

Annual Activity Report of the Audit and Compliance Committee

AUDIT AND COMPLIANCE
COMMITTEE
17/02/2020



Navigate this document by clicking on the different sections in the index.



To return to the start, click on this button on any page.

Table of contents

- 1** | Composition, attendance and operation **4**
- 2** | Regulation of the Audit and Compliance Committee **8**
- 3** | Activities of the Audit and Compliance Committee in 2019 **16**
- 4** | Evaluation of the Audit and Compliance Committee performance **24**
- 5** | Progress made in 2019 **26**

1

Composition, attendance and operation

On December 31, 2019, the composition of the Audit and Compliance Committee was as follows:



Chairwoman

Ms Isabel Tocino
Biscarolasaga
Independent



Member

Sociedad Estatal
de Participaciones
Industriales (SEPI),
represented by its Vice
President Mr Bartolomé
Lora Toro
Proprietary



Member

Ms Rosa Rodríguez
Díaz
Independent



Member

Mr Luis García del Río
Independent



Member

Mr Martí Parellada
Sabata
External



Secretary

Mr Rafael Piqueras
Bautista

In 2019, there were no changes in the composition of the Committee.

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, internal control auditing and risks. The composition of the Committee is therefore in accordance with the best practices of good corporate governance.

All the information on the Directors, including their work experience, is available on the Enagás corporate website.

Attendance

Pursuant to the provisions of the Audit and Compliance Committee Regulations, the Committee holds its meetings in accordance with an annual calendar, which includes at least four ordinary sessions.

Eight meetings were held during 2019: five regular committees and three preparatory ones.

All members of the Audit and Compliance Committee attended these meetings.

Committee operation

The Committee conducted its activity in 2019 in accordance with the best practices of corporate governance and the standard procedures set out in Technical Guide 3/2017 on Audit Committees at public-interest entities.



In accordance with the provisions of the corporate texts, the Audit and Compliance Committee was assisted by the Internal Audit Director, Ms Rosa Sánchez Bravo, in her duties as adviser to the Committee.

In addition, during 2019, at the invitation of the Chairwoman of the Committee, the Committee requested the presence of certain Company executives to discuss matters within their competence in accordance with the agenda. Specifically, it was attended by the Chief Executive Officer, Mr Marcelino Oreja Arburúa and the Financial General Manager of Enagás, Mr Borja García-Alarcón Altamirano. The Sustainability and Risk Director and the Compliance Director also attended meetings of the Committee when the latter addressed issues related to their functions.

Likewise, the representatives of the external auditor, Ernst & Young, S.L., attended the ordinary meetings of the Committee.

The documentation relative to each meeting, such as the agenda and the minutes from the previous meeting, were given to Committee members sufficiently in advance.

Ordinarily, after each Audit and Compliance Committee meeting the Chairwoman of the Committee reported to the Board of Directors in a meeting held the same day, with regard to the actions taken and matters addressed in each Committee meeting.

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 contained in the Articles of Association, the Rules and Regulations for the Organisation and Functioning of the Board of Directors of Enagás, S.A., as well its Regulations of the Audit and Compliance Committee, dated on December 16, 2019.

These documents are available on the website.

The main duties of the Audit and Compliance Committee are summarised under the following basic categories:

2.1. Annual Accounts and other financial reports:

- i. Overseeing the preparation and presentation of any financial information on the Company and its Group, and checking compliance with regulatory requirements, the due definition of the consolidation scope and correct application of accounting principles, and, especially, to understand and monitor the efficiency of the Internal Control over Financial Reporting system (ICFR).

- ii. Examining the information on activities and results of the Company which is prepared and published periodically in accordance with the prevailing regulations relating to the securities markets, seeking to ensure transparency and exactness in the information.
- iii. Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors aimed at safeguarding the integrity of the financial information.
- iv. Reporting to the Board of Directors with regard to the annual accounts and any other information that must be regularly disclosed, prior to their being drawn up.

2.2. External auditor

With regard to the appointment, re-election or replacement of the external auditor:

- i. Taking responsibility for the selection process, in accordance with the applicable regulations, and to this end must: define the procedure for selecting the auditor; and issue a

reasoned proposal containing at least two alternatives for the selection of the auditor, except in the case of re-election.

