8 Annual Accounts

Consolidated Annual Accounts 2017

Translation of financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain. In the event of a discrepancy, the Spanish-language version prevails."

Auditor's Report

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Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 5)

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of Enagás, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Enagás, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of total changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Recovery of financial assets related to the investment in Gasoducto del Sur Peruano, S.A.

Description

On January 24, 2017, the Directorate General for Hydrocarbons of the Ministry for Energy and Mines terminated the "Improvements to the National Energy Security and Development of the South Peruvian Pipeline" concession agreement and on December 4, 2017, the National Institute for the Defense of Competition and Intellectual Property (INDECOPI) published in the Official Gazette, El Peruano, that Gasoducto del Sur Peruano, S.A. had filed for bankruptcy, as explained in Note 1.6 to the accompanying consolidated financial statements.

The Group maintains a financial asset amounting to 275.3 million American dollars related to the investment in Gasoducto del Sur Peruano, S.A. and receivable accounts totaling 227.6 million, and 6.8 million American dollars, respectively, resulting from executing the guarantee for full compliance with the concession agreement as well as the guarantee granted to finance the project, and from credits for professional services rendered, which represent assets registered as of December 31, 2017 amounting to 388 million euros (note 3.3.a to the accompanying consolidated financial statements).

In addition, as described in Note 1.6 to the accompanying consolidated financial statements, there is an ongoing controversy between the Group and the Peruvian Government regarding the investment in Gasoducto del Sur Peruano that was communicated through the Ministry of Energy and Mining and the Ministry of Economics and Finance, on December 20, 2017, under the terms of article 9.1 of the Reciprocal Promotion and Protection of Investments (APRI) between Peru and Spain.

We determined this to be a key audit matter due to the significance of the amounts related and the uncertainty surrounding the final outcome in this type of issue, which are often drawn out and complex from a legal, technical, and economic standpoint for all parties involved and interested in.

Our response

In this regard, our audit procedures included the following:

- Review of the contracts and shareholder agreements of Gasoducto Sur Peruano, S.A. to evaluate compliance.
- Reading of the correspondence between official Peruvian government bodies and the investee Gasoducto del Sur Peruano, S.A.
- Meetings with external independent experts in both Peruvian and international law engaged by the Company.
- Review of the analysis reports prepared by various Peruvian and international law experts (bankruptcy, criminal and administrative law, inter alia) and Group's internal legal consultants.

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- Review of the Group's accounting estimate processes used to analyze the recovery of financial assets and the report prepared by an external accounting expert, in addition to the report prepared by an independent expert to determine the net carrying amount that will be applied in resolving the controversy.
- Review of the financial asset recovery analysis prepared by Group Management based on various scenarios (sensitivity analysis).
- Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

GNL Quintero, S.A. business combinations

Description

As explained in Note 1.7 to the accompanying consolidated financial statements, on January 1, 2017, Enagás Chile, Spa acquired control of GNL Quintero, S.A. a company in which it already owned an interest, leading to a business combination carried out in stages.

The process of determining and allocating the fair value of the acquired assets and liabilities, in which an independent expert participated has been considered as a key audit matter due to the significance of the amounts and the high degree of judgment applied by Group Management.

Our response

In this regard, our audit procedures included the following:

- Review of the shareholder agreements documenting acquisition of control of GNL Quintero, S.A. on January 1, 2017.
- Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management and the independent expert on which they relied for preparation of the discounted cash flow statements of GNL Quintero, S.A. focusing particularly on the discount rate and long-term growth rate applied.
- Review of projected financial information shown in the business plan by analyzing historical financial and budgetary information, current market conditions, and the projections of potential changes, as well as public information provided by other companies in the industry.
- Verification of accounting records in connection with the business combination.
- Confirmation from the independent expert on which Group Management relied.
- Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

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Regulatory framework including recognition of income and amounts receivables from the gas system

Description	The Group's principal revenue arising from regasification, storage, and transport of natural gas are regulated in a remuneration framework agreement (explained in Note 2.1 of the accompanying consolidated financial statements). Consequently, the Group's activities are notably affected by local, regional, national, and supranational regulation. Any change introduced in such regulation could therefore affect the results and the value of the assets used in the Group's regulated business activities. Moreover, new development of infrastructures are heavily contingent upon obtaining government licenses, permits, and authorizations, as well as compliance with varying types of regulation, the most salient of which are environmental regulation. The related procedures are drawn out and complex and can lead to delays or modifications of original designs, due mainly to the process of obtaining required authorizations; the steps involved in conducting environmental impact studies; public opposition in communities affected by the projects, as well as changes in the political environments of the countries where the Group operates. All such risks can lead to increase costs and/or delay budgeted revenue. As explained in Note 2.2 to the accompanying consolidated financial statements, in December 1, 2017 the Company Enagás Transporte, S.A.U. (Group company) has assigned the credit rights recognized by sectoral legislation on the amount of the deficit accumulated in the gas system that it owned at December 31, 2014, amounting to 354,751 thousand euros. By virtue of the agreement signed is determined that all risks and benefits have been substantially transferred to the system, as well as the control of the aforementioned financial asset. The factors above mentioned have led us to consider these aspects as a key audit matter.
Our response	In this regard, our audit procedures included the following: ► Review of prevailing regulation and evaluation of the degree of compliance therewith. ► Tests of revenue recognition, verifying its reasonableness in terms of each year's regulatory developments. ► Verification of the gas system's accounts payable and receivable by examining provisional and definitive settlements with the CNMC during the year. ► Analysis of the recoverability of non-current accounts receivable generated from operating the gas system in recent years (commonly referred to as "deficit accounts") in compliance with prevailing regulation. ► Review and analysis, in collaboration with our internal financial instrument specialists, of the securitization agreement for the so-called "deficit accounts" for the year 2014, leading to the transfer of said debt to the banks with the corresponding derecognition of the financial asset. ► Analysis of litigation in progress from gas infrastructure projects associated with the remuneration framework agreement together with internal and external legal advisors, where necessary, and follow-up of their current status and possible accounting effects. ► Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

Significant estimates

Description	The Group includes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability of explicit and implicit goodwill from investments accounted for by the equity method, as well as intangible assets and the fair value of financial instruments. In this regard, the Group uses financial derivatives to hedge against credit, interest rate, and exchange risks to which its activities, operations, and projected cash flows are exposed The Group's net assets include investments for significant amounts. Main criteria and assumptions used in the related valuation are described in Note 1.7 and 3.6 to the accompanying consolidated financial statements. In addition, the Group uses financial derivatives to hedge against credit, interest rate, and exchange risks to which its activities, operations, and projected cash flows are exposed. The principal hypotheses used in the related valuation are described in Note 3.6 to the accompanying consolidated financial statements. We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, small changes in the hypotheses could have a material impact on the Group's consolidated financial statements.
Our response	Our audit procedures primarily included: ▸ Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each associate, focusing particularly on the discount rate and long-term growth rate applied. ▸ Review of projected financial information shown in the business plan, for each investee and each cash-generating unit, by analyzing historical financial and budgetary information, current market conditions, and our own projections of potential changes, as well as public information provided by other companies in the industry. ▸ Review of the valuation of financial instruments, in collaboration with our internal specialists, taking into account the reasonableness of the methodology, sources and data used by management, performing contrast testing. ▸ Review the documentation supporting efficiency tests carried out for derivative financial instruments considered to be hedges with the collaboration of our internal financial instrument specialists. ▸ In addition, we checked the adequacy of the information disclosed by the Group related to the estimates in Notes 2.6 (impairment of non financial assets) and 3.6 (derivatives financial instruments), respectively of the accompanying consolidated financial statements in accordance with current regulation.

Other information: consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

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Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, or where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulations, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 19, 2018.

Term of engagement

The ordinary general shareholders' meeting held on March 18, 2016 appointed us as auditors for three years, commencing on December 31, 2016.

ERNST & YOUNG, S.L.

David Ruiz-Roso Moyano

February 19, 2018

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Enagás, S.A. and Subsidiaries

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2017

(In thousands of euros)

Assets	Notes	12.31.2017	12.31.2016 (*)
NON-CURRENT ASSETS		**8,428,869**	**7,895,300**
Intangible assets	2.5	929,889	76,419
Goodwill		181,704	25,812
Other intangible assets		748,185	50,607
Investment property	4.1.a	19,610	24,900
Property, plant, and equipment	2.4	5,501,351	5,002,887
Investments accounted for using the equity method	1.6	1,022,058	1,870,973
Other non-current financial assets	3.3.a	936,049	916,225
Deferred tax assets	4.2.f	19,912	3,896
CURRENT ASSETS		**1,143,767**	**1,286,973**
Inventories	4.8	23,772	18,217
Trade and other receivables	2.2	478,887	473,809
Current income tax assets	4.2.a	-	448
Other current financial assets	3.3.a	6,695	4,808
Accruals		6,549	4,237
Cash and cash equivalents	3.8.a	627,864	785,454
TOTAL GENERAL		**9,572,636**	**9,182,273**

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Balance Sheet at December 31, 2017

(*) For comparative purposes, the balances for deferred tax assets and liabilities are offset with one and the same tax authority as described in Note 1.2.b to the accompanying consolidated financial statements

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2017

(In thousands of euros)

Liabilities	Notes	12.31.2017	12.31.2016 (*)
EQUITY		**2,941,284**	**2,462,936**
CAPITAL AND RESERVES		**2,585,639**	**2,373,681**
Share capital	3.1.a	358,101	358,101
Reserves	3.1.c	1,879,996	1,737,183
Treasury shares	3.1.b	(8,219)	(8,219)
Profit for the year		490,837	417,222
Interim dividend	1.9.a	(139,241)	(132,565)
Other equity instruments	4.4	4,165	1,959
UNREALIZED GAINS (LOSSES) RESERVE	3.1.d	**(13,327)**	**74,559**
MINORITY INTERESTS (EXTERNAL PARTNERS)	3.2	**368,972**	**14,696**
NON-CURRENT LIABILITIES		**6,174,709**	**5,351,101**
Non-Current provisions	2.8.a	178,404	184,367
Financial debt and non-current derivatives	3.3.b	5,468,810	4,888,749
Deferred tax liabilities	4.2.f	485,156	231,777
Other non-current liabilities	2.7	42,339	46,208
CURRENT LIABILITIES		**456,643**	**1,368,236**
Financial debt and current derivatives	3.3.b	230,003	1,194,239
Trade and other payables	2.3	206,904	163,879
Current income tax liabilities	4.2.a	19,736	10,118
TOTAL		**9,572,636**	**9,182,273**

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Balance Sheet at December 31, 2017

(*) For comparative purposes, the balances for deferred tax assets and liabilities are offset with one and the same tax authority as described in Note 1.2.b to the accompanying consolidated financial statements

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016 (*)
Revenue	2.1.a	1,360,170	1,187,994
Income from regulated activities		1,152,015	1,146,977
Income from non-regulated activities		208,155	41,017
Other operating income	2.1.a	24,404	29,522
Employee benefits expense	2.1.b	(128,939)	(108,754)
Other operating expenses	2.1.c	(242,519)	(226,271)
Amortization/depreciation allowances	2.4 and 2.5	(319,093)	(271,516)
Impairment and gains (losses) on disposal of assets	2.4 and 4.1	(34,810)	(458)
Profit (loss) from investments accounted for using the equity method	1.6	72,859	41,205
OPERATING PROFIT (LOSS)		**732,072**	**651,722**
Finance income and similar	3.5	102,376	14,257
Finance and similar expenses	3.5	(186,172)	(121,143)
Translation differences (net)	3.5	1,013	(867)
Change in fair value of financial instruments	3.5	(18,123)	(5,644)
NET FINANCIAL PROFIT (LOSS)		**(100,906)**	**(113,397)**
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**631,166**	**538,325**
Income tax expense	4.2.c	(126,090)	(120,157)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**505,076**	**418,168**
Profit attributable to minority interest	3.2	(14,239)	(946)
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT		**490,837**	**417,222**
Attributable to:			
Parent		**490,837**	**417,222**
BASIC AND DILUTED EARNINGS PER SHARE (euros)	**1.8**	**2.06**	**1.75**

Notes 1 to 5 to the accompanying Consolidated . Financial Statements constitute an integral part of the Consolidated Income Statement at December 31, 2017

(*) The Consolidated Income Statement at 12.31.2016 has been restated, in accordance with the change in presentation described in Note 1.2.b to the accompanying Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016 (*)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR		**505,076**	**418,168**
Attributed to the parent		490,837	417,224
Attributed to minority interest		14,239	946
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**(133,633)**	**(2,422)**
Items that may be reclassified to profit or loss			
From companies accounted for using the full consolidation method		(13,466)	(46,121)
From cash flow hedges	3.1.d	(8,546)	2,604
From currency translation differences	3.1.d	(7,520)	(48,074)
Tax effect	3.1.d	2,600	(651)
From companies accounted for using the equity method		(120,167)	43,699
From cash flow hedges	3.1.d	(462)	(12,103)
From currency translation differences	3.1.d	(119,828)	53,003
Tax effect	3.1.d	123	2,799
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		**5,690**	**18,755**
From companies accounted for using the full consolidation method		(6,183)	14,267
From cash flow hedges	3.1.d	16,212	19,023
From currency translation differences	1.7 and 3.1.d	(18,575)	-
Tax effect	3.1.d	(3,820)	(4,756)
From companies accounted for using the equity method		11,873	4,488
From cash flow hedges	3.1.d	4,524	8,710
From currency translation differences	1.5 and 3.1.d	8,248	(2,063)
Tax effect	3.1.d	(899)	(2,159)
TOTAL RECOGNIZED INCOME (EXPENSES)		**377,133**	**434,501**
Attributed to minority interest		(25,818)	946
From currency translation differences	3.2	(40,057)	-
From attributable to results	3.2	14,239	-
Attributable to the parent		402,951	433,555

Notes 1 to 5 to the accompanying Consolidated. Financial Statements constitute an integral part of the Consolidated Statement of Recognized Income and Expenses at December 31, 2017

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY AT DEC 31, 2017

(In thousands of euros)

	Share capital (Note 3.1.a)	Share premium and reserves (Note 3.1.c)	Other equity instruments (Note 4.4)	Treasury shares (Note 3.1.b)	Profit for the year	Interim dividend (Note 1.9.a)	Unrealized gains (losses) reserve (Note 3.1.d)	Minority interest (Note 3.2)	Total equit
BALANCE AT DECEMBER 31, 2015	**358,101**	**1,674,200**	**-**	**-**	**412,662**	**(126,052)**	**58,226**	**14,435**	**2,391,572**
Total recognized income and expense	-	-	-		417,222	-	16,333	946	434,501
Transactions with shareholders	-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Distribution of dividends	-	-	-		(188,834)	(132,565)	-	(765)	(322,164)
Transactions with treasury shares	-	-	-	(8,219)	-	-	-	-	(8,219)
Other changes in equity	-	62,983	1,959	-	(223,828)	126,052	-	80	(32,754)
Payments settled with equity instruments	-	-	1,959	-	-	-	-	-	1,959
Transfers between equity accounts	-	97,776	-	-	(223,828)	126,052	-	-	-
Other changes	-	(34,793)	-	-	-		-	80	(34,713)
BALANCE AT DECEMBER 31, 2016	**358,101**	**1,737,183**	**1,959**	**(8,219)**	**417,222**	**(132,565)**	**74,559**	**14,696**	**2,462,936**
Total recognized income and expense					490,837		(87,886)	(25,818)	377,133
Transactions with shareholders	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
Distribution of dividends	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
Other changes in equity	-	142,813	2,206	-	(218,374)	132,565	-	396,147	455,357
Payments settled with equity instruments	-	-	2,206	-	-	-	-	-	2,206
Transfers between equity accounts	-	85,809	-	-	(218,374)	132,565	-	-	-
Differences due to changes in consolidation scope	-	39,661	-	-	-	-	-	396,147	435,808
Other changes	-	17,343	-	-	-	-			17,343
BALANCE AT DECEMBER 31, 2017	**358,101**	**1,879,996**	**4,165**	**(8,219)**	**490,837**	**(139,241)**	**(13,327)**	**368,972**	**2,941,284**

Notes 1 to 5 to the accompanying Consolidated Financial Statements constitute an integral part of the Consolidated Statement of Total Changes in Equity at December 31, 2017

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016
CONSOLIDATED PROFIT (LOSS) BEFORE TAX		**631,166**	**538,325**
Adjustments to consolidated profit		385,543	329,221
Amortization/depreciation of fixed assets	2.4 and 2.5	319,093	271,516
Other adjustments to profit		66,450	57,705
Change in operating working capital		321,159	(128,927)
Inventories		2,703	(1,336)
Trade and other receivables		298,755	(100,448)
Other current assets and liabilities		(4,566)	(89)
Other non-current assets and liabilities		(1,075)	949
Trade and other payables		25,342	(28,003)
Other cash flows from operating activities		(258,341)	(196,229)
Interest paid		(165,180)	(96,241)
Interest received		18,588	14,396
Income tax receipts (payments)	4.2.c	(110,963)	(116,442)
Other proceeds (payments)		(786)	2,058
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,079,527**	**542,390**
Payments for investments		(472,304)	(912,130)
Group companies and associates	1.6	(184,420)	(820,086)
PP&E and property investments	2.4 and 2.5	(54,079)	(92,033)
Other financial assets		(233,805)	(11)
Proceeds from sale of investments		143,834	12,170
Group companies and associates		143,834	12,170
Other cash flows from investing activities		112,867	86,262
Other receipts (payments) from investing activities	1.6	112,867	86,262
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(215,603)**	**(813,698)**
Proceeds from and payments on equity instruments		-	(8,219)
Acquisition of equity instruments	3.1.b	-	(8,219)
Proceeds from and payments on financial liabilities	3.8.c	(885,972)	1,163,354
Issues		9,257,139	4,178,904
Repayment and redemption		(10,143,111)	(3,015,550)
Dividends paid	1.9.a	(354,142)	(322,164)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(1,240,114)**	**832,971**
EFFECT OF CHANGES IN CONSOLIDATION METHOD		**243,092**	**-**
Effect of exchange rate fluctuations		(24,492)	(837)
TOTAL NET CASH FLOWS		**(157,590)**	**560,826**
Cash and cash equivalents at beginning of period		785,454	224,628
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3.8.a**	**627,864**	**785,454**

Notes 1 to 5 to the accompanying Consolidated Financial Statements constitute an integral part of the Consolidated Cash Flow Statement at December 31, 2017

1. Group activities and basis of presentation

Significant matters

Results

- Net profits attributed to the Parent increased by 17.6% with respect to 2016, amounting to 490,837 thousand euros. (Note 1.7).
- Net earnings per share increased to 2.06 euros per share as compared to 1.75 euros per share in 2016 (Note 1.8).
- The proposed dividend payment per share for 2017 amounts to 1.46 euros per share (1.39 euros per share in 2016) (Note 1.9).
- The Board of Directors proposed the following appropriation of profit corresponding to 2017 for the Parent, Enagás, S.A. (Note 1.9):

Reclassification of results from investments accounted for using the equity method

- At December 31, 2017, the Group reclassified profits for the period generated by the companies consolidated under the equity method, amounting to 72,859 thousand euros (2016: 41,205 thousand euros) and recognized under "Profit (loss) from investments accounted for using the equity method," as part of the Group's operating profit, with a view to reflecting the financial information included in the Group's consolidated financial statements more faithfully (Note 1.2.b).

Full consolidation of GNL Quintero, S.A. ("Quintero")

- During 2016, within the framework of acquiring additional interest in GNL Quintero, S.A. ("GNL Quintero"), the shareholders of GNL Quintero unanimously agreed to modify the existing shareholder agreement, effective from January 1, 2017. The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This resulted in a change in the consolidation method from the the equity method to the full consolidation method, effective from January 1, 2017 (Note 1.7).

Gasoducto Sur Peruano, S.A. ("GSP")

- With respect to the situation arising in connection with the investment in GSP as a consequence of the termination of the concession agreement on January 24, 2017, there is currently a disagreement between the Peruvian authorities and Enagás with respect to applying the investment recovery mechanism established in the GSP concession contract. This resulted in the initiation of direct contact on December 19, 2017 as a step prior to international arbitration by virtue of the Agreement for the Reciprocal Promotion and Protection of Investments ("APPRI" in Spanish) signed by the Republic of Peru and the Kingdom of Spain, as disclosed in Note 1.6.
- Likewise, as a consequence of the information published on December 4, 2017 on the bankruptcy situation of GSP, significant influence is lost, resulting in the exclusion of the said entity from the consolidation scope (Note 1.5).
- The total amount to recover at December 31, 2017 by GSP amounts to 388,561 thousand euros corresponding both to the recovery of the financial investment in this company and the recovery of the Enagás Group executed guarantees as a result of the termination of the concession contract in GSP by amounts of 215,303 thousand euros (Note 1.5) and 173,258 thousand euros respectively (Note 3.3).

