal Control over Financial Reporting System (ICFR).

The Commission has supervised the Internal Control over Financial Reporting System (ICFR) that the Company applies under the COSO 2013 guidelines. This system is reviewed by the auditor of accounts EY issuing a reasonable Assurance Report.

The auditor informed the Audit and Compliance Committee on February 13, 2017, that in his opinion, the Group maintained an Internal Control System on Financial Information held in the 2016 Consolidated Annual Accounts, in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework Report (2013).

Likewise, the Company reports the SCIIF and its application in the year in the Annual Corporate Governance Report, which includes as an Annex the favorable Report of the External Auditor on the same

In this regard, the external auditor EY reported that the breakdowns held in the information relating to the SCIIF, are in note F of the Annual Corporate Governance Report (hereinafter IAGC) of the Group as of December 31, 2016, they agree, in all significant aspects, with the requirements established in the Capital Companies Law, Order ECC / 461/2013 of March 20, and Circular 7/2015, of December 22, by which Circular 5 is modified / 2013 of June 12 of the National Securities Market Commission

Finally, mention that the Commission informed the Board of Directors, on February 13, 2017, on such Certification and the IACG's execution, as well as the absence of relevant recommendations as a result of the Certification.

It should be emphasized that during 2017, Enagás proceeded to extend the Internal Control over Financial Reporting System of the subsidiary GNL Quintero, SA, a subsidiary of the Enagás Group, as the year 2017 was the first year in which the subsidiary consolidates globally in the financial statements. During December, the GNL Quintero accounts auditor has submitted an internal report to the group's auditor, positively concluding the internal control of the subsidiary and no significant event has been detected. The report shall be integrated into the Certification presented by the auditor of the Group's accounts to the Audit and Compliance Committee at its meeting on February 19, 2018.

4.2. External Auditor

Competencies related to the relationship with the external auditor regarding its participation in the Board of Directors and Audit and Compliance Committee, the authorization

Participation in the Commission and Board of Directors.

The external auditor participated, in accordance with the established schedule, in the 7 meetings of the Committee held in 2017, which has allowed the latter to adequately perform its function, provided for in the Regulations of the Board, to serve as a communication channel between the Board of Directors and the external auditor. In addition, the external auditor has informed the Board of Directors in plenary on two occasions during the past year: February 13, 2017 and July 13, 2017.

In the meetings of the Commission held during 2017, the external auditor has provided detailed information on the planning and progress of their work. The Commission has analyzed, assisted by the auditor, the audit reports corresponding to the annual, individual and consolidated annual accounts, as well as the limited reviews carried out on a quarterly basis.

Date	Auditor's Input
February 6, 2017	Advance closing of 2016 consolidated annual accounts of Enagás S.A. and Dependent Companies
February 13, 2017	Approval of the Audit Report of the Enagás Consolidated Annual Accounts S.A. and subsidiaries as of December 31, 2016, for subsequent formulation by the Board of Directors.
April 24, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies as of March 31, 2017.
July 13, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to June 30, 2017.
October 11, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to September 30, 2017.
October 16, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to September 30, 2017.
December 18, 2017	Advance conclusions of the preliminary work of the Audit of the Consolidated Annual Accounts of Enagás S.A. and subsidiaries as of December 31, 2017

Authorization of non-audit services.

As established in the Regulations, during 2017 the Audit and Compliance Committee approved the audit services hired by the auditor, as well as the services other than those of auditing considered as not prohibited by the applicable regulations, after having adequately evaluated the possible threats to independence and the safeguard measures in case they were necessary.

In accordance with the provisions of the "Independence Report 2016 of the Enagás accounts auditor. S.A. and its subsidiaries ", issued on February 13, 2017, the Audit and Compliance Committee is informed on a quarterly basis of the percentage that is assumed by any service other than the audit carried out by EY, with respect to the Audit fees, in order to comply with the 70% limit established by Law 22/2015 on Auditing Accounts.