- ii. Reporting on the remuneration of external auditors and other contract conditions.
- iii. Proposing the appointment, re-election or replacement of the accounts auditor of the Enagás Group to the Board of Directors for presentation to the General Shareholders' meeting.

With regard to their independence:

- i. Establishing appropriate relations with the external auditor to receive information on any matters that may threaten its independence, in particular any discrepancies that may arise between the accounts auditor and Company management, for consideration by the Committee, and any others related to the process of implementation of the accounts audit, as well as any possible safeguards to be adopted.
- ii. Proceeding to authorisation of the services other than those prohibited, in accordance with applicable regulations, ensuring that the

Company and the external auditor respect the rules in force and the existing internal procedures.

- iii. Ensuring that the fees of the external auditor do not threaten their quality and independence, and are not based on any form of contingency, and establish an indicative limit on the fees that the auditor may receive annually for non-audit services.
- iv. Receiving the annual statement from the external auditor on their independence with respect to the Enagás Group or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities, and the corresponding fees received, by the external auditor or by persons or entities related to it. All of this is in accordance with the provisions of the regulations governing the accounts auditing activity.
- v. Issuing an annual report, prior to the issue of the audit report, giving an opinion on whether the independence of the accounts auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered, as referred to in the



previous section, that could comprise the independence of the accounts auditor, considered separately and in their totality, other than statutory audits.

In relation to the audit process and other limited reviews of interim financial statements:

- i. Reviewing the contents of audit reports, reports on limited review of interim financial statements and other statutory reports required of the auditors of accounts prior to their issuance, in order to prevent qualifications.
- ii. Supervising the responses of senior management to its recommendations, and mediating and arbitrating in the event of any disagreement with regard to the principles and criteria applicable to the preparation of the financial statements.
- iii. Fostering and ensuring that the accounts auditor who audits the individual and/or consolidated annual accounts takes full responsibility for the audit report issued, even when the annual accounts of affiliates are audited by other accounts auditors.
- iv. Reporting to the General Shareholders' Meeting on the audit results, explaining that this process contributes to the reliability of the financial information, and on the role performed by the Committee in this process.
- v. Ensuring that the external auditor hold two meetings per year, half-yearly and at the end of the accounting period, with the Board of Directors in order to inform them of the work undertaken of the evolution of accounting positions and risks to the Company.
- vi. Conducting an annual evaluation of the auditor's performance and how it has contributed to the quality of the audit and the integrity of the financial reporting.

2.3. Internal Audit

- i. Overseeing the proper operation of internal audit and ensuring the independence of the Company's internal audit function, ensuring the provision of sufficient resources and suitably qualified personnel for the optimum performance of its duties.

- ii. Approving the Internal Audit Plan, their related work plans and the annual budget for this, ensuring that the activity focuses mainly on the most significant risks facing the Group.
 - iii. Supervising the internal audit services, receiving regular information on their activities and verifying that senior management takes their conclusions and recommendations into consideration.
 - iv. Yearly assessment of the internal audit function and the performance of the responsible person.
- particular, identify, manage and adequately quantify all material risks affecting the company.
 - iii. Evaluating the Company's risks and examining the analyses of risks that affect the activities of the Company.
 - iv. Reporting to the Board of Directors on any risks uncovered, with an assessment thereof, and any key issues concerning risks. In particular, it shall reassess, at least every year, the list of the most significant financial and non-financial risks and assess their tolerance level, proposing an adjustment of these to the Board, if necessary.

2.4. Risk control and management

- i. Overseeing the effectiveness of risk control and management systems in order to adequately mitigate risks with the framework of the Company's internal policy. Submitting recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline for dealing with them.
- ii. Overseeing the risk control and management unit, which shall, among other functions, ensure the proper functioning of the risk control and management systems and, in

2.5. Competencies relating to legality

- i. Reporting to the Board of Directors prior to approval of the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair transparency.
- ii. Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 bis of the Board Regulations.