Working Capital

- At December 31, 2017 consolidated balance sheet presents a positive working capital of 687,124 thousand euros.

Other information:

- Enagás dedicated 329 million euros to net investments during 2017, the most noteworthy transactions of which were the following:
  - Capital contributions to the Trans Adriatic Pipeline ("TAP") in the amount of 51,559 thousand euros (Note 1.6) and credit granted in the amount of 123,200 thousand euros.
  - Acquisition of an additional 21% of the Compañia Operadora de Gas del Amazonas, S.A.C. ("COGA") in the amount of 8,166 thousand euros, increasing the total stake held from 30% to 51% (Note 1.5).
  - Investments amounting to 54,079 thousand euros made in connection with regasification, transportation, and storage installations with a view to expanding and improving them in anticipation of future demand (Notes 2.4 and 2.5).
  - Sale of a 15% stake in GNL Quintero to Empresa Nacional del Petróleo, S.A. ("ENAP") amounting to 140,613 thousand euros (Note 1.5).
  - An outflow of 212,970 thousand euros in payment of the GSP guarantees granted (Note 1.6).

1.1 Group activity

Enagás, S.A. ("Company" or "Parent"), incorporated in Spain on July 13, 1972 in accordance with the Spanish Corporate Enterprises Act, leads a group of entities (Appendix I and II) which make up the Enagás Group ("Group" or "Enagás Group") and dedicate themselves to the transport, storage, and regasification of natural gas, as well as the performance of all functions relating to technical management of the gas system.

a) Corporate purpose

i. Regasification, basic and secondary transport as well as storage of natural gas, via the corresponding gas infrastructure or installations, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.

ii. Design, construction, start up, exploitation, operation, and maintenance of all types of complementary gas infrastructure and installations, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties.

iii. Development of all functions relating to technical management of the gas system.

iv. Transport and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding installations, of its own or of third parties, as well as the design, construction, start up, exploitation, operation, and maintenance of all types of complementary infrastructure and installations necessary for said activities

v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them.

vi. Rendering of services of a diverse nature, amongst them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas market management activities to the extent they are compatible with the activities permitted for the Company by law.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transport and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Consequently, the corporate purpose includes:

vii. Management of the corporate group comprised of the interest held in share capital of companies belonging to the group

viii. Rendering of assistance or support services to the investee companies, including the provision of appropriate guarantees and reinforcement for them

b) Other information

Its registered address is located at Paseo de los Olmos, 19, 28005, Madrid. Its by-laws and other public information on the Company and its Group can be consulted on its website, www.enagas.es, and at its registered address.

1.2 Basis of presentation

The annual consolidated financial statements of the Enagás Group for 2017 were prepared based on the accounting records of the Parent and remaining entities comprising the Group, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, in conformity with Regulation (EC) 1606/2002 of the European Parliament and Council.

The consolidated financial statements have been prepared applying all mandatory accounting principles, standards, and measurement criteria in order to give a true and fair view of the equity and financial position of the Group at December 31, 2017, as well as of the results of its operations, changes in equity, cash flows, and changes in recognized income and expenses for the year then ended.

The consolidated financial statements of the Enagás Group for 2017 were authorized for issue by the Board of Directors at their meeting held on February, 19, 2018. The 2016 consolidated financial statements were approved at the Enagás, S.A. Shareholders' General Meeting held on March 31, 2017 and duly filed at the Madrid Mercantile Registry. The Group's consolidated financial statements and the financial statements of each entity belonging to the Group, corresponding to the year 2017, are pending approval at their respective ordinary general shareholders meetings. The Group considers they will all be approved without any modifications.

These consolidated financial statements are presented in thousands of euros (unless otherwise stated).

a) Materiality criteria

The accompanying consolidated financial statements do not include the information or disclosures which the Group did not consider of material significance or important relative to the concept of materiality as defined in the conceptual framework of IFRS, taking into account the consolidated financial statements as a whole.

b) Comparative information

The information included in these consolidated notes relating to 2016 is presented solely and exclusively for purposes of comparison with the information relating to 2017.

During 2017 the Group offset the balances for deferred tax assets and liabilities in the consolidated balance sheet at December 31, 2017 and 2016, with one and the same tax authority. This meant offsetting "Deferred tax assets" against "Deferred tax liabilities" in the amount of 76,998 thousand euros in 2017 (2016: 67,059 thousand euros).

At December 31, 2017, the Group reclassified profits for the period generated by the companies consolidated under the equity method, amounting to 72,859 thousand euros (2016: 41,205 thousand euros) and recognized under "Results of investments accounted for under the equity method," as part of the Group's operating profit.

The directors of the Company consider the fact that the investees carry out the same activity as the Enagás Group, the corporate purpose of which is described in Note 1.1, together with their increasing contribution in the Group's consolidated income statement, justify the need for this change in the presentation of the consolidated financial statements, with a view to reflecting more faithfully the financial information contained in the Group's annual consolidated financial statements, in accordance with Decision EECS/0114-06 – "Change of Presentation of the Share in the Profit or Loss of Associates and Joint Ventures Accounted for Using the Equity Method" of the European Securities and Markets Authority (ESMA).

The Group applied this Decision in the presentation of its consolidated financial statements retroactively, thus modifying the figures relating to the period ended December 31, 2016 in the accompanying consolidated financial statements.

The effect of applying the above to the consolidated income statement is shown below. The effect on the consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognized income and expenses or consolidated statement of total changes in equity at December 31, 2016 is not included as they were not affected.

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2016

(In thousands of euros)

	Consolidated financial statements restated at 12.31.2016	Consolidated financial statements at 12.31.2016
Revenue	1,187,994	1,187,994
Income from regulated activities	1,146,977	1,146,977
Income from non-regulated activities	41,017	41,017
Other operating income	29,522	29,522
Employee benefits expense	(108,754)	(108,754)
Other operating expenses	(226,271)	(226,271)
Amortization/depreciation allowances	(271,516)	(271,516)
Impairment and gains (losses) on disposal of assets	(458)	(458)
Profit (loss) from investments accounted for using the equity method	41,205	-
OPERATING PROFIT (LOSS)	**651,722**	**610,517**
Finance income and similar	14,257	14,257
Finance and similar expenses	(121,143)	(121,143)
Translation differences (net)	(867)	(867)
Change in fair value of financial instruments	(5,644)	(5,644)
NET FINANCIAL PROFIT (LOSS)	**(113,397)**	**(113,397)**
Profit (loss) from investments accounted for using the equity method	-	41,205
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**538,325**	**538,325**
Income tax expense	(120,157)	(120,157)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**418,168**	**418,168**
Profit attributable to minority interest	(946)	(946)
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**417,222**	**417,222**

1.3 Consolidation principles

The consolidated financial statements include the financial statements of the Parent, Enagás, S.A. and its subsidiaries, associates, joint ventures, and joint operations at December 31, 2017.

Subsidiaries are considered to be those entities with respect to which the Enagás Group fulfills the following criteria:

- The capacity to use its interest to influence the amount of revenue to be obtained from said subsidiary
- The Group has power over the investee, in so far as a company has rights which permit it to direct relevant activities, understood as those which significantly affect the revenue generated by the subsidiary
- It maintains exposure or the right to variable revenue arising from its involvement in the subsidiary

Subsidiaries are consolidated using the full consolidation method.

The share of minority interests in the equity and profit of consolidated subsidiaries of the Enagás Group is recognized in "Minority interests (External partners)" under "Equity" in the consolidated balance sheet and "Profit (loss) attributable to minority interests" in the consolidated income statement, respectively. Subsidiaries are consolidated from the date of acquisition, that is, the date the Group obtains control, and continue to be consolidated until the Group no longer retains control over them.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Parent. With respect to the joint agreements, that is, those by virtue of which the Enagás Group maintains joint control with one or more other partners, a distinction is made between joint operations and business combinations. Joint control is understood as control shared by virtue of a contractual agreement which requires unanimous consent from all involved parties for decision-making regarding relevant activities.

Thus, joint operations are considered to be those in which, based on a contractual arrangement, a company enjoys the rights to assets and assumes obligations with respect to liabilities. The interest held in joint operations is consolidated using the proportionate consolidation method.

In addition, business combinations are considered to be those in which, based on a contractual arrangement, a company exercises rights with respect to the net assets of the business combination. Participation in business combinations is consolidated using the equity method. In those cases in which the Enagás Group acquires control over companies previously considered as business combinations, a new estimate is made for the fair value of the interest held previously in equity at the acquisition date, recognizing income or losses in the consolidated income statement for the reporting period.

Further, associates are considered to be those entities over which the Enagás Group holds significant influence, that is, the power to intervene in decision-making regarding financial policies and operational matters of the investee, without attaining full control or joint control. The interest held in associates is consolidated using the equity method.

If appropriate, adjustments are made to the financial statements of subsidiaries, investees, business combinations, and joint operations in order to unify their accounting policies with those of the Enagás Group.

a) Consolidation methods

Consolidation method/Company	Functional currency
Full consolidation	
Enagás Transporte, S.A.U.	Euro
Enagás GTS, S.A.U.	Euro
Enagás Internacional, S.L.U.	US dollar
Enagás Financiaciones, S.A.U.	Euro
Enagás U.S.A., L.L.C.	US dollar
Enagás Perú, S.A.C.	US dollar
Enagás México, S.A. de C.V.	US dollar
Compañía Transportista de Gas Canarias, S.A.	Euro
Enagás Emprende, S.L.U.	Euro
Enagás Chile, Spa.	US dollar
Gas to Move Transport Solutions, S.L. (1)	Euro
Terminal de Valparaíso, S.A.	US dollar
Enagás Transporte del Norte, S.L. (1)	Euro
Infraestructuras del Gas, S.A. (1)	Euro
GNL Quintero, S.A. (1)	US dollar
Terminal Bahía de Quintero, SpA. (1)	US dollar
Efficiency for LNG Aplications, S.L. (1)	Euro
Scale Gas Solutions, S.L. (1)	Euro
Joint operations	
Gasoducto Al-Andalus, S.A.	Euro
Gasoducto Extremadura, S.A	Euro
Equity method	
Morelos EPC, S.A.P.I. de C.V.,	US dollar
Gasoducto de Morelos, S.A.P.I. de C.V.	US dollar
Morelos O&M, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.	US dollar
Compañía Operadora de Gas del Amazonas, S.A.C.	Peruvian nuevo sol
Bahía de Bizkaia Gas, S.L.	Euro
Trans Adriatic Pipeline AG	Euro
Terminal de LNG de Altamira, S. de R.L. de C.V.	US dollar
Transportadora de Gas del Perú, S.A.	US dollar
Planta de Regasificación de Sagunto, S.A.	Euro
Iniciativas del Gas, S.L.	Euro
MIBGAS	Euro
Vira Gas Imaging, S.L.	Euro
Tecgas, Inc.	US dollar
Grupo Swedegas (2)	Swedish krona
Mibgas Derivatives, S.A.	Euro

(1) For these companies the Enagás Group recognizes interest corresponding to minority interests under "Minority interests (External partners)" in the consolidated balance sheet at December 31, 2017.
(2) Knubbsäl Topholding AB is the parent of the sub-consolidated Swedegas group which includes the indirect interest held by Swedegas AB.

b) Consolidation process

Consolidation of the Enagás Group was carried out in accordance with the following process:

i. Transactions between companies included in the consolidation scope. All balances, transactions, and results between companies consolidated under the full consolidation method were eliminated upon consolidation. For joint operations, the balances, transactions, and results of operations with other Group companies were eliminated in the proportion at which they were consolidated. With respect to gains and losses generated through operations amongst Group companies and companies consolidated under the equity method, the percentage of interest held by the Group in the latter was eliminated.

ii. Harmonization of criteria: For investee companies which apply different accounting and measurement criteria to those of the Group, the consolidation process included the corresponding adjustments, provided the effect was significant, with a view to presenting the consolidated financial statements based on harmonized measurement standards.

iii. Translation of financial statements denominated in foreign currency.

The translation to euros of the financial statements of the aforementioned companies in the Enagás Group consolidation process was carried out in accordance with the following procedures:

- Assets and liabilities of each corresponding balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date.
- Income and expense items making up each income statement heading are translated at the average exchange rate for the year in which the related transactions are carried out.
- Translation differences arising as a result of net assets are recognized as a separate component of equity under "Net unrealized gains (losses) reserve" and in the income statement under "Translation differences."

When disposing of a company whose functional currency is not the euro; or when disposals are carried out as a result of losing control; or result from business combinations with respect to previously held interest, translation differences recognized as a component of equity relating to said company are recognized in the consolidated income statement as soon as the effect arising from said disposal is recognized.

The exchange rates with respect to the euro of the main currencies used by Group companies during 2017 and 2016 were as follows:

Currency	Average exchange rates applicable for income statement headings	Spot rates at the closing date applicable to balance sheet headings [1]
2017		
US dollars	1.12958	1.19395
Peruvian nuevo sol	3.78933	3.90000
Swedish krona	9.63618	9.84220
2016		
US dollars	1.10667	1.05668
Peruvian nuevo sol	3.86536	3.60100
Swedish krona	9.46999	9.58465

[1] Does not include equity.

The effect on the main headings of the Group's consolidated financial statements of applying the translation process to the net assets of companies consolidated using the full consolidation method and whose functional currency is the US dollar is as follows:

2017	Consolidated total	Contribution of companies using the euro as functional currency	Contribution of companies using the US dollar as functional currency	Amount in US dollars
PP&E and intangible assets	**6,450,850**	4,851,424	1,599,426	1,909,635
Other non-current financial assets	**887,377**	485,892	401,485	479,353
Trade and other receivables	**527,559**	507,380	20,179	24,093
Other current financial assets	**6,695**	12	6,683	7,979
Cash and cash equivalents	**627,864**	335,339	292,525	349,261
Financial debt and derivatives	**5,468,810**	4,244,730	1,224,080	1,461,490
Current receivables	**230,003**	200,206	29,797	35,576
Trade and other payables	**206,904**	194,065	12,839	15,330

iv. Elimination of dividends: Internal dividends are considered to be those a Group company recognizes as income for the year and that have been distributed by another Group company.

During the consolidation process, dividends received by subsidiaries and joint operations are eliminated by considering them to be reserves of the recipient company, which consequently recognizes them under "Reserves." In the case of minority interests in companies consolidated using the full consolidation method, the amount of the dividend corresponding to said minority interests is eliminated from the consolidated equity heading "Minority interests (External partners)."

v. Equity method: The investment is initially recognized at cost and subsequently adjusted by the share corresponding to the investor of the changes in net assets of the investee. In addition, dividends received are accounted for as a lower amount under "Investments accounted for using the equity method."

The consolidated results for the year include participation in the results of the investee under "Profit (loss) from investments accounted for using the equity method" in the accompanying consolidated income statement. If the participation in losses of an associate or business combination equals or exceeds participation in said entities, the loss will no longer be recognized under additional losses. Once interest in an entity is reduced to zero, the additional losses will be maintained and a liability will only be recognized to the extent the corresponding entity incurred legal or implicit obligations or made a payment on behalf of an associate or business combination. If the associate or business combination subsequently reports profits, the entity will once again recognize its interest only after its participation in said profits equals its participation in unrecognized losses.

In addition, the accompanying consolidated statement of recognized income and expense includes the participation in the financial statements of the investee.

1.4 Estimates and accounting judgments

In the Group's consolidated financial statements for 2017, estimates and judgments were occasionally made by the senior executives of the Group and of the consolidated companies, subsequently ratified by the directors, in order to quantify certain assets, liabilities, income, expenses, and commitments reported herein. These estimates and judgments basically relate to:

- The useful life of PP&E items (Note 2.4).
- Provisions for dismantling and abandonment costs (Note 2.8).
- The measurement of non-financial assets to determine the possible existence of impairment losses (Note 2.6).
- The recognition of investments accounted for using the equity method (Note 1.6).

- The fair values of financial instruments and financial assets (Notes 1.6, 3.3, and 3.6).
- The recognition of provisions and contingent liabilities (Note 2.8).
- The calculation of corporate income tax and deferred tax assets (Note 4.2).
- The fair value of equity instruments granted under the long-term incentive plan ("LTI") (Note 3.1.b).

Although these estimates were made based on the best information available at December 31, 2017 regarding the facts analyzed, future events could make it necessary to revise these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognizing the effects of the revised estimates in the related consolidated income statement as established in IAS 8.

1.5 Changes in consolidation scope

The following changes in the consolidation scope of the Enagás Group occurred during 2017:

	Amount (thousands of euros)		Ownership (%)		
Entity	In local currency	In euros	Previous	At 12.31.2017	Description/Type of control
GNL Quintero, S.A.	604,000	574,527	-	-	The modifications introduced in the shareholder agreements grant Enagás Chile, SpA. Control over GNL Quintero from January 1, 2017, which is consequently no longer consolidated under the equity method but rather under the full consolidation method (Note 1.7).
GNL Quintero, S.A.	(150,000)	(140,613)	60.40%	45.4%	On April 11, 2017 the Enagás Group reduced its stake in GNL Quintero by 15% (Note 1.7).
Terminal Bahía de Quintero, SpA.(1)	5	5	-	51.90%	Consolidation under the full consolidation method as the Group exercises control over the entity (Note 1.7).
Terminal de Valparaíso, S.A.	-	-	51%	100%	Consolidation under the full consolidation method as the Group maintains control over the entity
Compañía Operadora de Gas del Amazonas, S.A.C.	8,862	8,166	30%	51%	By virtue of the current shareholders agreements, the company is now jointly controlled and consolidation will continue under the equity method.
Scale Gas Solutions, S.L.	216	216	-	90%	Consolidation under the full consolidation method as the Group exercises control over the entity
Efficiency for LNG Applications, S.L.	300	300	-	92%	Consolidation under the full consolidation method as the Group exercises control over the entity
Mibgas Derivatives, S.A. (2)	142	142	-	28.34%	Given that, based on the shareholder agreements, increased majorities are required for taking relevant decisions, both financial and operational, this represents significant influence and consolidation is carried out using the equity method.
Gas to Move Transport Solutions, S.L.	277	277	-	82%	Consolidation under the full consolidation method
Gasoducto Tuxpan, S.A.P.I. de C.V.	(3)	(3)	100%	-	Excluded from the consolidation scope as the company has been liquidated
Gasoducto Villa de Reyes, S.A.P.I. de C.V.	(3)	(3)	100%	-	Excluded from the consolidation scope as the company has been liquidated
Gasoducto Sur Peruano, S.A.	(257,060)	(215,303)	26.87%	26.87%	Excluded from consolidation scope. The Group reclassified the investment recognized under the equity method to an account receivable from GSP for recovery of the financial investment (Note 1.6).

(1) Enagás Chile SpA. contributes a 5.40% stake directly held in GNL Quintero, S.A. via Terminal Bahía de Quintero, SpA.
(2) Via Mibgas, S.A. Enagás GTS, S.A.U. contributes 8.94% of indirect interest in Mibgas Derivatives, S.A. while Enagás, S.A. contributes 19.4% of direct interest in said company.

GNL Quintero, S.A.

In 2016, in the context of acquiring an additional 40% of interest in GNL Quintero, S.A. ("GNL Quintero"), the Enagás Group increased its total interest in said company to 60.40%. In addition, and also in the context of this acquisition, a purchase and a sales option were granted to Empresa Nacional del Petróleo, S.A. (ENAP) and Sumhuram Energy Chile II Limitada (OOC) while the shareholders of GNL Quintero agreed to modify the shareholder agreement then prevailing, with the changes to become effective on January 1, 2017. The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This resulted in changing the consolidation method based on equity to the full consolidation method.

On April 11, 2017, the call and put options were exercised by ENAP (which cedes its rights to OMERS Infrastructure Holdings II SpA - "OMERS") and OCC, respectively. As a result of these transactions, the Enagás Group decreases its interest by 15% and acquires control over GNL Quintero with a stake of 45.40% via two companies (for more detail on the call and put options exercised, see Note 1.7 on "GNL Quintero S.A. business combinations and subsequent transactions"):

- Terminal de Valparaíso, S.A., of which Enagás Chile acquired 49% for 191 million US dollars (which indirectly represents 19.6% of GNL Quintero share capital) after OOC exercised its sales option, and which together with the 51% of interest held previously, reached 100% of interest. Thus, as Terminal de Valparaíso owns 40% of direct interest in GNL Quintero, Enagás Chile controls said interest.
- Terminal Bahía de Quintero, SpA., incorporated on April 7, 2017 by Enagás Chile and OMERS for an amount of 5.2 thousand US dollars and a 51.9% and 48.1% stake, respectively. Via this company, Enagás Chile SpA. together with OMERS, contribute 5.40% and 5%, respectively, of the direct interest both hold in GNL Quintero to Terminal Bahía de Quintero SpA. With the prevailing shareholders agreement, Enagás Chile controls this company, consolidating its assets and liabilities under the full consolidation method, with the recognition of the corresponding minority interest.