Reception of the letter of Independence of the Auditor EY

At the meeting of the Commission on February 13, 2017, the External Auditors delivered to the Audit and Compliance Committee the Declaration of Independence of the Auditor in which the auditor states that:

"In relation to the audit of individual and consolidated annual accounts of Enagás, S.A. (the Company) corresponding to the fiscal year ended December 31, 2016 ... we communicate the following:

- a) The team in charge of the Audit assignment and the Audit Company, with the extensions that are applicable to them, have completed with the independence requirements established in the regulations governing the audit activity of accounts in Spain that result from application "

The letter below includes the total amount of E&Y fees for the year 2017, classified by type of service.

Finally, in section c) the auditor makes reference to the internal procedures that EY has implemented in order to identify and evaluate threats that may arise from circumstances related to audited entities, including those that may suppose causes of incompatibility and, in its case, to the application of the necessary safeguard measures.

They conclude by stating "... that no circumstances have been identified that, individually or as a whole, could pose a significant threat to our independence and that, therefore, require the application of safeguard measures or that could suppose causes of incompatibility "

Analysis of the Independence of the Account Auditor by the Audit and Compliance Committee

The Commission in accordance with what is described in the "Independence Report of the Statutory Auditor of Enagás. S.A. and its subsidiaries ", issued on February 13, 2017, carried out an analysis of the independence of the auditor of accounts prior to the issuance of the Accounts Audit Report corresponding to the closing date of December 31, 2016, in accordance with what is established in section 4.f) of

article 529 quaterdecies of the Capital Companies Law and article 7.d) of the Regulations of the Board.

Therefore, in the Independence Report, the Commission details the fees for audit services, as well as the details of the services other than those of Audit provided by the Auditor in 2016, which represented 53.32% of the total fees for audit services. audit services provided to the Enagás Group in 2016.

The Committee unanimously approved the "Report of the Audit and Compliance Committee on the independence of the external auditor" that was made available to the shareholders at the time of the call of the General Shareholders' Meeting on March 31, 2017 and that approved the accounts for 2016.

This report concludes that:

"At sight of the information it has provided, the Audit and Compliance Committee of Enagás has not identified aspects that call into question execution with the regulations in force in Spain for the audit of accounts in terms of the auditor's independence and In particular, the Commission confirms that it has not identified aspects of this nature related to the provision of additional services to those of auditing, considered individually and as a whole, of any kind ".

4.3. Related-party transactions.

Activities of the Commission in relation to the approval of transactions with related parties, as well as the verification that they are carried out at market prices

The Regulations for the Organization and Functioning of the Board of Directors establish in article 14, that the Board of Directors will be responsible for the knowledge and approval, following a report from the Audit and Compliance Committee, of the operations carried out by the Company or Group companies. with Directors or with shareholders holding a significant stake. The affected Directors must refrain from participating in the deliberation and voting of the agreement in question.

The indicated transactions are valued from the point of view of equal treatment and market conditions, and are included in the Annual Corporate Governance Report and in the periodic public information in the terms provided in the applicable regulations.

On February 13, 2017, in accordance with the recommendations of the Code of Good Governance of listed companies, the Audit and Compliance Committee prepared a Report on related-party transactions that was made available to shareholders at the time of the call of the Board. General Meeting of Shareholders held on March 31, 2017.

In this Report, the Commission confirmed the company's execution with the securities market regulations on transactions with related parties, while verifying that all transactions with related parties made during 2016 belonged to the ordinary business were carried out under normal market conditions and where approved by the board of director of the company.

During 2017, information on certain transactions with related parties was submitted on February 6, 2017 and July 13, and reports were submitted on transactions with parties related to the Board of Directors on February 6, 2017 and 17 of July 2017 respectively.

4.4. Internal auditor

Competencies related to the relationship with the internal auditor, approval of the Internal Audit Plan and Budget and supervisión of internal audit services.

In accordance with Article 7 objectives and functions of the Audit and Compliance Committee, the Committee oversees the Company's Internal Audit services, receiving periodic information on its activities and verifying that senior management takes into account the conclusions and recommendations of its functions.

Thus, at its meeting held on February 6, 2017, the Committee approved the Annual Internal Audit Plan for 2017 and the Internal Audit Budget for that year.

The Director of Internal Audit has informed the Commission quarterly of the follow-up of the Audit Plan, of the reports issued, as well as the degree of implementation of the recommendations detected prior to the date of the Commission.