- iii. Preparing a report on related-party transactions, for posting on the Company's website, sufficiently in advance of the Ordinary Shareholders' Meeting.
- iv. Receiving and analysing information on the tax-related criteria applied by the Company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the Annual Accounts.
- iv. Assessing all matters relating to the non-financial risks of the Company, including operational, technological, legal, social, environmental, political and reputational.
- v. Coordinating the process of reporting of non-financial information and diversity, in accordance with applicable legislation and international benchmarks.

2.6. Corporate governance and non-financial reporting

- i. Reporting in advance to the Board of Directors on operations involving structural and corporate modifications planned by the Company.
- ii. Supervising compliance with the Internal Code of Conduct on matters relating to the securities markets in force at any given time, and with these Regulations.
- iii. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and Corporate Social Responsibility Committee in relation to Directors' and Executives' compliance with the Code.
- vi. Supervising a whistle-blowing mechanism enabling employees to report, confidentially and anonymously, any potentially significant incidents they identify in the Company, particularly with regard to financial and accounting issues, while observing the personal data protection laws and the basic rights of the parties involved.
- vii. Preparing this Annual Activity Report of the Audit and Compliance Committee that will form a part of the Annual Corporate Governance Report.
- viii. Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interest.

2.7. Compliance

- i. Ensuring the independence of the compliance function.
- ii. Ensuring that the compliance function performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Code of Ethics.
- iii. Ensuring that the compliance function is provided with the necessary staff and material resources needed for the optimum performance of its duties.



3 |

Activities of the Audit and Compliance Committee during 2019



During 2019, the Audit and Compliance Committee effectively executed its schedule of actions, in accordance with the recommendations of the Technical Guide and the Good Governance Code of Listed Companies.

The most relevant activities conducted by the Audit and Compliance Committee in 2019 are summarised below.

With regard to Financial and Non-Financial Reporting

Information to the Board on the annual accounts of Enagás for 2018

In its meeting held on February 22, 2019, the Committee analysed and debated the 2018 annual accounts, reporting favourably on them to the Board of Directors, which proceeded to prepare the annual accounts for the year ending December 31, 2018 under the terms set out by the Committee.

The Committee also verified that the Non-Financial Information Statement, which is included in the Management Report of the Consolidated Annual Accounts, included all the reporting required by Law 11/2018, of December

28 on non-financial information and diversity, reporting in this regard to the Board of Directors.

Finally, the consolidated accounts for 2018, together with the Management Report, were approved by the General Shareholders' Meeting on March 29, 2019.

Oversight of Interim Financial Statements

Throughout 2019, in accordance with the recommendations on good governance, the Committee has reviewed the interim financial statements on the occasion of the quarterly and half-yearly closing, based on the reports provided by the Financial General Manager and the external auditor.

The Committee understands that this activity is of vital importance in maintaining strict control of the Company's accounts and to facilitate the issuance of an unqualified audit report at year-end.

As a result of its work, the Committee presented at its meetings in April and October 2019 reports to the Board of Directors regarding the interim economic and financial information of Enagás and the economic and financial information for the first quarter of 2019.

With regard to the new accounting standards the Finance Department regularly reported to the Audit and Compliance Committee on the process of implementing the new accounting standards: IFRS 16 on Leases, in force since January 1, 2019, and the main impacts of its application at that date.

Fiscal transparency report

On October 21, 2019, in compliance with the Code of Good Tax Practices, to which Enagás adheres, the Committee was informed by the Financial General Manager of the Annual Report on Tax Transparency, which describes mainly: the tax strategy, the main business lines, the corporate structure, the dividend policy, the financial situation of the Group, as well as other issues of special tax significance that occurred during the year.

This report was approved by the Board and submitted to the tax authorities (AEAT) on October 25, 2019.

Internal Control over Financial Reporting System (“ICFR”).

During 2019, the Committee monitored, through the information provided by the external auditor, internal auditor and the Finance Department, the effectiveness of the Internal Control System on Financial Reporting. Specifically, at the beginning

of 2019, the external auditor reported favourably on the Internal Control over Financial Reporting System (hereinafter “ICFR”), that the Company applies under the COSO 2013 guidelines and no significant weaknesses were detected.

During 2019, the Finance Department and the Internal Audit Department reported on the implementation of minor improvement recommendations detected in the 2018 ICFR certification.