In this manner, the shareholder structure of GNL Quintero is comprised of ENAP 20%, Terminal de Valparaíso, S.A. 40% (100% of Enagás Chile), OMERS 29.6%, and Terminal Bahía de Quintero SpA 10.4% (51.9% Enagás Chile and 48.1% OMERS). As a result of the above transactions, Enagás Chile SpA holds a stake of 45.40% via two companies over which it exercises control, and by virtue of the current shareholders agreements, it also maintains control over GNL Quintero, which will thus continue to be consolidated under the full consolidation method, recognizing the 54.60% under "Minority interest" in the consolidated balance sheet (Note 3.2).

The accounting effects arising from the combination of transactions described above are detailed in Note 1.7 on "GNL Quintero S.A. Business combinations and subsequent transactions."

Compañía Operadora de Gas del Amazonas, S.A.C.

On April 24, 2017, the joint acquisition by Enagás Internacional, S.L.U. and Carmen Corporation (Canada Pension Plan Investment Board - "CPPIB") of the entire shareholding package which Graña y Montero S.A.A. held in Compañia Operadora de Gas del Amazonas, S.A.C. (COGA) became effective, with 21% of the acquisition corresponding to Enagás Internacional, S.L.U. for a total amount of 8,862 thousand US dollars (8,166 thousand euros). Taking into account that Enagás Internacional, S.L.U. already held a 30% stake in COGA, after the transaction this stake was increased to 51%, with the remaining 49% corresponding to CPPIB. As a consequence of the above, and based on the current shareholder agreements, a situation representing joint control has arisen and consolidation will therefore continue to be performed under the equity method.

Scale Gas Solutions, S.L.

On March 21, 2017, Scale Gas Solutions, S.L. was incorporated for 216 thousand euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through a 90% stake. Thus, it is fully consolidated together with recognition of the 10% stake corresponding to external partners under "Minority interest" in equity.

Efficiency for LNG Applications, S.L.

On March 21, 2017, Efficiency For LNG Applications, S.L. was incorporated for 300 thousand euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through a 92% stake. Thus, it is also fully consolidated together with recognition of the 8% stake corresponding to external partners under "Minority interest" in equity.

Mibgas Derivatives, S.A.

On July 26, 2017, Mibgas Derivatives, S.A. was incorporated for 500 thousand euros. This company, domiciled in Spain, was initially incorporated by Migbas, S.A., holding a 100% stake. Subsequently, on September 7, 2017, Mibgas, S.A. signed a share purchase-sale agreement with Redes Energéticas

Nacionais, SGPS, S.A. ("REN"), Reganosa, S.A., and Enagás, S.A. by virtue of which the shareholder structure of Mibgas Derivatives, S.A. was as follows: Mibgas, S.A. 67%, Enagás, S.A. 19.4%, REN 9.7%, and Reganosa, S.A. 3.9%. Given that Enagás GTS, S.A.U. holds a 13.34% stake in Mibgas, S.A. as a result of these transactions, the Enagás Group holds a total interest of 28.34% in Mibgas Derivatives, S.A. (8.94% of indirect interest via Enagás GTS, S.A.U. and 19.4% of direct interest via Enagás, S.A.). Given that, based on the shareholder agreements, increased majorities are required for taking relevant decisions, both financial and operational, this represents significant influence and consolidation is carried out using the equity method.

Gasoducto Sur Peruano, S.A. ("GSP")

On December 4, 2017, the National Antitrust and Protection of Intellectual Property Institute of Peru ("INDECOPI" in Spanish) publicly disclosed the bankruptcy situation of GSP in the Official Daily "El Peruano." The following was established from this date: (a) suspension of the possibility to demand fulfillment of obligations; (b) the framework for protection of the assets; and (c) the determination of bankruptcy credits which must be recognized in the procedure (those accrued before the aforementioned publication).

The above means that GSP is restricted and limited in its capacity to take decisions, in accordance with Peruvian bankruptcy law. Together with the substantial delivery of the concession assets to the Peruvian authorities which finalized during the month of December, 2017; the above meant the loss of significant influence by Enagas in GSP as the former can no longer participate in relevant decision-making regarding operational or financial policies.

As a result, the investment initially recognized under "Investments accounted for under the equity method" by GSP in the consolidated balance sheet was reclassified to "Non-current financial assets" at its recoverable amount at that date, totaling 215.3 million euros, taking into account financial discounting as explained in Note 1.6.

Likewise, the loss of significant influence resulted in cancellation of the accumulated translation differences at that date against "Other financial expenses" in the consolidated income statement at December 31, 2017, recognizing an effect of 8,248 thousand euros in the 2017 consolidated income statement (Note 3.5).

1.6 Investments accounted for using the equity method

Accounting policies

- The Group assesses the existence of joint agreements as well as significant influence with respect to associates taking into account the shareholder agreements which require increased majorities for taking relevant decisions.
- In order to classify the joint agreements amongst business combinations and joint operations, the Group assesses the rights and obligations of the involved parties as well as the remaining circumstances stipulated in said agreements.

Significant estimates and judgments

- At each year end, or when there are indications of impairment, the Group analyzes the recoverable amounts of investments accounted for under the equity method to determine the possibility of impairment.
- As described in the previous note (Note 1.5), on April 24, 2017 the acquisition of an additional 21% of interest in Compañía de Gas del Amazonas, S.A.C became effective, with the Group's interest thus totaling 51%. As the corresponding 12-month deadline subsequent to acquisition has not elapsed yet, the accounting of this increased stake in the company and the assignation of an acquisition price will be reviewed, though the Group expects no significant changes.

Beginning balance	New acquisitions/ Increases (1)	Change in consolidation method (2)	Dividends	Profit for the year	Translation differences	Hedging transactions	Other adjustments	Balance at year end
2017								
1,870,973	60,382	(755,999)	(112,867)	72,859	(111,580)	3,286	(4,996)	**1,022,058**
2016								-
1,191,105	678,511	-	(86,262)	41,205	50,940	(2,753)	(1,773)	**1,870,973**

(1) "New acquisitions/Increases" includes capital contributions to TAP and Estación de Compresión Soto La Marina, S.A.P.I. de C.V. amounting to 51,559 thousand euros and 335 thousand euros respectively, the acquisition of an additional 21% of COGA amounting to 8,166 thousand euros, the acquisition of 28.34% of Mibgas Derivatives, S.A. amounting to 142 thousand euros, as well as the capitalization of acquisition costs amounting to 180 thousand euros.

(2) "Change in consolidation method" includes the effect of derecognizing GNL Quintero under "Investments accounted for under the equity method" amounting to 540,696 thousand euros as it is now consolidated using the full consolidation method (Note 1.7). In addition, the effect of the recognition of GSP under "Investments accounted for under the equity method" is also included in the amount of 215,303 thousand euros, given that significant influence was lost during the year (Note 1.5).

The following dividends were collected:

	2017	2016
TgP	74,926	42,355
Altamira Group	3,248	16,195
Swedegas	7,540	10,528
GNL Quintero	-	9,827
BBG	4,000	4,000
Saggas	19,575	-
Other entities	3,578	3,357
Total	**112,867**	**86,262**

Appendix II to these consolidated financial statements provides disclosure on data relating to business combinations, joint operations, and associates of the Enagás Group at December 31, 2017 and 2016.

The recoverable amount of investments in associates or business combinations is evaluated for each associate or business combination, unless the associate or business combination does not generate cash flows for continuous use which are largely independent of the cash flows arising from other Group assets.

With respect to the impairment analysis for investees, the discount rate applied (cost of equity) in 2017 ranged from 5%-9%, depending on the country (2016: 5%-10%). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2017 year end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

Gasoducto Sur Peruano ("GSP")

With respect to the investment in Gasoducto Sur Peruano, S.A., on January 24, 2017, the Peruvian Directorate General for Hydrocarbons of the Ministry for Energy and Mines ("the Peruvian State") served GSP notice informing the company that the concession agreement had been terminated for reasons attributable to the concessionaire, based on the provisions of clause 6.7 of the concession agreement "Improvements to the energy security of the country and development of the Gasoducto Sur Peruano," as the financial closing had not been accredited within the stipulated deadline (January 23, 2017), immediately executing the full guarantee for compliance granted by GSP (262.5 million US dollars) to ensure fulfillment of the obligations relating to the concession.

This situation generated the immediate execution of the counter-guarantees granted by the GSP shareholders, which in the case of Enagás, S.A. generated a payment of 65.6 million US dollars in connection with the guarantee for full compliance included in the concession agreement, as well as 162 million US dollars corresponding to the execution of the bank financing guarantees during the month of January 2017.

In addition, via Urgency Decree 001-2017 of February 1, 2017, the Peruvian State commissioned Osinergmin with the direct contracting of an administrator to take charge of managing and supervising the GSP concession assets until they are delivered to a new concessionaire. On May 26, 2017, Osinergmin arranged a contract with Estudios Técnicos SAS (ETSA) by virtue of which the latter would take over administration of the concession assets.

In the month of October 2017, the Peruvian State and GSP reached an agreement by virtue of which the concession assets would be delivered to the Peruvian State. During the month of December 2017, the process for delivering the concession assets held by GSP was substantially completed with the Peruvian State assuming control over them.

After termination of the concession contract, the Peruvian State should have initiated the procedure included in clause 20 of said contract, basically consisting in the designation of a consulting entity of international prestige to calculate the Net Carrying Amount (NCA) of the concession assets, as well as subsequent organization of three public tenders at a starting price corresponding to 100% of the NCA, and at any rate guaranteeing GSP payment of 72.25% of the NCA after the third auction.

With the amount that GSP would have received for the NCA of the concession assets, it would have been able to settle its obligations to third parties and, if possible, reimburse the capital contributions made by its shareholders, as explained in the consolidated financial statements of the Enagás Group for 2016.

At 2017 year end, apart from receiving and taking control of the concession assets, the Peruvian State had not carried out any other actions towards calculating the NCA and holding the public tenders to which clause 20 of the concession contract refers, so that GSP had not received any amounts of the indemnity corresponding to the NCA which in turn would have allowed Enagás to recover the financial investment made in GSP.

Instead, the Peruvian State declared that the Regulations for Transportation of Hydrocarbons via Pipelines approved by Supreme Decree 081-2007-EM would be applied to the termination of the Concession contract. However, at 2017 year end, the Peruvian State had not taken any steps in accordance with said Regulations which could somehow confirm the intention to pay GSP the amount corresponding to the value of the concession assets.

In light of the Peruvian State's inactivity, on December 19, 2017, Enagás notified the Peruvian State about the existence of a dispute relating to the investment in GSP with a view to reaching an amicable agreement on the terms of article 9.1 of the Agreement for the Reciprocal Promotion and Protection of Investments (APPRI in Spanish) signed by the Republic of Peru and the Kingdom of Spain. This notification represented the beginning of the six-month period for direct contact prior to initiating international arbitration in which the APPRI acts as the mechanism for recovering the investment in GSP.

The aforementioned notification regarding the dispute is based on the opinion of the external and internal legal advisors, who consider that the Peruvian State had the obligation to apply clause 20 of the concession contract, calculate the NCA of the concession assets, hold three public tenders to award the concession, and pay the NCA to GSP.

As this has not occurred, Enagas is attempting to receive an indemnity from the Peruvian State for its investment in GSP via arbitration proceedings. Enagas considers that, taking into account the NCA of the concession assets, if the Peruvian State had paid GSP as was its obligation, and also taking into account the payment schedule which would have been triggered by payment of the NCA, Enagas would have recovered its investment in GSP.

With respect to the NCA figure, a company of independent experts was contracted by Enagas to carry out a valuation while GSP contracted an audit firm as independent experts for reviewing the calculation of the NCA at December 31, 2016, determining a NCA of 2,602 million US dollars.

Taking into account the NCA, if the payment schedule foreseen in bankruptcy law is applied, as well as the subordination contracts and loan transfers granted between Enagas and GSP partners, Enagas would recover the entire amount of its investment. The application of these contracts is being questioned by some of the Enagás shareholders in GSP. Finally, on January 3, 2018, Enagás received notification of a request from Odebrecht for initiating arbitration proceedings against Enagás and Graña y Montero in connection with the agreements for subordinated rights and loan transfers signed by the GSP shareholders.

Based on the conclusions of the external and legal advisors, taking into consideration the arguments contained in the arbitration request, the possibility of Odebrecht succeeding in its intentions is considered remote as said agreements are considered fully valid and applicable.

With respect to the arbitration proceedings against the Peruvian State (still in the prior direct contact phase), based on the conclusions reached by the external and internal legal advisors, said proceedings are not affected by any other circumstance beyond the sound legal arguments being presented by Enagas (for example, an instance of corruption which could affect the awarding of the concession agreement), and it is probable that the entire investment made by Enagas in GSP will be recovered, consisting of the accounts receivable relating to the aforementioned guarantees executed in the amount of 227.6 million US dollars, various invoices for professional services rendered amounting to 6.8 million US dollars, and the share capital contributed to GSP amounting to 275.3 million US dollars.

Taking into account that direct contact was initiated last December 19, 2017, and also assessing the time required for resolving a dispute of this complexity via international arbitration, Enagas estimates that the maximum period for recovery of the investment in GSP is 4 years counting from the notification date of the dispute, in accordance with the conclusions of the internal and external legal advisors. The recognition of financial discounting in 2017 results represented a net effect in the income statement of an expense totaling 18.4 million euros.

Other related matters

In addition, on February 13, 2017, the Peruvian State published Urgency Decree 003 -2017 "Urgency Decree which ensures the continuity of investment projects for the rendering of public services and establishes the payment of civil liabilities in favor of the State in cases of corruption," as well as subsequent guidelines, establishing an exceptional regime as a consequence of corruption relating to public works or public-private associations in Peru, without any negative effect arising which may require modification of the aforementioned conclusions under the current reading of said stipulations. On February 13, 2018, the Peruvian State published Urgency Decree no. 003-2018 "Urgency decree which ensures the continuity of investment projects for the rendering of public services and establishes the payment of civil liabilities in favor of the State in cases of corruption, prolonging the applicability of Urgency Decree no. 003-2017" by virtue of which the validity of said Urgency Decree no. 003-2017 was extended for one more month.

With respect to the actions taken by the Attorney General of Peru in connection with the investigation of Odebrecht's activities in Peru and other investigations carried out by various bodies of the Peruvian Attorney General's office, for alleged offenses which may somehow be related to the awarding of the project for "Improvements to the energy security of the country and development of the Gasoducto Sur Peruano," two investigations are currently underway. The first one, identified by File 321-2014, for which a hearing has been scheduled for next March 19, relates to aggravated collusion between a former employee of Odebrecht and a civil servant. A decision is expected during this phase (expected to last 2 to 3 months) to schedule an oral hearing. Should court proceedings take place and result in a subsequent sentence, Enagás will have to evaluate how this would affect the arbitration proceedings (now in the direct contact stage) initiated by Enagás against the Peruvian State in order to recover the investment made in GSP. Based on the opinions of its external legal advisors of criminal code, the possibility of sentencing Odebrecht's former employee is considered to be remote.

In this same case, the preparatory investigative court has declared the incorporation of GSP as a liable third party as wrongful. The second investigation underway, identified by File 12-2017, is in its preliminary stage at the level of the Attorney General's office and involves investigation of an Enagás employee. Based on the opinions of our external legal advisors for the Peruvian criminal code, there are no indications that these investigations may conclude negatively for Enagás.

Based on all the above, the directors of Enagás, in accordance with the opinions of its external and internal legal advisors, as well as an independent expert and an independent expert accountant, consider that these circumstances will not have an impact on the estimated recoverable amount of the investment in GSP and the aforementioned receivable balances totaling 382 million euros (Note 3.3.a).

1.7 GNL Quintero S.A. business combinations and subsequent transactions

Accounting policies

Goodwill and business combinations

- The acquisition by the Parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.
- Goodwill or negative goodwill arising on the combination is calculated as the difference between the fair value of the assets acquired and liabilities assumed which meet the relevant recognition criteria and the cost of the business combination, all measured at the acquisition date.
- Goodwill that arises upon acquisition of companies whose functional currency is not the euro is recognized in the functional currency of the acquired company, translating to euros at the exchange rate prevailing at the balance sheet date.
- Goodwill is not amortized and is subsequently measured at cost less any impairment losses. Goodwill impairment losses are not reversed in subsequent periods.
- If the measurement procedures of a business combination necessary to apply the acquisition method explained above are incomplete by the end of the reporting period, the acquiring entity shall report the provisional amounts. The acquiring entity may adjust the provisional amounts recognized during the period necessary to obtain the required information. The measurement period shall not exceed one year. The effects of the adjustments made are accounted for retrospectively, with comparative information also adjusted retrospectively as necessary.
- In accordance with IFRS 3, this acquisition of control represents a business combination carried out in stages, which requires measuring the interest formerly held in the equity of the acquired company at its fair value at the date of acquiring control.

During 2016 the Enagás Group acquired a 40% stake in addition to the 20.4% it already held in GNL Quinero, which resulted in total interest of 60.40%. By virtue of the shareholder agreements in force at December 31, 2016, and the system of increased majorities for decision-making, joint control over GNL Quintero was maintained and thus, consolidation continued under the equity method. In the context of this additional acquisition of interest, and the granting of a purchase and a sales option to Empresa Nacional del Petróleo, S.A. (ENAP) and Sumhuram Energy Chile II Limitada (OOC), the shareholders of GNL Quintero agreed to modify the shareholder agreement then prevailing, with the changes to become effective on January 1, 2017.

The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This results in a change in the consolidation method from the equity method to the full consolidation method with recognition of the corresponding minority interest.

In accordance with IFRS 3, this acquisition of control represents a business combination carried out in stages, which requires measuring the interest formerly held in the equity of the acquired company at its fair value at the date of acquiring control. On January 1, 2017, the fair value of assets and liabilities acquired in the business combination were determined by the Enagás Group using the acquisition price in 2016 (400 million US dollars for a 40% stake) as a reference value, resulting in 1,000 million US dollars for 100% of GNL Quintero. Revaluation of the previous interest (60.40%) resulted in a positive impact of 33,831 thousand euros, and cancellation of the translation differences accumulated in equity at the date of acquiring control amounted to 18,575 thousand euros of income, both effects recognized under "Finance income and similar" in the consolidated income statement.

The breakdown of the calculation for the gains generated by the revaluation and the cancellation of translation differences is as follows:

	Thousands of euros
Fair value of previous net assets (60.4%) (1)	574,527
Net carrying amount of interest held at 12.31.2016 (60.4%) (2)	540,696
Total revaluation of initial net carrying amount	**33,831**
Cancellation of translation differences accumulated in equity at 12.31.2016	18,575
Impact on profit and loss	**52,406**

(1) Taking 1,000 million US dollars for the full 100% stake as a reference value (951 million euros at the exchange rate of January 1, 2017) (Note 1.5)

(2) Investment accounted at December 31, 2016 under the equity method for 60.4% of GNL Quintero.

The full integration of the assets and liabilities of GNL Quintero in the financial statements of the Enagás Group, in accordance with the accounting standard relating to IFRS 3 "Business combinations," was carried out based on estimating the fair values of the assets acquired and liabilities assumed at the acquisition date through the purchase price allocation process. The revaluation of assets and liabilities as a consequence of this process affects:

- Intangible assets, specifically the "Terminal Use Agreement" (TUA), in the amount of 835,441 thousand euros and for which the corresponding cash flow projections were considered (Note 2.5).
- Non-current financial liabilities in the amount of 5,573 thousand euros, reflecting the quoted market price in the underlying bond.
- With the allocation of the purchase price, deferred tax liabilities in the amount of 227,074 thousand euros arise.

The allocation process for the purchase price was carried out with respect to 100% of the interest held in the assets and liabilities of GNL Quintero, and the recognition of minority interest (external partners) totaled 39.60% of the fair value, amounting to 255,418 thousand euros.

The Enagás Group contracted Duff & Phelps, an independent valuation company, for determining the fair value of the GNL Quintero assets and liabilities. Given that the company's conclusions are in line with those reached by the Enagás Group, the figures recognized at 2017 year end are considered as definitive.