It should be noted that during the year 2017, in execution with good practices, the Internal Audit Department has renewed the Quality Certificate of the Institute of Internal Auditors. In the Certification Report, the Institute of Internal Auditors recognizes the continuous improvement of performance, quality, professionalism and use of best practices in this area

Lastly, it should be noted that during 2017 the Audit and Compliance Committee carried out an evaluation of the performance of the functions and responsibilities assumed by both the Internal Audit Director and the Internal Audit function as a whole. In the completed evaluation questionnaire, aspects such as the strategic positioning of the function, the good governance and independence of the auditor, as well as their performance in the execution of the defined Audit Plan are evaluated.

4.5. In relation to risk management and control

Competencies related to the supervisión of the effectiveness of the risk management and control model, the anual monitoring of risks and the quarterly monitoring of the evolution thereof.

The Audit and Compliance Committee considers the risk control work of special relevance. On a quarterly basis, the Chief Executive Officer and the Director of Risks have informed the Commission of the state of control and risk management of the Company.

On February 6, 2017, July 13 and October 16, 2017, the Audit and Compliance Committee was informed of the Annual Report and the quarterly evolution of the risks.

4.6. In relation to Execution

Competencies related to the execution function, Periodic report of execution with the Internal Code of Conduct,

Execution Model.

Regarding the defined Execution Model, in accordance with the provisions of the Regulations, the Audit and Compliance Committee approved on July 13, 2017 the Execution Policy that includes Enagás' execution commitments. Likewise, on October 16, 2017, the Commission approved the General Execution Standard.

Periodic report of execution with the Internal Code of Conduct in matters of Securities Market (RIC).

In accordance with article 20.2 of the Internal Code of Conduct, the person in charge of Regulatory Execution (...) informed the Audit and Compliance Committee about the degree of execution and the incidents in relation to the application of these Internal Code of Conduct for its evaluation for that Commission.

Ethical channel

The Committee has been informed about the actions of the Ethics Committee and approved its report for 2017. The Commission has been informed in a timely manner and in detail of the incidents arising in relation to the "Ethical Channel", without any of appreciable relevance.

5. Information to the General meeting

At the Ordinary General Shareholders' Meeting on March 31, 2017, Mr. Martí Parellada Sabata, Chairman of the Audit and Compliance Committee on that date, reported on matters pertaining to the Committee's competence, making reference to the Annual Activity Report of the Audit and Compliance Committee that had been approved by the Commission at its meeting of February 13, 2017.

6. Evaluation of the performance of the Audit and Compliance Committee

In accordance with the provisions of the Regulations of the Board of Directors, the Board of Directors and the Audit and Compliance Committee have been subject to an evaluation of the quality and efficiency in the performance of their functions and competences during 2017, by an external consultant, taking as a frame of reference for its evaluation the applicable regulations and best practices in matters of corporate governance.

As a result of this evaluation, were approved by the the Board of Directors and the Audit and Compliance Committee carry out their duties in accordance with the best corporate governance practices, and have not resulted in changes in their internal organization.

The results of this evaluation were approved by the Audit and Compliance Committee and the Board of Directors, on February 19, 2018.

7. Activities subsequent to year-end

In the first months of fiscal year 2018, the Commission continued with its ordinary activity, participating in the formulation of accounts by the Board of Directors. As in the previous year, the accounts for 2017, which will be submitted to the Ordinary General Meeting to be held in March of 2018, have been previously and favorably reported by the Audit and Compliance Committee at a meeting of February 19, 2018

In accordance with the provisions of the "Independence Report 2016 of the Enagás accounts auditor. S.A. and its subsidiaries ", issued on February 13, 2018, the Audit and Compliance Committee is informed on a quarterly basis of the percentage that is involved in any service other than the audit carried out by EY, with respect to Audit fees, in order to comply with the 70% limit established by Law 22/2015 on Auditing Accounts. As of December 31, 2017, the percentage of non-audit services on the percentage of the audit services on the amount of audit fees was 18%.

Similarly, the Commission at its meeting on February 19, 2018, has issued a report expressing a favorable opinion on the independence of the External Auditor, prior to the issuance of the Audit Report corresponding to the closing date of december 31, 2017

For legal purposes, it is stated that this report was approved by the Audit and Compliance Committee at its meeting on February 19, 2018.

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