Finally, on February 17, 2020, the accounts auditor informed the Audit and Compliance Committee that, in their opinion, the Group had an effective ICFR system in place in 2019. The Committee subsequently informed the Board of Directors of this certification, and of the non-existence of relevant recommendations.

Formulation and approval of the Enagás annual accounts for 2019

With regard to the approval of the 2019 annual accounts, the accounts auditor gave a favourable report to the Audit and Compliance Committee on February 17, 2020, leading to their subsequent preparation by the Board of Directors.

With regard to the consolidated Non-Financial Information Statement included in the Management Report of the Enagás Group for the 2019 financial year and the



Diagnostic Report on the Internal Control System for Non-Financial Information, the Committee reported favourably to the Board on February 17, 2020.

The 2019 consolidated accounts together with the management report will be presented to the General Shareholders' Meeting, which is expected to be held on April 2020.

Finally, the Committee verified that the published financial and non-financial information for 2019 was in line with the approved information.

3.1. With regard to the external auditor

External auditor re-election

On February 22, 2019, the Committee unanimously agreed to submit to the Board a proposal for the re-election of Ernst & Young, S.L., as accounts auditor of Enagás, S.A. and its consolidated group for a three-year period (2019-2021), which was finally ratified by the General Shareholders' Meeting on March 29, 2019.

The Committee also agreed to define a transition plan during 2020 in order to give an orderly exit to the partner currently signing the Group's accounts, which will rotate after the end of its fifth year in accordance with the Law 22/2015 on Auditing.

Account auditing

In accordance with the established agenda, the external auditor participated in the five ordinary meetings held by the Committee, and in the three meetings held in 2019 to prepare for the end of the accounting period, which has allowed the Committee to adequately perform its duty to serve as a communication channel between the Board of Directors and the external auditor. In addition, the external auditors reported to the Board of Directors in its meetings on two occasions: February 22, 2019 and July 29, 2019.

At the meetings held by the Committee in 2019, the external auditor provided detailed information on the planning and progress of their work.

On March 29, 2019 the Chairwoman of the Committee informed the General Shareholders' Meeting of the audit results, explaining that this process contributes to the reliability of the financial information, and on the role performed by the Committee in this process.

Analysis of the independence of the Accounts Auditor by the Audit and Compliance Committee

During the meetings held in 2019 the Committee reviewed and approved all the services provided by the external auditor, to check that they complied with the requirements established in the Regulations of the Audit and Compliance Committee, the Law 22/2015, on Auditing and in the procedure for the contracting and relations with external auditors.

At the meeting held on February 17, 2020, the external auditor delivered to the Audit and Compliance Committee their Accounts Auditor Independence Statement certifying fulfilment of the independence requisites set out in the applicable laws.

On February 17, 2020, the Audit and Compliance Committee issued the Accounts Auditor Independence Report in which a favourable opinion was expressed as to the independence of the external auditor. This report is available on the Internet.

By December 31, 2019, non-audit services accounted for 23% of total auditor fees.

3.2. With regard to the internal auditor

It supervised the Company's Internal Audit services, ensuring their independence and effectiveness throughout 2019.

At its meeting on January 21, 2019, the Committee evaluated and approved the Annual Internal Audit Plan and Budget for 2019, verifying how the plan covered the Company's most relevant risks and ensuring that the function had sufficient and adequate resources to carry out its duties.

Likewise, it carried out an evaluation of the performance of the duties and responsibilities assumed by both the Internal Audit Director and the internal audit function as a whole. The evaluation questionnaire assesses aspects such as the strategic positioning of the function, good governance and auditor independence, as well as performance in the execution of its duties through the year.

Finally, as of February 21, 2019, it was informed of the Annual Report on internal audit activity conducted in 2018.

At all meetings held during 2019, the Committee received regular information on the internal audit activity, allowing it to have exhaustive control over the recommendations obtained in its Audit Reports and verifying the degree



of progress of the Annual Plan and the degree of implementation of its recommendations by the areas.

The Committee informed the Board of Directors after each Audit and Compliance Committee meeting.

3.3. With regard to risk control and management

The Audit and Compliance Committee monitored the effectiveness of the risk control and management systems.