The breakdown of net assets acquired and goodwill generated after acquiring control at January 1, 2017 is as follows:

Thousands of euros [4]	Fair value	Carrying amount at date of acquiring control [1]
Intangible assets	844,845	9,404
Property, plant, and equipment	874,014	874,014
Other non-current assets	76	76
Deferred tax assets	32,507	32,507
Other current assets	23,500	23,500
Cash and cash equivalents	244,337	244,337
Total assets	**2,019,279**	**1,183,838**
Non-current financial liabilities	(1,018,056)	(1,023,629)
Deferred tax liabilities [2]	(319,826)	(92,752)
Other non-current liabilities	(2,640)	(2,640)
Current financial liabilities	(20,203)	(20,203)
Other current liabilities	(13,561)	(13,561)
Total liabilities	**(1,374,286)**	**(1,152,785)**
Net accounting assets acquired [5]	389,577	31,054
Acquisition cost	574,527	-
Goodwill [3]	**184,950**	**-**
Goodwill	47,842	-
Tax effect of allocation	137,108	-
Minority interest	**(255,418)**	**(12,297)**

(1) Financial statements of GNL Quintero at December 31, 2016.
(2) Includes the tax effect relating to the asset revaluation applying a 27% rate.
(3) Goodwill at the percentage of ownership interest held by the Enagás Group in GNL Quintero, which was 60.4% at January 1, 2017.
(4) At the exchange rates on the date of acquiring control (January 1, 2017).
(5) Net accounting assets at the percentage of ownership interest (60.4%) which was held by the Enagás Group at the date of the business combination (January 1, 2017).

Goodwill (47,842 thousand euros) was measured as the difference between the acquisition price and the fair value of assets and liabilities recognized, and the consequent tax effect associated with the adjustments made to reflect the difference between fair value and tax value at the percentage of ownership interest in the company, amounting to 60.40% (137,108 thousand euros).

The resulting goodwill, before considering deferred taxes, is justified considering that the excess capacity not sold by TUA will be offered in the market at the end of said contract.

The result corresponding to the Parent company attributable to the business combination from the date of effective acquisition until December 31, 2017 amounted to a total of 15,822 thousand euros after taxes.

Subsequent changes in the consolidation of Quintero

In the context of the acquisition of 40% of GNL Quintero in addition to the 20.40% already held by the Enagás Group a purchase and a sales option were granted, over different percentages of interest held in said company.

- Purchase option (call option) for Empresa Nacional del Petróleo S.A. ("ENAP"): Enagás Chile and ENAP reached an agreement by virtue of which the latter would not exercise its preferential acquisition rights within the framework of the acquisitions relating to Endesa Chile, Spa. and Aprovisionadora Global de Energía S.A. ("AGESA"), in exchange for receiving a call option on 15% of GNL Quintero shares with an exercise price equal to the share price at which Enagás Chile Spa. carried out both transactions.
- Sales option ("put option") for Sumhuram Energy Chile II Limitada ("OCC"): Enagás Chile granted a put option on the totality of the interest held by the latter in Terminal de Valparaíso (49% held directly

and 19.6% indirectly in GNL Quintero). In this case, the exercise price was fixed taking the share price paid by Enagás Chile SpA in the acquisition of the additional 40% as a reference, albeit adjusted by the dividends distributed since the signature date. Said put option can only be exercised should Enagás Chile decrease its interest in GNL Quintero to below 60.4%, considering both direct interest and indirect interest held via Terminal de Valparaíso. The option is exercisable for a period of approximately 20 days from the moment said circumstances arise.

Thus, on April 11, 2017 both options were exercised on the following terms:

- ENAP exercises its purchase right via cession to OMERS Infrastrutures Holdings II SpA ("OMERS") which acquires the 34.60% of share capital held directly by Enagás Chile SpA in GNL Quintero for 341 million US dollars.
- In addition, OOC exercises its sales right and for 191 million US dollars Enagás Chile SpA acquires 19.60% of the share capital of GNL Quintero that OOC held indirectly via Terminal de Valparaíso, S.A.
- Further, Enagás Chile SpA. together with OMERS contribute 5.40% and 5%, respectively, of the direct interest they held in GNL Quintero to Terminal de Bahía de Quintero SpA, a company incorporated on April 7, 2017 (Note 1.5). With respect to the 5% contributed by OMERS, Enagás Chile reached an agreement for a purchase option exercisable over a period of one year and whose valuation at June 30, 2017 represented 2,799 thousand euros of income recognized under "Finance income and similar" in the consolidated income statement, charged against equity.

In this manner, the shareholder structure of GNL Quintero is comprised of ENAP 20%, Terminal de Valparaíso, S.A. 40% (100% of Enagás Chile), OMERS 29.6%, and Terminal Bahía de Quintero SpA 10.4% (51.9% Enagás Chile and 48.1% OMERS). As a result of the above transactions, Enagás Chile SpA holds a stake of 45.40% via two companies over which it exercises control, and by virtue of the current shareholders agreements, it also maintains control over GNL Quintero, which will thus continue to be consolidated under the full consolidation method, recognizing the 54.60% under "Minority interest" in the consolidated balance sheet (Nota 3.2).

The effect of the purchase and sales transactions described above resulted in a net inflow of 150,000 thousand US dollars (140,613 thousand euros) for the Enagás Group, recognition of the financial liability and a net impact on reserves in consolidated companies amounting to 41,345 thousand US dollars (39,059 thousand euros) for cancellation of both the put and call options. In addition, the differences recognized between the net carrying amount of the stakes purchased and sold increased reserves in consolidated companies by 3,401 thousand euros.

1.8 Earnings per share

	2017	2016	Change
Profit for the year attributed to the parent company (thousands of euros)	490,837	417,222	17.6%
Weighted average number of shares outstanding (thousands of shares)	238,426	238,426	-
Basic and diluted earnings per share (in euros)	2.0587	1.7499	17.6%

As there were no dilutive potential ordinary shares at December 31, 2017 and 2016, basic and diluted earnings per share are equivalent.

1.9 Dividends distributed and proposed

a) Proposed distribution of profit attributable to the parent

The appropriation of 2017 profit corresponding to the parent Enagás, S.A. proposed by the Board of Directors and which will be submitted for approval by the shareholders in its general meeting is as follows (in thousands of euros):

	2017
Dividends	348,372
Voluntary reserves:	1,082

At a meeting held on November 20, 2017, the Board of Directors of Enagás, S.A. agreed to distribute an interim dividend charged against 2017 profit, based on the necessary liquidity statement, expressed in thousands of euros, amounting to 139,241 thousand euros (0.584 euros per share before tax), in accordance with article 277 of the Spanish Corporate Enterprises Act.

The payment of the aforementioned interim dividend was made on December 21, 2017.

The provisional accounting records prepared by the parent of the Group, in accordance with legal requirements and which presented balances sufficient for the distribution of the interim dividend in 2017, were as follows:

Provisional accounting records at October 31, 2017	
Net accounting result	(26,549)
10% legal reserve	-
Interim dividend received from Group companies	387,000
Profit "available" for distribution	**360,451**
Forecast payment on account	**(139,241)**
Forecast cash balance for the period from October 31 to December 31:	-
Cash balance	27,555
Projected collection for the period under consideration	183,470
Credit lines and loans available from financial entities	1,500,000
Payments projected for the period under consideration (including the payment on account)	(44,983)
Estimated available financing before dividend distribution	**1,666,042**

The gross complementary dividend proposed (0.876 euros per share) is subject to approval by the shareholders in ordinary general meeting and is not included as a liability in these consolidated financial statements. Thus, this gross complementary dividend will total up to a maximum amount of 209,131 thousand euros.

b) Total dividends paid

In addition to the aforementioned interim dividend for 2017, during 2017 Enagás, S.A. distributed the gross complementary dividend for 2016.

Said dividend amounted to 198,848 thousand euros (0.834 euros per share) and was paid on July 5, 2017.

1.10 Commitments assumed and guarantees granted

Accounting policies

- A financial guarantee contract is a contract which requires that the issuer makes specific payments to repay the holder for losses incurred when a specific debtor does not fulfill payment obligations at maturity, in accordance with the original or modified conditions of a debt instrument. The rights and obligations associated with a financial guarantee will be considered as financial assets and financial liabilities. For subsequent valuation, a contract will be recognized as the greater amount of a) the amount resulting from standards relating to provisions (IAS 37) or b) accumulated amortization of the initial measurement and possible accrued income.

- An investment commitment corresponds to that obligation contracted with a related party which can give rise to outflows of funds or other resources in the future. The following is included amongst these: commitments not recognized in connection with contributing funds or resources as a consequence of incorporation agreements, capital intensive projects carried out by a business combination, commitments not recognized in connection with providing loans or other financial support to the business combination, or commitments not recognized in connection with acquiring a stake, regardless of whether a specific future event occurs or not.

Commitments assumed and guarantees granted	Persons, Companies or Entities of the Group (Note 4.3)	Other related parties (Note 4.3)	Third parties	Total
2017				
Guarantees for related party debts	24,131	-	-	**24,131**
Guarantees granted - other	8,376	130,212	319,571	**458,159**
Investment commitments	68,800	-	30,559	**99,359**
2016				
Guarantees for related party debts	24,779	-		**24,779**
Guarantees granted - other	9,464	144,175	333,103	**486,742**
Investment commitments	218,289	-	25,708	**243,997**

a) Guarantees for related party debts

The line item heading "Guarantees for related party debts," amounting to 24,131 thousand euros at December 31, 2017 (2016: 24,779 thousand euros) includes the obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás Group commits to grant a corporate guarantee in favor of the financing entities if said contract has not been canceled or refinanced six months before it matures in July 2022. The maximum commitment relating to this possible guarantee amounts to 24,131 thousand euros (237,500 thousand SEK), and in accordance with the above, said corporate guarantee will not be granted before the month of January in 2022.

Should the guarantee have to be provided, the financing entities could only avail themselves of it in the case of non-payment by Knubbsäl Topholding AB at the maturity date of the financing contract.

b) Guarantees granted - other

This heading includes the following items:

Group employees, companies or entities

- Guarantees for full compliance granted to Group entities in connection with obligations acquired under concessions, counter-guaranteed by Enagás, S.A. in the amount of 8,376 thousand euros at December 31, 2017 (2016: 9,464 thousand euros).

Other related parties

- Financial guarantees granted by the related party Banco Santander to cover the loans granted by the European Investment Bank to Enagás, S.A. in the amount of 108,000 thousand euros (2016: 120,000 thousand euros).
- Technical guarantees granted by the related party Banco Santander to third parties in the amount of 6,411 thousand euros (2016: 6,321 thousand euros) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- Guarantees granted before the Federal Electricity Commission ("FEC") in connection with the service contracts relating to the Morelos gas pipeline and Soto La Marina compression station projects, amounting to 8,376 thousand and 7,425 thousand euros.

Third parties

This heading mainly includes the following items:

- Financial guarantees granted by financial entities to cover the loans granted by the European Investment Bank to Enagás, S.A. in the amount of 258,667 thousand euros (2016: 290,000 thousand euros).
- Technical guarantees granted by financial entities to third parties in the amount of 56,954 thousand euros (2016: 42,228 thousand euros) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- At December 31, 2017 no guarantees had been granted with respect to ongoing litigation (2016: 875 thousand euros).

c) Investment commitments

This heading includes the following items:

- The Enagás Group has investment commitments amounting to 68,800 thousand euros relating to the TAP project and corresponding to the capital contributions to be disbursed as shareholder up to the financial closing. At December 31, 2016 the Enagás Group had investment commitments amounting to 212,800 thousand euros in connection with the TAP project. In this manner, the shareholders fulfill their obligation to continue financing the project until obtaining bank financing, which is currently being negotiated. In the context of said negotiations, it is expected that the financial entities will demand guarantees from the shareholders.

  Once said financing has been arranged, and taking into account the repayment of funds to the shareholders by the banks in order to balance the debt to equity ratio, the investment made by Enagás will amount to approximately 277,000 thousand euros, and it is expected that guarantees will be granted in the amount of approximately 586,060 thousand euros in connection with the banking debt to the extent the subsidiary draws down the available facilities.

  The Enagás Group has firm investment commitments in connection with Economic Interest Groups (EIG) amounting to 30,559 thousand euros, which will be disbursed during 2018 and 2019 (2016: 25,708 thousand euros).

The directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognized in the accompanying balance sheet.

1.11 New financial standards

a) Prevailing standards for the present period

The accounting policies used to prepare the accompanying consolidated financial statements are the same as those used to prepare the consolidated financial statements for the year ended December 31, 2016, as none of the amendments to standards applicable for the first time this year has had an impact on the Group's accounting policies.

Amendments to IAS 7 Statement of Cash flows disclosure initiative: These amendments require entities to disclose changes in liabilities arising from financing activities, including both those corresponding to cash flows as well as those that do not generate cash flows (Note 3.8).

b) Standards not applicable for the current period

The Group intends to adopt the standards, interpretations, and amendments thereof issued by the IASB that are not mandatory in the European Union at the date these consolidated financial statements were prepared when they become effective, where applicable. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the consolidated financial statements, except for the following standards:

Approved for use in the European Union		
Standards	**Content**	**Mandatory application for periods beginning on or after:**
NIIF 15	Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018
NIIF 9	Financial Instruments	Annual periods beginning on or after January 1, 2018
NIIF 16	New standard for leases substituting IAS 17 The main novelty of the new standard involves a single lessee accounting model, which includes all leases (with certain exceptions) in the balance sheet with a similar effect to finance leases (there will be amortization of assets for right-of-use and a finance expense for the amortized cost of the liability).	Annual periods beginning on or after January 1, 2019

IFRS 15: Revenue from Contracts with Customers
Said standard was finally approved by the European Union via the corresponding publication in the Official Journal of the European Union on October 29, 2016, stipulating its mandatory application for annual periods starting from January 1, 2018.

As summarized in the table above, IFRS 15 regulates recognition of revenue from customers, substituting IAS 18 Revenue, IAS 11 Construction contracts, as well as all related interpretations (IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue – Barter transactions involving advertising services).

The model for ordinary revenue is applicable to all contracts with customers, except those that are within the scope of other IFRSs, such as leases, insurance agreements, and financial instruments. Transfers of assets that do not correspond to the ordinary activities of the entity (such as the sale of PP&E items, real estate, or intangible assets) are also subject to some of the recognition and measurement requirements of the new model established by IFRS 15. However, the recognition of interest and revenue from dividends is beyond the scope of this standard.

With respect to the specific risks relating to revenue for the Enagás Group, an analysis was performed to determine the possible effects which may arise from future implementation of said standard, identifying the following:

- With respect to income arising from regulated activities, which are the most representative of the Group's activities and whose regulatory development and recognition and measurement criteria are described in Appendix III, no significant differences resulting from application of IFRS 15 were identified as compared to the standards it replaces. Thus, there is no material impact on the recognition of revenue arising from this type of activity.
- Further, GNL Quintero revenue almost entirely corresponds to the Terminal Use Agreement (TUA) with GNL Chile. Once said contract had been

analyzed, the Group concluded that the related income was intrinsically linked to the leasing of the regasification terminal, thus not giving rise to changes in recognition criteria under IFRS 15.

- Income arising from non-regulated activities included under "Revenue" in the consolidated income statement corresponds to amounts received for the execution of projects relating to connecting the infrastructure of the basic network of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. to the networks of distribution companies, secondary transporters, gas marketing entities, and qualified customers, initially recognized as deferred revenue and subsequently taken to the consolidated income statement based on the useful lives of the assigned installations (Note 2.1.a).
  Given the type of contractual agreements which give rise to this type of revenue, the Company determined that they include a component of implicit financing, which in accordance with the new regulatory stipulations must be recognized as a liability in the consolidated balance sheet.
- In addition, "Other operating income" in the consolidated income statement mainly includes deferred income corresponding to the "gas transportation rights" contracts signed with the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A., to which the proportionate consolidation method is applied using the percentage of interest held by Enagás Transporte, S.A.U. in said companies. Said deferred income is released to the consolidated income statement on a straight-line basis up to the year 2020, when the aforementioned transport contract terminates (Notes 2.1a).
  As in the case of executing infrastructure connections in the basic network, the Company determined that those types of contract include a component of implicit financing, which in accordance with the new regulatory stipulations must be recognized as a liability in the consolidated balance sheet.
- Finally, with respect to the companies accounted for using the equity method, and for purposes of harmonization, the Company carried out an analysis of potential impacts for each of the investee companies, not detecting any type of adjustment that may be required as a result of future implementation of said changes.

With respect to the transition method selected, the Company opted for a modified retroactive adoption, thus showing the accumulated effect of initial application. In this manner, the standard will be applied retroactively solely for the most recent period presented in the financial statements.

Based on all the above, at January 1, 2018 the Company will recognize the accumulated effect of initial adoption of IFRS 15 as an initially negative reserve, which will increase to an approximate amount of 27 million euros (net of tax effect), with a balancing entry of 37 million euros recognized as a liability, as indicated above. Said amount will subsequently be taken to the consolidated income statement during the life of the corresponding contracts, having separated their components amongst greater operational income (transaction price) and greater financial expenses (significant financial component).

IFRS 9: Financial instruments

As in the previous case, this standard was approved by the European Union during 2016, via publication in its official journal on November 29, 2016, stipulating that its application would be obligatory for yearly periods starting from January 1, 2018.

This standard will substitute the current IAS 39 "Financial Instruments: Recognition and Measurement." The conceptual changes are important in all sections of the standard, changing the classification and measurement model for financial assets, adapted to the entity's business model and refocusing the accounting model for hedges to align it more with the economic management of risk, as well as modifying the current model used for impairment based on losses incurred to a model based on expected losses.

The Group expects to adopt the new standard at the stipulated application date and will not restate the comparative information. During 2017, the Group carried out a detailed evaluation of the impact of the three matters considered in IFRS 9. This assessment is based on information currently available and can be subject to changes arising from additional information which becomes available in 2018 when the Group adopts the new standard.

Classification and measurement

The new standard stipulates that financial assets be classified at the moment of their initial recognition at amortized cost or at fair value.

The classification depends on the business model of the entity and the existence or not of certain contractually agreed upon cash flows.

- If the objective of the business model is to maintain a financial asset with a view to collecting contractually agreed upon cash flows, which exclusively comprise payments of principal and interest on said principal, the financial asset will be measured at amortized cost.
- If the business model's objective is both to obtain contractually agreed upon cash flows and income from their sale, the financial assets will be measured at fair value through profit or loss (equity).

In contrast, at the initial recognition of a financial asset, an entity may opt to measure it at fair value through profit or loss if this allows the entity to eliminate or reduce an accounting asymmetry.

All other financial assets are measured at fair value, recognizing the profits or losses resulting from subsequent measurement in the consolidated income statement.

By virtue of the analyses carried out, and except for derivative financial instruments, which by category would require fair value through profit or loss (or application of hedge accounting criteria if applicable), the category of amortized cost is that which applies to practically all of the Group's financial assets. Said new category does not present significant differences with respect to measurement of the categories being adopted under IAS 39.

Expected loss

A new impairment model was introduced based on expected losses, in contrast to the current model under IAS 39 which is based on incurred losses.

For the calculation of said expected loss, the Enagás Group has developed its own financial model, based both on internal information (such as existing balances, guarantees received, and contractual commitments) and external figures (such as credit assessments of clients and organizations).

After carrying out the analysis, the amount of expected losses as per the information available at December 31, 2017 would be below 1 million euros.

Hedge accounting

The new model attempts to bring the accounting criteria in line with risk management. The three types of hedge accounting in use at present are maintained (cash flow hedges, fair value hedges, and net investment hedges).

Taking into account the portfolio for derivative financial instruments in the Enagás Group, the fundamental effect arises from the evaluation of efficacy as the current regulations are eliminated and evaluation criteria are established in line with risk management via the principle of "economic relationship," eliminating the requirement for retrospective evaluation.

Refinancing of financial liabilities

In application of the interpretation made by the IASB in 2017 regarding treatment of the refinancing of financial liabilities under IFRS 9, the contractual cash flows from refinanced debt must be discounted at the original effective interest rate, reviewed with the associated commissions, instead of the new rate resulting from the refinancing transaction.

The difference obtained will affect the consolidated income statement as an expense or income at the refinancing date, though, given the retroactive character of this interpretation, for those transactions carried out prior to January 1, 2018, the existing difference will be recognized against reserves.

The Enagás Group has recognized three transactions to which the aforementioned interpretation applies, two carried out by the subsidiary Enagás Financiaciones, S.A.U. during 2015, as well as one carried out by GNL Quintero, S.A. in 2014.

The effect on the Enagás Group of said interpretation is an initial reserve of approximately 19 million euros (net of tax effect) as well as a lower value of debt in the amount of approximately 24 million euros. This lower value of debt will be reclassified to the consolidated income statement as a greater finance expense with a view to recognizing the debt at the original effective rate in future periods.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leases; IFRIC 4 - Determining whether an Arrangement contains a Lease; SIC 15 - Operating leases - Incentives; and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes the principles for recognition, measurement, presentation, and disclose requirements regarding leases and requires that lessees account for all leases under one single balance sheet model similar to the current accounting of finance leases in accordance with IAS 17. The standard includes two exemptions for lessees recognizing leases: low value asset leases (such as personal computers) and short-term leases (that is, lease agreements with a leasing period of 12 months or less). At the date of initiating a lease, the lessee will recognize a liability for the payments to be made in connection with the lease (that is, the liability for the lease) and an asset which represents the right to use the underlying asset during the leasing period (that is, the asset to which the right to use applies). The lessees must recognize the expense for interest on the liability relating to the lease separately to the expense for amortizing the right to use.

The lessees will also be obliged to reevaluate the liability recognized for the lease when certain events occur (for example, a change in the duration, changes in future lease payments which result from changes in an index or rate used to determine the payments). In general the lessee will recognize the amount corresponding to the reevaluation of the liability relating to the lease as an adjustment to the asset for the right to use.

The lessor's accounting under IFRS 16 does not substantially differ from the current accounting under IAS 17. The lessees will continue to classify leases in accordance with the same classification principles as in IAS 17 and will recognize two types of lease: operating and finance leases.

IFRS 16 also requires that the lessees and lessors provide more disclosure than stipulated in IAS 17.

IFRS 16 is effective for those periods starting from January 1, 2019 or subsequently and allows for early application, though not before an entity applies IFRS 15. A lessee can opt to apply the standard retroactively or via a retroactive modified transition. The transitory provisions of the standard allow for certain exemptions.

The Enagás Group is currently in the process of analyzing and estimating this new standard and can thus not provide information on any quantitative impact at the date of authorizing these consolidated financial statements.

2. Operational performance of the Group

Significant matters

Operating (profit) loss

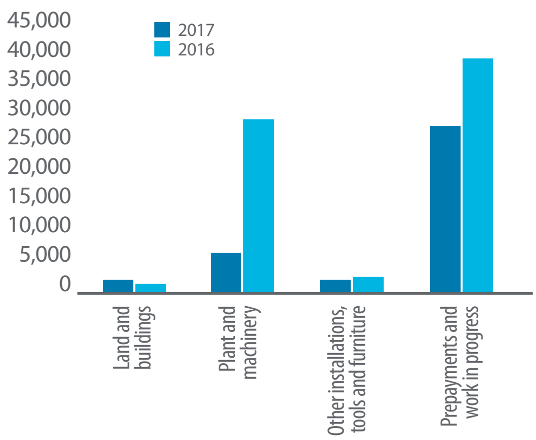
- Operating profit increased by 12.3% with respect to 2016, amounting to 732 million euros.
- The impact during 2017 of having reclassified profit for the year corresponding to companies consolidated under the equity method and recognized under "Profit (loss) from investments accounted for under the equity method" as part of operating profit, amounts to 72,859 thousand euros at December 31, 2017 (2016: 41,205 thousand euros).

Trade receivables

- On December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights recognized by sector legislation to the accumulated deficit of the gas system to which it held title at December 31, 2014. Said rights represented an amount of 354,751 thousand euros corresponding to both the nominal amount and accrued interest pending collection at said date, which was thus derecognized from the balance sheet at December 31, 2017 (Note 2.2).
- "Other receivables" under current assets includes the balance pending settlement in connection with remuneration for the regulated regasification, transport, and underground storage activities, amounting to 410,163 thousand euros for the year ended December 31, 2017 (2016: 368,557 thousand euros), as well as the pending balance relating to remuneration for Technical Manager activity, amounting to 6,650 thousand euros (2016: 6,915 thousand euros) (Note 2.2).

Property, plant, and equipment

- At December 31, 2017 this heading represents 57% of all assets (2016: 54% of all assets).
- During 2017 this amount increased by 498 million euros. The change is mainly due to the consolidation of GNL Quintero under the full consolidation method (874 million euros). This increase is offset by the effect of annual depreciation (277 million euros) as well as the impairment of certain assets considered obsolete and of those investments in ongoing projects which will more than likely not be executed (28 million euros); given that there were no significant additions during the period (Note 2.4).
- The distribution of acquisitions by category was the following:



Intangible assets – goodwill

- "Increases due to changes in consolidation scope" for 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company from January 1, 2017, as well as the goodwill that arose in the allocation process, amounting to 184,950 thousand euros (194,438 thousand US dollars) (Note 1.7).

2.1 Operating profit

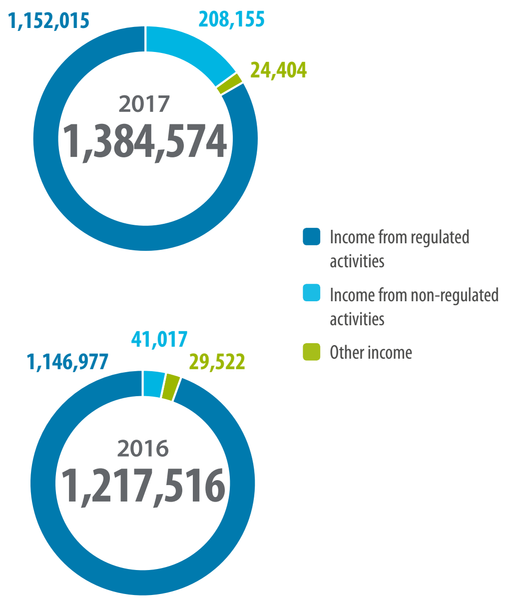
Accounting policies

Recognition of income

- The Enagás Group measures revenue at the fair value of the consideration received or receivable and represents balances receivable for goods delivered and services provided in the normal course of business, net of discounts and amounts received from third parties such as VAT reimbursements.
- Ordinary income for services rendered is recognized considering the degree of completion of these services at the balance sheet date, provided that the result of the transaction can be estimated reliably.
- Specifically, income relating to Technical Management of the System (TMS) is regulated by a public body (Appendix III). This income is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical System Manager, which includes coordinating the development, operation, and maintenance of the transport network, supervising the safety of natural gas supply, carrying out plans for future development of gas infrastructure, and controlling third-party access to the network. The monthly attribution of this income to the income statement is carried out on a straight line basis.
- Income arising from regasification, storage, and transportation activities in Spain is calculated based on a regulated remuneration system (Appendix III). Remuneration is comprised of a fixed portion for availability of the installation and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization/depreciation, and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.
  Inclusion of the variable portion with respect to remuneration for supply continuity allows for adjustment of system costs in light of varying demand, balancing the differences between income and costs of the system, as well as transferring a part of the risk relating to variable demand which until now has been assumed by the final consumer to the owner of the installations.
  This portion is based on the total changes in domestic consumption of natural gas excluding the supply through satellite plants in respect to prior year in the case of transport installations, of the change in demand for regasified gas in all the plants operating in the system in the case of regasification installations and the change in useful gas at November 1 of the corresponding year and including cushion gas mechanically extractable held at the storage facilities of the latter.
  Remuneration for supply continuity is divided amongst all the installations based on the weighting of their replacement value with respect to all installations relating to the activity, calculating said values by applying the unit investment values prevailing for each year.
  Once the regulatory useful life of the installations has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the installation exceeds the regulatory useful life, not accruing any amounts as investment remuneration.
- Recognition of GNL Quintero income is regulated by the Terminal Use Agreement ("TUA"), which is the contract by virtue of which the company makes 100% of its regasification and storage capacity available to GNL Chile.
- In addition, the Group's deferred income mainly corresponds to the advance amounts received for the natural gas transportation rights ceded to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and is taken to the income statement on a straight-line basis until 2020, the year in which the transport contract expires.
- Further, this heading includes the accrual of amounts received for connecting the basic network infrastructure of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. with networks of distribution companies, secondary transporters, gas marketing entities, and qualified clients. Said income is recognized based on the useful life of the assigned installations.

a) Revenue

The breakdown of revenue is as follows:



The distribution of revenue by Group company is as follows:

Revenue	2017	2016
Regulated activities:	**1,152,015**	**1,146,977**
Enagás Transporte, S.A.U.	1,099,391	1,095,013
Enagás Transporte del Norte, S.L.	28,657	28,006
Enagás GTS, S.A.U.	23,967	23,958
Non-regulated activities:	**208,155**	**41,017**
GNL Quintero	173,746	-
Enagás Transporte, S.A.U.	31,682	32,287
Enagás Internacional, S.L.U.	1,391	2,038
Enagás México	713	649
Enagás Transporte del Norte, S.L.	284	-
Enagás Emprende	134	
Enagás Perú	131	1,841
Enagás, S.A.	73	4,202
Efficiency for LNG Applications, S.L.	1	-
Total	**1,360,170**	**1,187,994**

b) Employee benefits expense

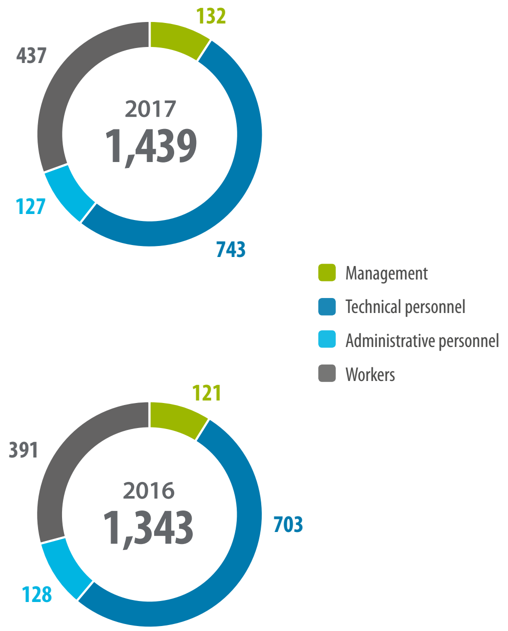
Employee benefits expense	2017	2016
Wages and salaries, et al.	95,916	84,579
Indemnities	7,153	2,116
Social security	18,519	18,091
Other employees benefit expenses	9,769	8,402
Contributions to external pension funds (defined contribution plan)	2,428	2,348
Work performed on assets (Note 2.4)	(4,846)	(6,782)
Total	**128,939**	**108,754**

In 2017, wages and salaries include the fair value of services received as consideration for equity instruments granted, in the amount of 2,206 thousand euros at December 31, 2017 (2016: 1,959 thousand euros), corresponding to the portion of the long-term incentive plan payable in Enagás, S.A. shares and approved on March 18, 2016 for the executive directors and senior management, thus representing a share-based transaction. Services rendered corresponding to the portion of the incentive plan payable in cash were also recognized with a credit to "Provisions" under non-current liabilities, in the amount of 877 thousand euros at December 31, 2017 (2016: 800 thousand euros) (Notes 2.8.a). In addition, the employee benefits expense arising from the bonus payable every three years for contribution to results and corresponding to the remaining staff of the Group was also included in the amount of 2,344 thousand euros.

In accordance with the pension plan contracted and adapted to the Law regulating Pension Plans and Funds, the Enagás Group makes contributions to the "Enagás Pension Fund," a defined contribution plan managed by Gestión de Previsión y Pensiones, S.A. The depositary of said plan, which covers commitments acquired by the Group with the affected part of its active personnel, is Banco Bilbao Vizcaya Argentaria, S.A. Said plan recognizes consolidated rights for past services and involves a commitment to make monthly contributions corresponding to an average percentage of 4.14% of the portion of salaries paid eligible for said calculation (2016: 4.30%). It is a mixed plan designed to cover both retirement commitments as well as risks relating to disabilities and death of the participants. The total number of plan participants at December 31, 2017 amounts to 1,190 (2016: 1,146 participants). The pension plan contributions made by the Group during each year are recognized under "Employee benefits expense" of the consolidated income statement. At 2017 year end there were no amounts pending payment with respect to this item.

In addition, the Group has outsourced its pension commitments with respect to its directors through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death, and employment disability.

The average number of Group employees, broken down by professional categories, was the following:



At December 31, 2017 the Group has 1,426 employees under contract (2016: 1,337 employees), broken down by professional category and gender as follows:

Categories	2017		2016	
	Women	Men	Women	Men
Management	35	99	31	94
Technical personnel	220	516	219	482
Administrative personnel	102	23	102	21
Workers	17	414	15	373
Total	**374**	**1,052**	**367**	**970**

"Management" includes senior executive management of the Group, comprising ten persons (eight men and two women).

The average number of staff during 2017 and 2016 employed by Group companies with disabilities greater than or equal to 33%, broken down by categories, is as follows:

Categories	2017	2016
Management	1	-
Technical personnel	4	4
Administrative personnel	2	2
Workers	4	4
Total	**11**	**10**

c) Other operating expenses

Otros gastos de explotación	2017	2016
External services:		
R&D expenses	1,133	780
Leases and royalties	45,740	44,361
Repairs and maintenance	50,052	52,760
Independent professional services	29,799	30,139
Transportation	32,159	26,196
Insurance premiums	9,825	6,302
Banking and similar services	347	267
Publicity, advertising, and public relations	4,832	4,706
Supplies	20,874	19,045
Other services	14,790	19,315
External services	**209,551**	**203,871**
Taxes	**16,669**	**13,929**
Other current operating expenses	**147**	**170**
Other external expenses	**16,116**	**9,063**
Variation in trade provisions	**36**	**(762)**
Total	**242,519**	**226,271**

2.2 Trade and other receivables - non-current and current

Accounting policies

- Financial assets are recognized in the balance sheet at the transaction date when the Company becomes party to the contractual terms of the instrument.

Loans and receivables

- This heading comprises financial assets arising from the sale of goods or the rendering of services in the course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.
- Said financial assets are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost and related interest accrued at the corresponding effective interest rate is recognized in the income statement.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.
- The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies transferring substantially all the risks and rewards inherent in ownership of the financial asset; this is the case in firm asset sales, trade receivable factoring transactions in which the Group retains neither credit risk nor interest rate risk, sales of financial assets with an agreement to repurchase them at their fair value, and securitizations in which the Group neither retains subordinated financing, grants any form of guarantee nor assumes any other type of risk.
- In contrast, the Group does not derecognize financial assets, but rather recognizes a financial liability at an amount equal to the consideration received, in the transfer of financial assets in which it retains substantially all the risks and rewards incidental to ownership, such as discounted bills, recourse factoring, disposals of financial assets under repurchase agreements at fixed prices or at the sales price plus interest, and securitizations of financial assets in which the Group retains subordinate liability or grants other types of guarantees which would substantially absorb all possible losses.

Significant estimates and judgments

- An impairment loss on financial assets measured at amortized cost arises when there is objective evidence that the Group will not be able to recover all the corresponding amounts in accordance with the original terms established. The impairment loss is recognized as an expense in the consolidated income statement and is determined as the difference between the carrying amount and the present value of future cash flows discounted at the effective interest rate.
- If, in subsequent periods, the value of the financial asset measured at amortized cost recovers, then the impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the carrying amount had the impairment not been recognized. The reversal is recognized in the consolidated income statement.

	31.12.2017	31.12.2016
Trade receivables	63,725	42,259
Group companies	9,090	16,321
Other receivables	390,364	391,069
Subtotal	**463,179**	**449,649**
Value added tax (VAT)	15,708	24,160
Trade and other receivables - Current assets	**478,887**	**473,809**
Trade and other receivables - Non-current assets (Notes 3.3.a)	**117,947**	**397,351**

"Trade and other receivables – Non - current assests", in accordance with Royal Decree Law 8/2014 of July 4 and Law 18/2014 of October 15, mainly includes the long-term accumulated deficit corresponding to regulated activities amounting to 90,485 thousand euros at December 31, 2017 (2016: 373,464 thousand euros).

At December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights recognized by sectoral legislation to the accumulated deficit of the gas system to which it held title at December 31, 2014. Said rights amounted to a total of 354,751 thousand euros, corresponding to the nominal amount plus accrued interest pending payment at the date of cession.

The transaction was carried out through an auction process in which different banking entities participated. The Santander Group was awarded with the total amount ceded. Having received the same nominal amount in the cession, as well as accrued interest pending payment, no finance expense arose in connection with the transaction. Likewise, via said transaction, Enagás Transporte, S.A.U. transferred the contractual obligations and rights inherent to ownership of the financial asset ceded, derecognizing the financial asset in its balance sheet as the directors of the Enagás Group considered that all risks and benefits incidental to ownership had been transferred together with control of the financial asset.

In addition, this heading also includes the long-term receivable from the CNMC for dismantling costs which will be reimbursed in the future in the amount of 26,166 thousand euros (2016: 21,293 thousand euros).

"Other receivables" recognized under current assets includes the balance pending settlement in connection with remuneration for the regulated regasification, transport, and underground storage activities, amounting to 367,856 thousand euros for the year ended December 31, 2017 (2016: 368,557 thousand euros), as well as the pending balance relating to remuneration for Technical Manager activity, amounting to 6,650 thousand euros for the year ended December 31, 2017 (2016: 6,915 thousand euros). The trade receivables related to regulated activities follow the settlement system established in Order ECO/2692/2002, of October 28, which regulates the settlement procedures for remuneration of regulated natural gas sector activities and fees for specific purposes (Appendix III).

2.3 Trade and other payables

Accounting policies

- Trade and other payables are financial liabilities that do not accrue explicit interest and are recognized at their face value provided the effect of financial discounting is not significant.

Trade and other payables	12.31.2017	12.31.2016
Borrowings from related parties	3,876	2,736
Remaining suppliers	156,287	127,067
Other accounts payable	11,681	2,371
Subtotal (Notes 3.3)	**171,844**	**132,174**
Value added tax (VAT)	2,397	-
Accounts payable to the Treasury for withholdings and other	32,663	31,705
Total	**206,904**	**163,879**

Information on average payment periods for suppliers

The disclosures required in the second additional provision of Law 31/2014, of December 3, are as follows:

Days	2017	2016
Ratio of payments made	32	38
Ratio of pending payments	37	39
Average supplier payment period (ASPP)	32	38

Amount	2017	2016
Total payments made	445,554	483,326
Total pending payments	32,852	26,037

2.4 Property, plant, and equipment

Accounting policies

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated depreciation and any impairment losses.

- Acquisition or production cost includes:
  - Finance expenses relating to the financing of infrastructure projects accrued only during the construction period when the building work lasts for more than one year, applying a net capitalization rate of 1.81% for 2017 (2016: 1.8%), and amounting to 2,652 thousand euros (2016: 2,876 thousand euros)
  - Employee benefits expenses directly related to work in progress, lowering employee benefits expenses recognized in the amount of 4,846 thousand euros at December 31, 2017 (2016: 6,782 thousand euros) (Notes 2.1.b)
  - Future payments which the Group will have to make with respect to the obligation to dismantle certain PP&E items corresponding to underground storage facilities in Serrablo, Yela, and Gaviota, as well as the regasification plants in Barcelona, Huelva, Cartagena, and Gijón at the end of their useful lives. The carrying amount of said assets includes an estimate of the present value at the acquisition date of the dismantling costs the Group will have to meet, amounting to 171,222 thousand euros (2016: 166,623 thousand euros), recognized as a credit to "Provisions" under non-current liabilities (Notes 2.8.a) in the accompanying consolidated balance sheet.

Non-extractable gas required for exploitation of underground natural gas storage (cushion gas) is recognized under PP&E, depreciated over the specific prevailing useful life (20 years) or over the leasing period if less.

  - Natural gas required for minimum levels in gas pipelines and minimum operating levels for regasification plants (heel gas) is recognized as PP&E that cannot be depreciated given that it is not available for sale as indicated under current regulations. It is measured at the auction price as indicated in Order ITC/3993/2006 and the Resolution of April 18, 2007.
  - The restatement of assets recognized under PP&E in accordance with Royal Decree Law 7/1996 of June 7, on balance sheet restatements, had an effect of 3,392 thousand euros on depreciation charges in 2017 (2016: 3,613 thousand euros).