The Chief Executive Officer and the Sustainability and Risk Director informed the Committee about the status of the Company's risk control and management, as well as the level of compliance with the defined risk limits, at four of its five ordinary meetings.

Specifically, on February 21, 2019, the Risk Department submitted the results of the annual risk monitoring and measurement process, and set out certain improvements introduced in the risk control and management model in relation to the monitoring of risk appetite, incorporating certain risk indicators, KRIs, in relation to the operation: availability of the company's main industrial systems and cybersecurity.

Ongoing monitoring of the evolution of risks was conducted at the subsequent meetings held by the Committee.

The Committee informed the Board of Directors after each Audit and Compliance Committee meeting.

3.4. With regard to corporate governance

Annual Corporate Governance Report

The Committee reported favourably to the Board of Directors on the Annual Corporate Governance Report (ACGR) for 2018, dated February 22, 2019, and on the ACGR for 2019, dated February 17, 2020.

Related-party transactions

With regard to 2018, in accordance with the recommendations of the Good Governance Code of listed companies, the Audit and Compliance Committee prepared a report, dated February 21, 2019, on related-party transactions that was made available to shareholders at the time notice was given of the General Shareholders' Meeting to be held on March 29, 2019.

In this report, the Committee confirmed the company's compliance with securities market regulations on transactions with related parties. It also verified that all related-party transactions carried out during 2018 belonged to the company's ordinary business or traffic, were carried out under arm's length conditions and were approved by the company's Board of Directors.

In 2019, a related-party transaction that required approval by the Board of Directors, dated July 29, 2019, was carried out.

Finally, on February 17, 2020, the Audit and Compliance Committee prepared a Report on related-party transactions, which it will make available to shareholders at the time of the call to the General Shareholders' Meeting, which is expected to be held on April 2020.

3.5. With regard to Compliance

The Committee adopted the General Corruption Prevention Regulation on February 21, 2019, as well as the Anti-Fraud, Corruption and Bribery Policy. on April 23, 2019.

On February 21, 2019, it was informed of the actions of the Ethics Committee, the monitoring of initiatives included in the 2018 Sustainable Management Plan and the definition of initiatives in the Sustainable Management, Ethics and Compliance Plan for 2019.

Also in this report, as well as in the quarterly meetings held during 2019, the Committee was aware of the detail of the complaints received through the "Ethics Channel", although there were none of any appreciable relevance in the period.

The Committee approved the budget of the Compliance Department on February 21, 2019.

In accordance with article 20.2 of the Internal Code of Conduct, Secretary of the Board of Directors informed the Audit and Compliance Committee of the degree of compliance and incidents relating to the application of the Internal Code of Conduct (RIC) in matters of the securities market.

Finally, the Committee was informed about the Activity Report on a quarterly basis by the Director of Compliance.

3.6. With regard to the activity of the Audit and Compliance Committee

On February 22, 2019, the Committee approved the Annual Activity Report of the Committee for 2018, and reported to the Board on the same date. This report was made available to shareholders at the General Meeting.

On December 16, 2019, the Committee approved the updating of the Regulations governing the activity of the Audit and Compliance Committee, as well as the Board Regulations, in order to adapt them to the recommendations included in Technical Guide 3/2017 of the CNMV on Audit Committees of public-interest entities.



4

Evaluation of the performance of the Audit and Compliance Committee



Pursuant to the provisions of the Audit and Compliance Committee Regulations and the Technical Guide 3/2017 on Audit Committees at public-interest entities, the Board of Directors and the Audit and Compliance Committee underwent an evaluation of the quality and efficiency of the performance of their duties and competences in 2019 by an external consultant, taking as a frame of reference for its evaluation the applicable regulations and best practices in matters of corporate governance.

The result of this evaluation highlighted the fact that the Audit and Compliance Committee performs its duties in accordance with the best corporate governance practices. The results of this evaluation were approved by the Audit and Compliance Committee and the Board of Directors on February 17, 2020.

5 |

Progress made in 2019



In line with the recommendations contained in Technical Guide 3/2017 for Audit and Compliance Committees, the following actions were carried out in 2019:

- Updating of the Committee's Regulations, to adapt them to the recommendations on good governance and the Technical Guide 3/2017.
- An increase in the number and duration of meetings held by the Committee.

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

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