Grants

- The official grants relating to the assets recognized under PP&E lower the acquisition cost of said assets and are taken to the income statement over the foreseen useful lives of the corresponding assets, decreasing the related depreciation

Significant estimates and judgments

- PP&E items are depreciated using the straight-line method, applying annual depreciation rates that reflect the estimated useful lives of the corresponding assets.
- The directors of the Group consider that the carrying amounts of the assets do not exceed the recoverable amounts which result from calculating discounted future cash flows generated by said assets based on foreseen remuneration under current regulations.
- Depreciation is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
Buildings	2% - 5%	50 – 20
Technical installations (transport network)	2.5% - 5%	40 – 20
Deposits	5%	20
Underground storage installations	5% - 10%	20 – 10
Cushion gas	5%	20
Other technical installations and machinery	2.5% - 12%	40 – 8.33
Equipment and tools	30%	3.33
Furniture and fixtures	10%	10
Information technology equipment	25%	4
Transport equipment	16%	6.25

2017	Beginning balance	Increases due to changes in the consolidation scope [1]	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Balance at year end
Land and buildings	165,309	87,258	2,370	4,375	(993)	(10,436)	247,883
Plant and machinery	8,801,625	1,009,932	6,931	14,670	(2,064)	(120,463)	9,710,631
Other installations, tools, and furniture	87,107	4,753	2,162	242	(377)	(592)	93,295
Prepayments and work in progress	559,003	6,657	28,323	(19,287)	(5,993)	(914)	567,789
Capital grants	(600,387)	–	–	–	–	–	(600,387)
Total cost	**9,012,657**	**1,108,600**	**39,786**	**-**	**(9,427)**	**(132,405)**	**10,019,211**
Land and buildings	(67,494)	(20,297)	(6,737)	–	856	2,571	(91,101)
Plant and machinery	(4,244,269)	(210,915)	(278,386)	(809)	542	26,742	(4,707,095)
Other installations, tools, and furniture	(61,045)	(3,374)	(4,920)	809	309	423	(67,798)
Capital grants	394,851	–	13,209	–	–	–	408,060
Total depreciation	**(3,977,957)**	**(234,586)**	**(276,834)**	**-**	**1,707**	**29,736**	**(4,457,934)**
Plant and machinery [2]	(13,677)	–	(42)	–	–	–	(13,719)
Prepayments and work in progress [2]	(18,136)	–	(28,071)	–	–	–	(46,207)
Total impairment	**(31,813)**	**-**	**(28,113)**	**-**	**-**	**-**	**(59,926)**
Land and buildings	97,815	66,961	(4,367)	4,375	(137)	(7,865)	156,782
Plant and machinery	4,543,679	799,017	(271,497)	13,861	(1,522)	(93,721)	4,989,817
Other installations, tools, and furniture	26,062	1,379	(2,758)	1,051	(68)	(169)	25,497
Prepayments and work in progress	540,867	6,657	252	(19,287)	(5,993)	(914)	521,582
Capital grants	(205,536)	-	13,209	-	-	-	(192,327)
Net carrying amounts - Property, plant, and equipment	**5,002,887**	**874,014**	**(265,161)**	**-**	**(7,720)**	**(102,669)**	**5,501,351**

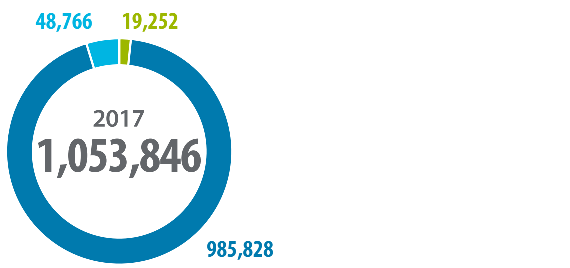
(1) "Increases due to changes in the consolidation scope" includes the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company on January 1, 2017 (Notes 1.7).

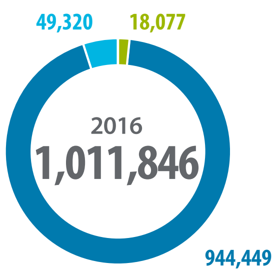
(2) During the present period the Enagás Group performed an analysis of the ongoing projects as well as inventories of materials deposited in warehouses. After said analysis, the Group recognized impairment losses on both materials considered obsolete as well as on those investments made in projects underway that are most likely not going to be executed this year, amounting to 28,113 thousand euros.

2016	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Land and buildings	165,675	1,764	58	(2,188)	165,309
Plant and machinery	8,724,985	28,925	48,087	**(372)**	8,801,625
Other installations, tools, and furniture	82,385	2,776	1,957	(11)	87,107
Prepayments and work in progress	570,367	39,507	(50,102)	(769)	559,003
Capital grants	(600,456)	(591)	-	660	(600,387)
Total cost	**8,942,956**	**72,381**	**-**	**(2,680)**	**9,012,657**
Land and buildings	(63,492)	(3,995)	(7)	-	(67,494)
Plant and machinery [(1)]	(3,989,173)	(255,096)	-	-	(4,244,269)
Other installations, tools, and furniture [(1)]	(56,212)	(4,840)	7	-	(61,045)
Capital grants	381,398	13,453	-	-	394,851
Total depreciation	**(3,727,479)**	**(250,478)**	**-**	**-**	**(3,977,957)**
Plant and machinery	(13,677)	-	-	-	(13,677)
Prepayments and work in progress	(18,400)	-	-	264	(18,136)
Total impairment	**(32,077)**	**-**	**-**	**264**	**(31,813)**
Land and buildings	102,183	(2,231)	51	(2,188)	97,815
Plant and machinery	4,722,135	(226,171)	48,087	(372)	4,543,679
Other installations, tools, and furniture	26,173	(2,064)	1,964	(11)	26,062
Prepayments and work in progress	551,961	39,507	(50,102)	(505)	540,867
Capital grants	(219,058)	12,862	-	660	(205,536)
Net carrying amounts - Property, plant, and equipment	**5,183,400**	**(178,097)**	**-**	**(2,416)**	**5,002,887**

(1) During this year, the impairment corresponding to Prepayments and work in progress, previously recorded in Impairment of Plant and machinery, amounting to 18,136 thousand euros was reclassified. For comparative purposes, the detail "Beginning balance", "Additions and allowances", "Decrease, disposals or reductions" and "Balance at year end" corresponding to the impairment of Prepayment and work in progress in the course of 2016 has been broken down, amounting to 18,400 thousand euros, 264 has been broken down thousand euros and 18,136 thousand euros, respectively.

The increases during the year under "Plant and machinery" due to additions or transfers from "Prepayments and work in progress" are mainly due to the acquisition of cushion gas for the Yela plant, amounting to 7,541 thousand euros, the investment in Estación de Compresión de Euskadour amounting to 3,162 thousand euros, migration of the access network in the amount of 1,419 thousand euros, the Gasoducto Martorell-Figueras in the amount of 1,211 thousand euros, the substitution of electricity generators at the AS Gaviota platform totaling 1,518 thousand euros, as well as the replacement of the tower and Workover of the G-6 well in AS Gaviota, amounting to 1,445 thousand euros.





There are no mortgages or encumbrances of any type on the assets recognized under PP&E.

The Group's policy is to provide sufficient insurance coverage for its assets so as to avoid any significant losses. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

Fully depreciated PP&E items recognized by the Enagás Group and still in use at 2017 and 2016 year end are broken down as follows:

a) Grants

Accumulated capital grants received at year end which correspond to investments in gas infrastructure are broken down as follows:

	Grants received	Released to income	Balance at year end
Regasification plants	79,653	(72,614)	7,039
Gas transportation infrastructure	503,226	(317,938)	185,288
Underground storage	17,508	(17,508)	-
2017	**600,387**	**(408,060)**	**192,327**
Regasification plants	79,653	(71,298)	8,355
Gas transportation infrastructure	503,226	(308,092)	195,134
Underground storage	17,508	(15,461)	2,047
2016	**600,387**	**(394,851)**	**205,536**

The breakdown at year end of said capital grants by public body which grants them is as follows:

	Grants received	Released to income	Balance at year end
Structural funds of the European Union	434,634	(277,854)	156,780
Official bodies of the Spanish Autonomous Regions	51,905	(30,902)	21,003
Spanish government	113,848	(99,304)	14,544
2017	**600,387**	**(408,060)**	**192,327**
Structural funds of the European Union	434,634	(266,697)	167,937
Official bodies of the Spanish Autonomous Regions	51,905	(29,790)	22,115
Spanish government	113,848	(98,364)	15,484
2016	**600,387**	**(394,851)**	**205,536**

The breakdown by timing criteria of the balance pending application at December 31, 2017 is the following:

	years		
	<1	2 to 5	>5
Government grants	940	3,760	9,844
Spanish Autonomous Regions	1,110	4,402	15,491
FEDER grants	9,110	32,736	114,934
Total grants	**11,160**	**40,898**	**140,269**

Regasification Plant - Puerto de El Musel (Gijón)

On March 1, 2016, Enagás Transporte received notification of the ruling handed down by the Supreme Court on February 29, 2016, dismissing the appeal filed by the central government and said company against the sentence of July 31, 2013 passed by the Madrid High Court which upheld the appeal filed by the Green Party of Asturias against the Directorate General for Energy Policy and Mining resolution of December 29, 2008 granting Enagás the prior administrative authorization for construction of the regasification plant for liquefied natural gas in El Musel (Gijón), thereby nullifying said administrative authorization.

The Company understands that the Supreme Court ruling does not entail any changes to the technical or economic situation of the installation, as (i) the location and technical characteristics of the installation are perfectly in line with prevailing legislation in light of the replacement of the regulation relating to annoying, unhealthy, harmful or hazardous activities with Law 34/2007, of November 15, on air quality and protection of the atmosphere and installation; and (ii) the installation has received the necessary commissioning certification for the sole purposes indicated in the Third Transitional Provision of Royal Decree Law 13/2012, and thus the remuneration recognized and received by the Company is justified on the basis of said Royal Decree and not the nullified authorization.

The Ministry for Energy, Tourism, and Digital Agendas pronounced itself similarly when it informed the High Court of Madrid in connection with the execution of the sentence requested by the Green Party of Asturias that "[…] it considers, at any rate, that the sentence has already been executed as the nullification does not involve or require the dismantling of the installation or the suspension of remuneration currently being received." This execution request has already been resolved in a firm manner by the Superior Court of Justice of Madrid, by Order of October 16, 2017, which has considered the ruling of the court already executed in its entirety after the declaration of nullity of the authorization of the regasification plant and its hibernation, without the need to perform any other action on it.

At December 31, 2017 the carrying amount of said investment totaled 378,887 thousand euros. Further, during 2017 and 2016 and in accordance with Royal Decree Law 13/2012, said regasification plant received both financial remuneration as well as remuneration for operating and maintenance costs in connection with the actions carried out by the Company to maintain the plant ready for service. Both of the aforementioned sources of remuneration have been recognized annually by the successive Ministerial Orders regarding remuneration and tolls.

Thus, the directors of the Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any provision and that the definition of a contingent liability is not met.

Regasification plant – Granadilla (Tenerife)
No significant changes arose with respect to 2016 in connection with the project for construction of a regasification plant at the Granadilla port. Thus, on March 16, 2015, the Madrid Supreme Court of Administrative Appeals handed down a sentence annulling the Resolution passed by the Directorate General for Energy policy and Mining on May 4, 2012, which granted the Compañía Transportista de Gas Canarias, S.A. ("Gascan") the prior administrative authorization for construction of a plant for receiving, storing, and regasifying LNG in Granadilla (Tenerife), as well as the Environmental Impact Statement for said project, considered favorably in the Resolution passed on June 8, 2007 by the General Secretariat for the Prevention of Pollution and Climate Change.

In addition, both Compañia Transportista de Gas Canarias, S.A. as well as the Spanish Attorney General filed an appeal against said sentence, resolution of which is expected in the month of February 2018.

It is interesting to note that, in any case, in accordance with the provisions of article 57.1 of Law 30/1992, of November 26, on the Legal Regime of Public Administrations and Common Administrative Procedures, the actions of public administrations subject to administrative legislation are presumed valid and produce effects from the date on which they are announced. Thus, as no administrative or competent legal body has reached any decision to date regarding the suspension of the execution of the administrative actions which have been appealed, there are no legal reasons to justify that the Resolution of the Directorate General for Energy Policy and Mining on December 29, 2008, which granted Enagás the prior administrative authorization for construction of a plant for receiving, storing, and regasifying LNG in Granadilla (Tenerife), or the Resolution of June 8, 2007 of the General Secretariat for the Prevention of Pollution and Climate Change, which issued the favorable Environmental Impact Statement for said plant, have lost their validity. On the contrary, they remain fully valid and effective, especially considering that the appeal filed against the sentence of the Madrid High Court of Justice excludes their validity in spite of article 91.1 of Law 29/1998 of July 13, of the Appeals Courts.

Thus, even in the case that the sentence handed down by the Madrid High Court of Justice were to be confirmed as a result of the appeal being rejected, this would not prevent the formulation and granting of a new Environmental Impact Statement and a new prior administrative authorization for the LNG regasification plant at Granadilla (Tenerife), as to date, the project has been subject to a new favorable Environmental Impact Statement, of July 15, 2016 (B.O.E - Official State Gazette no.176 of July 22), a step required together with the CNMC report for obtaining administrative authorization.

Thus, considering all the above, the directors of the Enagás Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any provision and that the definition of a contingent liability is not met.

Situation of Castor Storage Installations
As explained in Notes 8.1 to the 2014 consolidated financial statements of the Enagás Group, on October 4, 2014 the B.O.E published Royal Decree Law 13/2014 of October 3, by virtue of which urgent measures were adopted in connection with the gas system and title to the nuclear power plants, with a view to guaranteeing the security of people, goods, and the environment with respect to the Castor natural gas underground storage installations, which establishes, amongst other matters, the following:

- The termination of the exploration concession for the Castor underground storage installations, granted by Royal Decree Law 855/2008, of May 16.
- The hibernation of the installations associated with said concession.
- The appointment of Enagás Transporte, S.A.U. for administration of said installations, for the sole purpose of carrying out the necessary measures for maintenance and operability during the hibernation period, prioritizing the objective of guaranteeing the security of the installations for persons, goods, and the environment, while ensuring compliance with applicable regulations. Likewise, the decision included the stipulation that the maintenance and operational costs be paid to Enagás Transporte, S.A.U. with a charge to income from tolls and royalties of the gas system.
- The recognition of the investment made for the storage installations by the titleholder of the concession which was extinguished with 1,350,729 thousand euros, and the establishment of a payment obligation for said amount by Enagás Transporte, S.A.U. to the titleholder of the extinguished concession. As a result of assuming the payment obligation, Enagás Transporte, S.A.U. enjoys the right to collect access tolls and royalties from the gas system's monthly invoicing during 30 years, for the amount paid to the titleholder of the extinguished concession plus the financial remuneration which the Royal Decree Law expressly recognizes. Likewise, this Royal Decree Law contains the necessary measures to guarantee full effectivity of this collection right, that said right could be freely available to Enagás Transporte, S.A.U. or its third party titleholders, and could consequently be totally or partially, ceded, transferred, discounted, pledged, or taxed in favor of any third parties, including securitization funds or other vehicles or companies with a special purpose, either domestic or international. The cession of the collection right will be effective with respect to the gas system, which will pay the new titleholder the corresponding amounts.

In light of the above, on October 4, 2014, Enagás Transporte, S.A.U. signed an agreement with various financial entities by virtue of which it ceded the collection right awarded by the aforementioned Royal Decree Law, with said entities assuming the payment obligation imposed on Enagás Transporte, S.A.U. In this manner, on November 11, 2014, said financial entities made a payment of 1,350,729 thousand euros to the titleholder of the extinguished concession.

Further, Enagás Transporte, S.A.U. transferred the aforementioned contractual obligations and rights inherent to ownership of the financial asset to said financial entities, thus derecognizing it from the balance sheet as the directors of the Group consider that all associated risks and benefits have been transferred.

On December 21, 2017 the Constitutional Court handed down a sentence declaring various provisions of Royal Decree Law 13/2014 as unconstitutional and null and void due to formal errors. Specifically, (i) acknowledgment of the investment made by the renouncing concessionaire and costs accrued up to the date of said norm becoming effective, and thus the consideration in the amount of 1,350,729 thousand euros, as well as (ii) recognition of the correlated collection right of Enagás Transporte, S.A.U. with respect to the gas system for the amount of consideration cited, considering that in both cases the reasons given for the urgency were not justified and therefore said measures should be excluded from the ordinary legislative procedure.

Notwithstanding the foregoing, the Constitutional Court did declare the following as constitutional and valid: (i) adoption of the decision to hibernate the underground storage facilities; (ii) the declaration of the extinction of the concession; and (iii) the appointment of Enagás Transporte, S.A.U. for administration of the facilities to the extent the hibernation is prolonged; as well as (iv) recognition of the right to obtain remuneration for the maintenance and operability costs for Enagás Transporte, S.A.U., including any costs incurred for the administration and other related work which said Royal Decree Law established as a requirement.

In accordance with the analysis carried out by the Company's external legal advisors, the purchase-sale contract for the collection rights signed by Enagás Transporte, S.A.U. with the financial entities represents the transfer of rights and obligations to the financial entities and in no case does it enable the buyers (or their possible transferees) the possibility of claiming reimbursement for the price received or payment of any other amounts from the seller. Thus, in no case can adverse effects arise in connection with the financing of the operation for the Company due to the sentence of the Constitutional Court, as Enagás Transporte, S.A.U. is not titleholder to the collection right which was annulled nor is it obliged to pay the titleholder of the extinguished concession.

Likewise, in accordance with said analysis and conclusions, the aforementioned sentence does not give rise to any negative effect on the right of Enagás Transporte, S.A.U. to obtain remuneration for the administration and operations necessary for maintenance and operability of the infrastructure, as the Royal Decree Law was not affected in such a manner by the declaration of unconstitutionality.

For this reason, regarding the remuneration granted to Enagás Transporte for the years 2014, 2015 and 2016, it has been the object of a contentious-administrative appeal and it is expected that the Supreme Court will issue judgment in the coming months, once it has been resolved. The appeal of unconstitutionality of Royal Decree Law13/2014 by the Constitutional Court. Likewise, with regard to the remuneration recognized for this concept to Enagás Transporte for the year 2017, the provisional remuneration received in the liquidation 11/2017 of January 2018 has been reimbursed.

In accordance with the legal conclusions of the external and internal advisors, Enagás Transporte has a right to restitution the remuneration corresponding 2017. Likewise, if, as of the resolution by the Supreme Court of the mentioned resources, a refund for the previous years, Enagás Transporte, S.A.U. maintains a right to recover said compensation through an alternative mechanism. In both cases, at 2017, there is no Equity loss for this concept.

2.5 Intangible assets

Accounting policies

Goodwill and business combinations

- The acquisition by the Parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.
- Goodwill or negative goodwill arising on the combination is calculated as the difference between the fair value of the assets acquired and liabilities assumed which meet the relevant recognition criteria and the cost of the business combination, all measured at the acquisition date.
- Goodwill that arises upon acquisition of companies whose functional currency is not the euro is recognized in the functional currency of the acquired company, translating to euros at the exchange rate prevailing at the balance sheet date.
- Goodwill is not amortized and is subsequently measured at cost less any impairment losses. Goodwill impairment losses are not reversed in subsequent periods.

Other intangible assets

- The cost model is applied for measuring these assets, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated amortization and any impairment losses.
- Development costs are capitalized by amortizing on a straight-line basis over the corresponding useful life, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.
- The Group recognizes all research expenses in the consolidated income statement, including those development costs for which technical and commercial viability cannot be established. The amount recognized in the accompanying consolidated income statement in connection with research expenses totals 1,133 thousand euros for 2017 (2016: 780 thousand euros).
- Concessions can only be included under assets when acquired for consideration separately by the Company and corresponding to concessions that can be transferred, or in the amount of expenses incurred to acquire them directly from the corresponding State or Public Authority. Should circumstances involving non-compliance with stipulated conditions arise which lead to the loss of rights related to a concession, the corresponding carrying amount for the concession will be written down in order to cancel the net carrying amount. Said concessions are amortized based on their remaining useful life.
- Acquisition and development costs incurred with respect to basic IT systems used for management are recognized with a charge to "Intangible assets" in the consolidated balance sheet. Maintenance costs of IT systems are recognized in the consolidated income statement for the year in which they are incurred. They are measured at the amount disbursed for ownership or right-of-use of the IT programs, as well as their production cost if they are developed by the Group.

Significant estimates and judgments

- Amortization of intangible assets is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
IT applications	10% - 25%	10 - 4
Development costs	5% - 50%	20 - 2
Port concessions	1.28% - 7.6%	78 - 13

2017	Beginning balance	Increases due to changes in the consolidation scope [2]	Increases or allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Balance at year end
Goodwill [1]	25,812	184,950	-	-	-	(29,058)	181,704
Other intangible assets			-	-	-	-	-
Development	7,418	-	720	-	(13)	-	8,125
Concessions	5,871	835,441	-	-	-	(99,806)	741,506
IT applications [3]	198,009	3,848	11,905	-	-	(818)	212,944
Other intangible assets	7,837	10,096	-	-	-	(851)	17,082
Total cost	**244,947**	**1,034,335**	**12,625**	**-**	**(13)**	**(130,533)**	**1,161,361**
Other intangible assets							-
Development	(2,798)	-	(572)	-	-	-	(3,370)
Concessions	(3,912)	-	(23,024)	(20,405)	-	3,675	(43,666)
IT applications	(154,127)	(2,447)	(18,315)	-	-	320	(174,569)
Other intangible assets	(7,691)	(2,093)	(348)	-	-	265	(9,867)
Total amortization	**(168,528)**	**(4,540)**	**(42,259)**	**(20,405)**	**-**	**4,260**	**(231,472)**
Total goodwill	25,812	184,950	-	-	-	(29,058)	181,704
Total other intangible assets	50,607	844,845	(29,634)	(20,405)	(13)	(97,215)	748,185
Net carrying amounts - Intangible assets	**76,419**	**1,029,795**	**(29,634)**	**(20,405)**	**(13)**	**(126,273)**	**929,889**

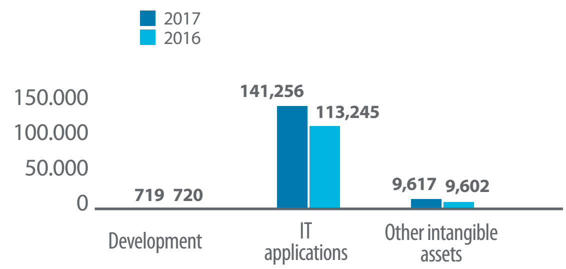
(1) Includes the amounts corresponding to goodwill arising on acquisition of ETN (17,521 thousand euros), on acquiring control over Gascán (8,291 thousand euros), as well as goodwill arising during the purchase price allocation process for GNL Quintero (184,950 thousand euros) as a consequence of acquiring control over said company from January 1, 2017 (Notes 1.7).

(2) "Increases due to changes in the consolidation scope" for 2017 includes the effect of consolidating GNL Quintero under the full consolidation method as a consequence of acquiring control (Notes 1.7).

(3) Amongst the additions during the year, the most noteworthy are mainly those corresponding to IT applications for updating SW servers, amounting to 1,071 thousand euros, adaptation of the ATR system to European legislation in the amount of 1,011 thousand euros, implementation of the Capacity Contracting Platform in the amount of 1,367 thousand euros as well as implementation of the Regulatory Information System for Costs in the amount of 890 thousand euros.

2016	Beginning balance	Increases or allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Goodwill	25,812	-	-	-	25,812
Other intangible assets					
Development	6,640	778	-	-	7,418
Concessions	5,871	-	-	-	5,871
IT applications	181,618	16,391	-	-	198,009
Other intangible assets	7,835	2	-	-	7,837
Total cost	**227,776**	**17,171**	**-**	**-**	**244,947**
Other intangible assets					
Development	(2,228)	(570)	-	-	(2,798)
Concessions	(3,862)	(50)	-	-	(3,912)
IT applications	(133,824)	(20,303)	-	-	(154,127)
Other intangible assets	(7,576)	(115)	-	-	(7,691)
Total amortization	**(147,490)**	**(21,038)**	**-**	**-**	**(168,528)**
Total goodwill	25,812	-	-	-	25,812
Total other intangible assets	54,474	(3,867)	-	-	50,607
Net carrying amounts - Intangible assets	**80,286**	**(3,867)**	**-**	**-**	**76,419**

Fully amortized items



2.6 Impairment of non-financial assets

Accounting policies

- With respect to goodwill, at the closing of each year, or more frequently if certain circumstances or changes arise which indicate that the net carrying amount of said goodwill may not be entirely recoverable, and when there are indications of impairment losses on the remaining non-current assets, the Company analyzes the corresponding recoverable amounts to determine the possibility of impairment.
- The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated.
- The period used by the Enagás Group to determine the projected cash flows of the cash-generating units corresponds to the period in which the asset accrues revenue associated with the investment (Appendix III). At the closing of this period, the Enagás Group considers residual values based on the cash flows of the last period with a growth rate equal to zero.

Significant estimates and judgments

Determination of impairment losses on non-current assets other than financial assets is based on fulfillment of a series of hypotheses which are described below in this note and are revised annually. The Group identifies its operating segments based on internal reports relating to the companies comprising the Group which are regularly reviewed, discussed, and evaluated in the decision-making process, as indicated in Notes 4.7 to the accompanying consolidated financial statements.

To the extent that assets grouped within a segment are at the lowest level at which independent cash flows can be identified, the segment is identified as a cash-generating unit (CGU).

The CGUs identified by the Enagás Group in 2016 are shown below:

- Infrastructure activity in Spain (includes transport, regasification, and storage).
- Technical management of the system.

In 2017, Enagás Chile S.p.A acquired control over GNL Quintero, which was subsequently consolidated under the full consolidation method (Notes 1.7). This change in the consolidation method represents the integration in the Enagás Group financial statements of all the assets, liabilities, income, expenses, cash flows, and other items relating to GNL Quintero.

GNL Quintero is a terminal for receiving, unloading, storing, and regasifying liquefied natural gas. The only PP&E item identified corresponds to the regasification plant. The intangible assets identified correspond to the Terminal Use Agreement ("TUA"), the maritime concession, the rights relating to the gas transportation contract and the Esval rights. The TUA represents a contract which attributes a series of contractual rights that are associated with future economic benefits (Notes 2.1).

As can be deduced from the previous paragraph, said assets generate cash flows which are independent of the remaining assets or groups of assets of the Enagás Group. In this sense, Chile is defined as a new cash generating unit.
The remaining companies continue to be accounted for in the same manner as until now.

Thus, subsequent to the changes during the year, the CGUs identified at December 31, 2017 in the Enagás Group are as follows:

- Infrastructure activity in Spain (includes transport, regasification, and storage).
- Technical management of the system.
- Chile.

To estimate value in use, the Enagás Group estimates projections regarding future cash flows after taxes based on the most recent budget forecasts approved by the directors. The best estimates available for income, costs, and investments relating to CGUs are used for said forecast, making use of historical experience, sector projections, and future expectations, in accordance with the prevailing regulatory framework and corresponding contracts.

With respect to this infrastructure activity, once the regulatory useful life of the installations has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the installation exceeds the regulatory useful life, not accruing any amounts as investment remuneration, amortization/depreciation, or financial remuneration. In addition to said fixed remuneration, the remuneration for supply continuity will be maintained as it is independent of the regulatory useful life of the asset in question.

Thus, when determining residual value, the following is taken into consideration:

- The projection for the last estimated cash flow corresponding to remuneration for supply continuity ("RSC"), calculated in accordance with the regulatory parameters established and described in Appendix III.
- The remuneration for operating and maintenance costs of the last projected period, applying the prevailing regulatory framework for the fully amortized/depreciated items described in the aforementioned Appendix III.
- Financial remuneration or remuneration related to amortization/depreciation was not taken into account as said remuneration will end when the regulatory useful life of the installations elapses

The last period considered for projections is the one corresponding to the year in which the regulatory useful life ends based on the age of the installations at the time.

With respect to the activities corresponding to Technical System Management, residual values were calculated based on the cash flows of the last period, using a zero growth rate and no normalization adjustments. This is due to the fact that, as indicated in Appendix III, revenue corresponding to this activity is meant to settle the obligations of Enagás GTS, S.A.U. as Technical Manager of the System, which is the same as that calculated annually based on the accredited costs for each year. For the last period, the same criteria were applied as those used for infrastructure activity, under the understanding that while the gas infrastructure is operational and there is demand for gas, technical management of the gas system will continue.

The directors consider that their projections are reliable and that past experience, taken together with the nature of the business, make it possible to predict cash flows for the periods under consideration.

The most representative hypotheses used in the projections, based on business forecasts and past experience, are the following:

- Regulated remuneration was estimated in accordance with the remuneration approved by law for the years in which it is available while the same mechanisms for updating said remuneration as established in legislation were used for subsequent years.
- Investment: the Group used the best information available for the investment plans relating to assets and maintenance of infrastructures and systems, based on the one hand on historical experience of investments in maintenance and systems, and on the other hand, the new projects that are highly likely to be executed in accordance with the work in progress being performed with the Ministry and the CNMC.
- Operating and maintenance costs were estimated considering the prevailing maintenance contracts, as well as remaining estimated costs based on sector knowledge and past experience. The projections made were consistent with the growth expected as a result of the investment plan.
- Other costs were projected based on sector knowledge, past experience, consistent with the growth expected as a result of the investment plan.

In order to calculate present value, projected future cash flows are discounted at an after-tax rate which reflects the weighted average cost of capital corresponding to the business and the geographical area in which the business is carried out. For its calculation, the time value of money is taken into consideration together with the risk-free rate and risk premiums generally used by analysts of the business and geographic area in question. The risk-free rate corresponds to the sovereign bonds issued by each country in the corresponding market, with sufficient depth and solvency. However, associated country risk is also taken into consideration for each geographical area. The risk premium of the asset corresponds to the risks specific to the asset, calculated taking into consideration the estimated betas in accordance with the selection of comparable businesses dedicating themselves to a similar main activity.

The after-tax discount rates used in 2017 and 2016 for regulated activities in Spain are 3.92% and 4.37%, respectively (with 6.52% and 6.01% as the pre-tax discount rate for 2017 and 2016). In addition, the after-tax discount rate used for Chile in 2017 is 5.78% (8.33% was the pre-tax discount rate used in 2017). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2017 year end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

2.7 Other non-current liabilities

	Royalties Gasoducto de Extremadura, S.A. (1)	Royalties Gasoducto Al-Andalus, S.A. (1)	Connections to basic network	Total
Balance at December 31, 2015	**4,751**	**10,777**	**35,011**	**50,539**
Taken to profit and loss	(950)	(2,156)	(1,225)	(4,331)
Balance at December 31, 2016	**3,801**	**8,621**	**33,786**	**46,208**
Additions	-	-	1,126	1,126
Disposals	-	-	(746)	(746)
Taken to profit and loss	(950)	(2,155)	(1,144)	(4,249)
Balance at December 31, 2017	**2,851**	**6,466**	**33,022**	**42,339**

(1) The amounts recognized for royalties relating to Gasoducto de Extremadura, S.A. and Gasoducto Al-Ándalus, S.A. correspond to the balances pending application with respect to the contracts signed with said companies for "gas transportation rights," which are consolidated under the proportionate consolidation method applying the percentage of ownership interest held by Enagás Transporte, S.A.U. in said companies. This income is allocated and recognized on a straight-line basis up to 2020, the year in which the transportation contract terminates.

2.8 Provisions and contingent liabilities

Significant estimates and judgments

- The consolidated financial statements include all significant provisions when the Group considers that it will more likely than not have to settle the related obligations. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow of resources embodying economic benefits is considered remote.
- Provisions, which are quantified taking into consideration the best available evidence on implications of obligating events and that are re-estimated at each balance sheet date, are used to cover the specific obligations for which they were originally recognized and are partially or fully reversed when said obligations decrease or cease to exist.
- The compensation receivable from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will be received, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized. The policy followed with respect to the recognition of provisions for risks and expenses is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or liabilities, sureties and similar guarantees. They are recognized upon emergence of the liability or obligation determining the indemnity or payment.
- At year end 2017 and 2016, several legal proceedings were underway against the Group in connection with matters relating to the normal course of its activities. The Group's legal advisors and directors consider that the final outcome of these proceedings and claims will not have a significant effect on its future consolidated financial statements.

a) Non-current provisions

The movements during the period under this heading were as follows:

Non-current provisions	Beginning balance	Amounts provisioned	Revaluation/	Aplicaciones	Saldo final
Staff remuneration	7,421	3,180	(4,671)	-	5,930
Other liabilities	10,323	30	(5,366)	(3,735)	1,252
Dismantling	166,623	-	4,599	-	171,222
Total non-current provisions	**184,367**	**3,210**	**(5,438)**	**(3,735)**	**178,404**

The dismantling provisions correspond to the underground storage facilities of Gaviota, Yela, and Serrablo, as well as the regasification plants of Barcelona, Cartagena, Huelva, and Gijón, in accordance with the prevailing regulatory framework (Note 2.4 and Appendix III).

These provisions are updated and discounted regularly during the periods following initial recognition. The pre-tax discount rate, utilizing the last discounting carried out at December 31, 2016, was 2.76%, considering that this rate continues to reflect current market valuations with respect to the time value of money and those specific risks relating to the obligation being provisioned. A change in the discount rate of +/- 0.05% would result in change in the amount recognized for the provision of 1.81% and -1.81%, respectively.

"Staff remuneration" includes a total of 1,677 thousand euros (2016: 800 thousand euros) corresponding to the portion accrued for the long-term incentive plan aimed at executive directors and senior management payable in cash (Note 4.4), as well as the bonus payable every three years for contribution to results and corresponding to the remaining staff of the Group.

The directors of the Company consider that the provisions recognized in the accompanying balance sheet for litigation and arbitration risk as well as other risks described in this note are adequate and, in this respect, they do not expect any additional liabilities to arise other than those already recorded. Given the nature of the risks covered by these provisions, it is not possible to determine a reasonably reliable schedule of payment dates, if any.

b) Contingent liabilities

At December 31, 2017, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

3. Capital structure, financing, and finance revenue (expense)

Significant matters

Financial leverage

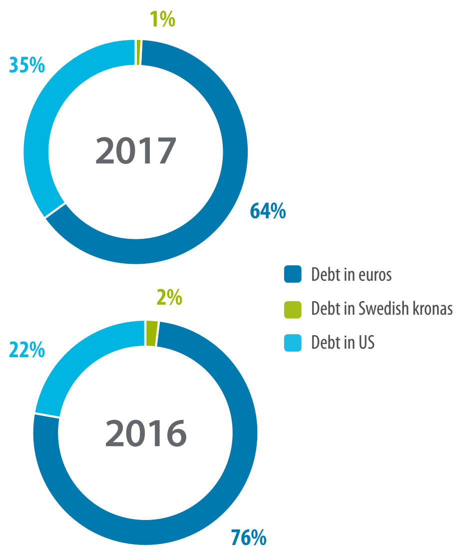
- Financial leverage at December 31, 2017 amounted to 65.9% (2016: 68.2%) (Note 3.7).
- The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative prognosis at December 31, 2017. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2017 with a stable prognosis.

Equity

- At December 31, 2017, equity had increased by 19.4% with respect to the prior year closing, amounting to 2,941 million euros.
- Share capital at December 31, 2017 amounted to 358 million euros.
- The last closing price of Enagás, S.A. shares recognized at December 29, 2017 amounted to 23.87 euros per share.
- No natural or legal person can participate directly or indirectly in an amount exceeding 5% of Enagás, S.A. share capital, or exercise rights in the Company exceeding 3% (1% for those subjects who, directly or indirectly, carry out activities in the gas sector). Said limitations are not applicable to direct or indirect interest held by the public corporate sector (Note 3.1).

Net financial debt (NFD)

- Net financial debt is the main indicator used by Management to measure the Group's debt level. At December 31, 2017 net financial debt amounted to 5,008 million euros (2016: 5,089 million euros) (Note 3.4).
- The average annual interest rate during 2017 for the Group's net financial debt amounted to 2.7% (2016: 2.4%) (Note 3.4).
- More than 80% of net financial debt accrued fixed interest rates at December 31, 2017 and 2016, while the average maturity period at December 31, 2017 amounted to 6.8 years (2016: 6.3 years) (Note 3.4).
- The main financing transactions carried out during the period were the following:
  - Early cancellation of two loans granted to Enagás, S.A. by the European Bank of Investments with a payment of 275,000 thousand euros.
  - Enagás Financiaciones, S.A.U. formalized a credit facility of 300,000 thousand euros in June 2017.
  - The contracting of credit lines in US dollars in the amount of 550 million US dollars.
- The Enagás Group increased its US dollar-denominated debt as a consequence of the consolidation of GNL Quintero debt under the full consolidation method.



Available funds

- The Group has available funds in the amount of 2,484 million euros at December 31, 2017 (2016: 2,409 million euros) (Note 3.8).

Finance expenses

- Financial and other similar expenses went from 121 million euros in 2016 to 186 million euros in 2017 mainly due to the full consolidation of GNL Quintero from January 1, 2017, as well as the cancellation of translation differences against financial results due to the exclusion of GSP from the consolidation scope (8,248 thousand euros) (Notes 1.6 and 3.5).

Finance income

- Finance income and similar income went from 14 thousand euros in 2016 to 102 million euros in 2017 mainly due to the full consolidation of Quintero from January 1, 2017 (restatement of the prior interest held and cancellation of translation differences) (Note 1.7).

Derivative financial instruments

- The Group arranges cash-flow hedges, fair value hedges, and net investment hedges. At December 31, 2017 the net fair value of the Group's derivatives (both assets and liabilities) amounts to 24 million euros of liabilities (2016: 104 million euros) (Note 3.6).

3.1 Equity

a) Share capital

At 2017 and 2016 year end, the Company's share capital amounted to 358,101 thousand euros, represented by 238,734,260 shares with a nominal value of 1.5 euros each, all of the same class, fully subscribed, and paid in.

All shares of the parent company Enagás, S.A. are listed on the four official Spanish exchanges as well as on the electronic trading market. At the closing of December 29, 2017 the quoted share price was 23.87 euros, having reached a maximum of 26.72 euros per share on June 7.

It is worth noting that, subsequent to publication of Additional Provision 31 of Hydrocarbon Sector Law 34/1998, in force since enactment of Law 12/2011, of May 27, "no natural or legal person can participate directly or indirectly in the shareholder structure of Enagás, S.A. with a stake exceeding 5% of share capital, nor exercise political rights in said parent company exceeding 3%. These shares cannot be syndicated under any circumstances." Further, "those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in said parties of more than 5%, may not exercise voting rights exceeding 1% in said parent company. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector."

At December 31, 2017 and 2016 the most significant shareholdings in the share capital of Enagás, S.A. were as follows (from the information published by the Spanish Securities Market Commission – CNMV (1) in Spanish at December 31, 2017):

	Interest in share capital (%)	
Company	12.31.2017	12.31.2016
Sociedad Estatal de Participaciones Industriales	5,000	5,000
Lazard Asset Management [2]	5,074	0,133
Bank of America Corporation	3,614	3,614
BlackRock Inc.	3,383	2,721
Fidelity international limited	1,906	2,119
State Street Corporation	3,008	1,925
Retail Oeics Aggregate	1,010	1,010

(1) The information obtained from the CNMV was based on the last notification that each entity thus obliged must send to said body, in connection with the stipulations of Royal Decree 1362/2007, of October 19 and Circular 2/2007, of December 19.

(2) After December 31, 2017, Lazard Asset Management informed the CNMV Spanish Securities Market Commission – CNMV and Enagás, SA that on February 8, 2018, they reduced their participation in the company, holding 4.63% of Enagas. S.A.

b) Treasury shares

On May 25, 2016, Enagás, S.A. finalized the process for acquiring 307,643 treasury shares for an amount of 8,219 thousand euros (including related expenses amounting to 8 thousand euros) and representing 0.13% of the entire Group share capital. Said acquisition falls within the "Temporary program for the repurchase of treasury shares," the sole objective of which is to comply with the share delivery obligations with respect to Enagás Group executive directors and senior management in the context of the remuneration system in place and based on the terms stipulated in the long-term incentive plan and the remuneration policy for the 2016-2018 period approved by the shareholders in general meeting on March 18, 2016. The share purchase was in compliance with the requirements established in article 5 of Commission Regulation EC 2273/2003 and was subject to the terms authorized by the shareholders in general meeting on March 18, 2016. Management of the temporary treasury share repurchase program was delegated to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the acquisition on account of Enagás, S.A. independently and without any influence of the latter (Note 4.4).

There were no more acquisitions or disposals of treasury shares during 2017.

c) Reserves

The Spanish Corporate Enterprises Act stipulates that 10% of profit for the year must be transferred to the legal reserve until it represents at least 20% of share capital. At 2017 and 2016 year end, the legal reserve was fully allocated and totaled 71,620 thousand euros.

The legal reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase. Except for this purpose, until the legal reserve exceeds the limit of 20% of capital, it can only be used to compensate losses provided there are no other reserves available.

In 2017 the Group derecognized, with a charge against reserves, the put option on Enagás Transporte del Norte, S.L., amounting to 15,600 thousand euros (Note 3.4.d) and the purchase and sales options on GNL Quintero, amounting to 39,059 thousand euros (Note 1.7).

d) Income and expense recognized directly in equity

	Beginning balance	Change in value	Taken to profit and loss	Balance at year end
2017				
Cash flow hedges	16,840	(8,546)	16,212	24,506
Tax recognized in equity	(5,396)	2,600	(3,820)	(6,616)
Translation differences	(114,511)	(7,520)	(18,575)	(140,606)
Companies consolidated using the full consolidation method	**(103,067)**	**(13,466)**	**(6,183)**	**(122,716)**
Cash flow hedges	(6,361)	(462)	4,524	(2,299)
Tax recognized in equity	2,029	123	(899)	1,253
Translation differences	181,958	(119,828)	8,248	70,378
Companies accounted for using the equity method	**177,626**	**(120,167)**	**11,873**	**69,332**
Total	**74,559**	**(133,633)**	**5,690**	**(13,327)**
2016				
Cash flow hedges	(4,787)	2,604	19,023	16,840
Tax recognized in equity	11	(651)	(4,756)	(5,396)
Translation differences	(66,437)	(48,074)	-	(114,511)
Companies consolidated using the full consolidation method	**(71,213)**	**(46,121)**	**14,267**	**(103,067)**
Cash flow hedges	(2,968)	(12,103)	8,710	(6,361)
Tax recognized in equity	1,389	2,799	(2,159)	2,029
Translation differences	131,018	53,003	(2,063)	181,958
Companies accounted for using the equity method	**129,439**	**43,699**	**4,488**	**177,626**
Total	**58,226**	**(2,422)**	**18,755**	**74,559**

3.2 Results and change in minority interests

Accounting policies

- Minority interests are those that can be attributed to shareholders who have no control over the subsidiary.
- They are recognized under equity as a line item separate from the net equity attributable to the Parent.
- In business combinations, minority interests are measured at fair value or the proportional part of assets acquired.
- The amount corresponding to minority interests relating to the change in equity of the subsidiary is attributed based on the percentage of interest held in the subsidiary.
- Changes in the percentage of ownership interest held by the Parent in the subsidiary which do not represent a loss of control are recognized as equity transactions.
- The amount corresponding to minority interests is calculated for the whole Enagás Group based on the carrying amounts of the companies in which minority interest is held. However, the amount recognized under "Changes in consolidation scope" corresponding to GNL Quintero was determined based on the fair value of the company at the date control over it was acquired, that is, January 1, 2017.

	Participation of minority interests	Beginning balance	Changes in consolidation scope	Dividends distributed	Translation differences	Appropriation of profit	Balance at year end
2017							
ETN, S.L.	10.0%	14,618	-	(689)	-	1,049	14,978
GNL Quintero, S.A.	54.6%	-	396,031	(15,364)	(40,057)	13,198	353,808
Other companies		78	116	-	-	(8)	186
Total 2017		**14,696**	**396,147**	**(16,053)**	**(40,057)**	**14,239**	**368,972**
2016							
ETN, S.L.	10%	14,435	-	(765)	-	948	14,618
Other companies	-	-	80	-	-	(2)	78
Total 2016		**14,435**	**80**	**(765)**	**-**	**946**	**14,696**

The financial information of the main subsidiaries with significant minority interests is shown below:

	2017	2016
Accumulated balances of significant minority interest		
ETN, S.L.	13,929	13,670
GNL Quintero, S.A.	340,610	-
Other companies	194	80
Total	**354,733**	**13,750**
Gains (losses) attributed to significant minority interest		
ETN, S.L.	1,049	948
GNL Quintero, S.A.	13,198	-
Other companies	(8)	(2)
Total	**14,239**	**946**

The summarized financial information of these subsidiaries is shown below. This information is based on the amounts recognized before eliminations amongst Group companies:

Condensed income statement	2017		2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Ordinary revenue	29,057	173,746	28,299
Cost of sales	(7,563)	(48,187)	(7,556)
Administrative expenses	(4,316)	(16,605)	(4,868)
Finance expenses	(3,203)	(63,973)	(3,431)
Profit before tax	**13,975**	**44,981**	**12,444**
Income tax expense	(3,480)	(13,349)	(2,965)
Profit (loss) from continuing operations	**10,495**	**31,632**	**9,479**
Total results	**10,495**	**31,632**	**9,479**
Attributable to minority interests	1,049	13,198	948
Dividends paid to minority interests	689	15,364	765

Condensed balance sheet	12.31.2017		12.31.2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Inventories, treasury, and current accounts (current)	11,147	301,383	10,928
PP&E and other non-current assets (non-current)	262,055	765,275	267,615
Suppliers and other payables (current)	7,411	32,585	7,039
Loans, credits, and deferred tax liabilities (non-current)	115,983	993,402	125,300
Total equity	**149,808**	**40,671**	**146,204**
Attributable to:			
Shareholders of the Parent	134,830	(313,137)	131,585
Minority interest	14,978	353,808	14,619

Cash flow statement	2017		2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Operating income	17,850	96,989	11,854
Investment	(921)	(14,972)	(1,104)
Financing	(15,889)	(15,364)	(11,655)
Effect of changes in consolidation methods	-	243,092	-
Effect of exchange rate fluctuations	-	(31,555)	-
Total net cash flows	**1,040**	**278,190**	**(905)**

3.3 Financial assets and liabilities

Accounting policies

Financial assets

- Financial assets are recognized in the consolidated balance sheet at the transaction date when the Group becomes party to the contractual terms of the instrument.
- Financial assets are classified under "Loans and receivables" except for the investments accounted for using the equity method (Note 1.6) and derivative financial instruments (Note 3.6).

Loans and receivables

- Items recognized under this heading are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.

Fair value measurement

- In accordance with IFRS 13, for purposes of financial disclosure, the measurement of fair value is classified as Level 1, 2, or 3, based on the degree that the inputs applied are observable and their importance in measuring fair value in its totality, as described below:
  - Level 1 – Inputs are based on quoted prices (unadjusted) for instruments of an identical nature traded in active markets.
  - Level 2 – Inputs are based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data.
  - Level 3 – Inputs are not generally observable and generally reflect estimates regarding market movements for determining the price of the asset or liability.

Trade and other payables

- Trade and other payables that do not accrue explicit interest are measured at their face value when the effect of not discounting is not significant.

a) Financial assets

Categories \ Class	Equity instruments		Loans, derivatives, and other		Total	
	2017	2016	2017	2016	2017	2016
Loans	-	-	402,913	289,142	402,913	289,142
Trade and other receivables (Note 2.2)	-	-	117,947	397,351	117,947	397,351
Derivatives (Note 3.6)	-	-	22,213	16,670	22,213	16,670
Other	4,573	813	388,403	212,249	392,976	213,062
Total non-current financial assets	**4,573**	**813**	**931,476**	**915,412**	**936,049**	**916,225**
Loans	-	-	6,695	4,808	6,695	4,808
Total current financial assets	**-**	**-**	**6,695**	**4,808**	**6,695**	**4,808**
Total financial assets	**4,573**	**813**	**938,171**	**920,220**	**942,744**	**921,033**

The directors consider that the fair value of financial assets at December 31, 2017 does not differ significantly from their carrying amounts.

Loans

The amounts recognized mainly correspond to loans granted to Group companies which are consolidated under the equity method and are therefore not eliminated during the consolidation process, broken down as follows:

	Interest rate	Maturity date	12.31.2017	12.31.2016
Non-current loans to related parties			**402,892**	**289,121**
Trans Adriatic Pipeline AG	FTA + spread	July-2043	293,921	168,593
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	5.9%	December-2032	52,781	62,471
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	September-2033	29,316	31,292
Planta de Regasificación de Sagunto, S.A.	EUR 6M + spread	June-2025	26,874	26,765
Current loans to related parties			**6,695**	**4,808**
Trans Adriatic Pipeline AG	FTA + spread	July-2043	4,188	2,128
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	5.9%	December-2032	2,495	2,672
Planta de Regasificación de Sagunto, S.A.	EUR 6M + spread	June-2025	12	8
Total			**409,587**	**293,929**

Other

Other non-current financial assets include an amount of 4,478 thousand euros (2016: 714 thousand euros) corresponding to the investment made by the Group in Economic Interest Groups (EIG) whose activity is the leasing of assets managed by another entity unrelated to the Group and which retains both the majority of profits as well as the risks related to the activities, with the Group only availing itself of the regulated tax incentives in Spanish legislation. The Company attributes the tax loss carryforwards generated by these EIGs against shares and taking into account the debt registered with the tax authorities, recognizing the corresponding finance income. The main change with respect to 2016 is due to the disbursement of pending contributions by Enagás Financiaciones during 2017.

Likewise, this heading also includes the accounts receivable for the both the corporate guarantee granted in connection with GSP financial debt as well as the guarantee for full compliance with respect to the concession agreement, executed to the Enagás Group as a consequence of the GSP concession agreement being terminated.

Both guarantees are considered to be recoverable via the net carrying amount procedure. The accounts receivable for both items, financially discounted over the 4-year recovery period, amounts to 173,258 thousand euros at December 31, 2017 (2016: 207,865 thousand euros).

Finally, as indicated in Note 1.5, this heading includes the accounts receivable from GSP for recovery of the financial investment in GSP, financially discounted with a 4-year recovery period and totaling 208,755 thousand euros.

The recognition of this amount represented a finance expense in the consolidated income statement relating to the financial discounting effect, amounting to 8,248 thousand euros.

Impairment losses on assets

During the twelve months of 2017, there were no movements with respect to the provisions which cover impairment losses of assets held by the Group.

b) Financial liabilities

Class / Categories	Borrowings from credit entities		Bonds and other marketable debt securities		Derivatives and other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial debt (Note 3.4)	1,429,236	1,657,307	4,000,662	3,106,757	5,994	21,613	5,435,892	4,785,677
Derivatives (Note 3.6)	-	-	-	-	32,845	102,969	32,845	102,969
Trade payables (Note 2.3)	-	-	-	-	73	103	73	103
Total non-current financial liabilities	**1,429,236**	**1,657,307**	**4,000,662**	**3,106,757**	**38,912**	**124,685**	**5,468,810**	**4,888,749**
Financial debt (Note 3.4)	152,883	399,439	49,864	504,985	14,262	272,535	217,009	1,176,959
Derivatives (Note 3.6)	-	-	-	-	12,994	17,280	12,994	17,280
Trade payables (*) (Note 2.3)	-	-	-	-	171,844	132,174	171,844	132,174
Total current financial liabilities	**152,883**	**399,439**	**49,864**	**504,985**	**199,100**	**421,989**	**401,847**	**1,326,413**
Total financial liabilities	**1,582,119**	**2,056,746**	**4,050,526**	**3,611,742**	**238,012**	**546,674**	**5,870,657**	**6,215,162**

(*)The breakdown of "Trade payables" does not include the amount of the Debts with Public Administrations.

The breakdown by maturities for this heading in 2017 and 2016 is as follows:

	2018	2019	2020	2021	2022 and beyond	Value adjustments and/or other transaction costs	Total
Bonds and other marketable debt securities	49,864	-	-	64,173	4,020,735	(84,246)	4,050,526
Borrowings from credit entities	152,883	546,006	121,742	121,742	646,445	(6,699)	1,582,119
Trade and other payables (*)	186,106	2,610	451	354	2,652	-	192,173
Total	**388,853**	**548,616**	**122,193**	**186,269**	**4,669,832**	**(90,945)**	**5,824,818**

(*) Does not include derivatives

	2017	2018	2019	2020	2021 and beyond	Value adjustments and/or other transaction costs	Total
Bonds and other marketable debt securities	504,985	-	-	-	3,178,331	(71,574)	3,611,742
Borrowings from credit entities	399,439	525,299	141,742	121,742	875,522	(6,998)	2,056,746
Trade and other payables (*)	446,532	17,873	483	438	2,922	-	468,248
Total	**1,350,956**	**543,172**	**142,225**	**122,180**	**4,056,775**	**(78,572)**	**6,136,736**

(*) Does not include derivatives

3.4 Financial borrowings

Accounting policies

- Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs.
- Subsequently, financial liabilities are recognized at amortized cost, except for derivative financial instruments and the yen bond which are recognized at fair value.
- Financial liabilities are derecognized when the related contractual obligations are canceled or expired.
- Options on interest held by minority shareholders are accounted for by recognizing the minority interests arising in a business combination and recognizing a financial liability against equity. The changes in fair value of the financial liability are accounted for in the consolidated income statement.

	2017	2016
Bonds and other marketable debt securities	4,050,526	3,611,742
Borrowings from credit entities	1,582,119	2,056,746
Other borrowings	20,256	294,148
Total financial debt	**5,652,901**	**5,962,636**
Non-current financial debt (Note 3.3)	**5,435,892**	**4,785,677**
Current financial debt (Note 3.3)	**217,009**	**1,176,959**

The fair value of debts owed to credit entities as well as other obligations and debt securities at December 31, 2017 is the following:

	2017	2016
Borrowings from credit entities	1,591,908	2,066,990
Bonds and other marketable debt securities	4,271,395	4,084,054
Total borrowings at fair value	**5,863,303**	**6,151,044**
Total borrowings at fair value	**5,632,645**	**5,668,488**

a) Net financial debt (NFD)

Net financial debt is the main indicator used by Management to measure the Group's debt level. It is comprised of gross debt less cash in hand:

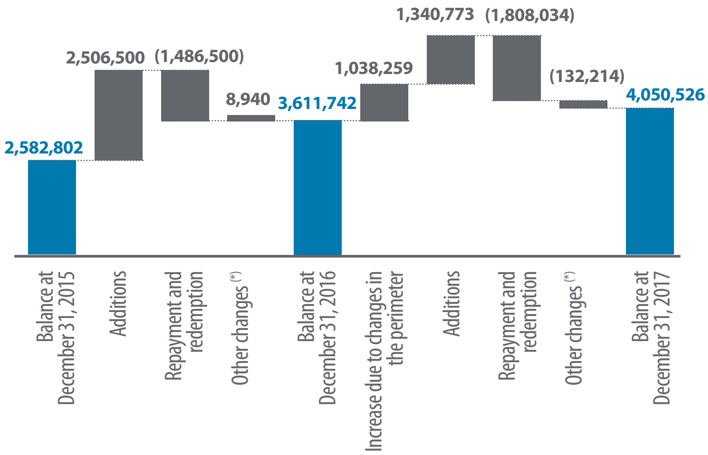
	2017	2016
Borrowings from credit entities (Note 3.3)	1,582,119	2,056,746
Bonds and other marketable debt securities (Note 3.3)	4,050,526	3,611,742
Adjustment to reflect the amortized cost of the Bonds (*)	(1,587)	(20,817)
GSP guarantees	-	221,150
Loans from the Secretariat General of Industry, Secretariat General of Energy and Omán Oil	4,509	5,336
Gross financial debt	**5,635,567**	**5,874,157**
Cash and cash equivalents (Note 3.8)	(627,864)	(785,454)
Net financial debt (NFD)	**5,007,703**	**5,088,703**

(*) Includes the adjustment to record at amortized cost the yen bond of the Enagás Group as well as the adjustment made on the GNL Quintero bond to show its fair value at the date of the business combination (January 1, 2017). As of the date of said business combination, the GNL Quintero bond is recorded at amortized cost.

The average annual interest rate during 2017 for the Group's net financial debt amounted to 2.7% (2016: 2.4%). The percentage of net financial debt at fixed interest rates at December 31, 2017 amounted to more than 80%, while the average maturity period at that date amounted to 6.8 years (2016: 6.3 years).

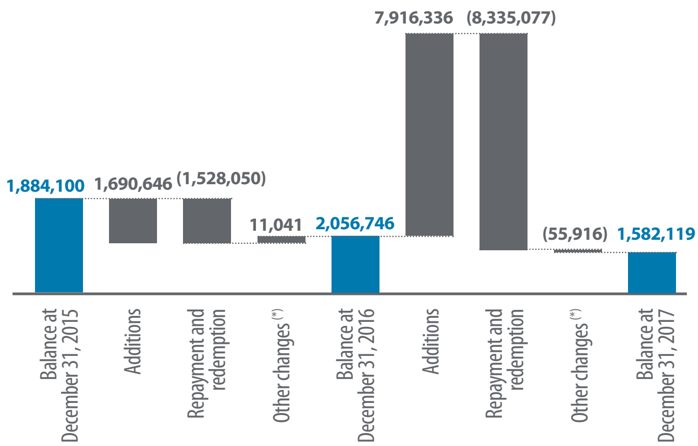
The net financial costs are determined by dividing net finance expenses by the average net debt multiplied by the number of effective days in the year (360 days) divided by the natural days of the period (365 days), where net finance expenses correspond to interest on loans and derivatives, less cash and cash equivalent income. Further, average net debt is calculated as the daily average of nominal amounts of net financial debt.

b) Bonds and other marketable debt securities



(*) Includes payment of interest, accrued interest, valuations, and other.

c) Borrowings from credit entities



(*) Includes payment of interest, accrued interest, valuations, and other.

Amongst the most significant events during 2017, the following are the most noteworthy:

- Early cancellation of two loans granted to Enagás, S.A. by the European Bank of Investments with a payment of 275,000 thousand euros.
- Enagás Financiaciones, S.A.U. formalized of a credit facility of 300,000 thousand euros in June 2017.
- The contracting of credit lines in US dollars in the amount of 550 million US dollars.

At December 31, 2017, the Group had access to credit lines in the amount of 2,260,656 thousand euros (2016: 2,067,816 thousand euros), of which 1,856,393 thousand euros had not been drawn down (2016: 1,623,755 thousand euros) (Note 3.8).

d) Other financial debt

	2017	2016
Guarantees GSP (Note 1.6)	-	221,150
Loans from the Secretariat General of Industry, Secretariat General of Energy, and Omán Oil	4,509	5,336
Options on GNL Quintero	-	39,127
Fair value of the sales option on interest held by EVE	-	17,200
Other	15,747	11,335
Total - other financial debt	**20,256**	**294,148**

At December 31, 2016, a liability of 221,150 thousand euros was recognized in connection with the GSP project, of which 154,093 thousand euros correspond to the corporate guarantee granted with respect to the companies debt and 67,057 thousand euros to the guarantee for full compliance with the concession agreement. As indicated in Note 1.6, during the month of January 2017 the financial liability relating to the GSP guarantees was canceled in the amount of 216,519 thousand euros.

Sales option on interest held by EVE

With respect to the agreement signed by Enagás Transporte, S.A.U. and EVE includes the sales option on the 10% stake held by EVE and exercisable in July 2018. Since the execution of the sales option expired in 2017, the Enagás Group has canceled, at that date, the financial liability recognized against reserves amounting 15,600 thousand euros. Said cancellation had a positive impact on financial results in the consolidated financial statements, amounting to 2,813 thousand euros at December 31, 2017.

Options on GNL Quintero

As indicated in Note 1.5 and Note 1.7, in the context of the acquisitions of 40% of GNL Quintero, in addition to the 20.40% stake already held by the Enagás Group, a sales option and a purchase option were granted on different percentages of ownership in said company. Said options were exercised on April 11, 2017 based on the terms described in Note 1.7.

3.5 Net financial result

	2017	2016
Income from associates	10,590	7,458
Income from third parties [3]	73,268	6,639
Income in cash and cash equivalents	2,259	160
Other [1]	16,259	-
Finance income	**102,376**	**14,257**
Finance and similar expenses [2]	(29,710)	(14,873)
Loan interest	(156,648)	(106,773)
Interest capitalized during construction	2,632	2,876
Other	(2,446)	(2,373)
Finance expenses	**(186,172)**	**(121,143)**
Gains (losses) on hedging instruments	**(18,123)**	**(5,644)**
Exchange gains (losses)	**1,013**	**(867)**
Net finance cost	**(100,906)**	**(113,397)**

(1) Finance income arising from the full consolidation of GNL Quintero from January 1, 2017.
(2) In 2017, 16,919 thousand euros of the cost relating to the effect of discounting the credit recognized for recovery of the guarantees provided by the Company in favor of GSP within a maximum of 4 years (2016: 13,285 thousand euros). In addition, a finance expense is also included in the amount of 8,248 thousand euros as a consequence of the cancellation of translation differences against financial results, as a consequence of excluding GSP from the consolidation scope (Note 1.6).
(3) The change with respect to 2016 is mainly due to the consolidation of GNL Quintero under the full consolidation method from January 1, 2017 (restatement of previous interest held in the company and cancellation of translation differences) (Note 1.7).

3.6 Derivative financial instruments

Accounting policies

- The Enagás Group contracts derivative financial instruments to cover its exposure to financial risk arising from fluctuations of interest rates and/or exchange rates, and does not use derivative financial instruments for speculative purposes. All derivative financial instruments are measured, both initially and subsequently, at fair value. The differences in fair value are recognized in the consolidated income statement except in the case of specific treatment under hedge accounting.
- The measurement and recognition criteria for derivative financial instruments in keeping with the different types of hedge accounting are as follows:

  a) Fair value hedges
  These instruments hedge against changes in the fair value of an asset or liability recognized, or a specific portion of said asset or liability, which can be attributed to a particular risk and can affect profit for the period.

  Changes in the fair value of a hedging instrument and changes in the fair value of hedged items attributable to the hedged risk, are recognized in the consolidated financial statements.

  b) Cash flow hedges
  These are instruments that hedge against exposure to changes in cash flows which: (i) are attributed to a specific risk associated with an asset or liability recognized, with a highly probable planned transaction or a firm commitment if the covered risk relates to exchange rates and (ii) can affect profit for the year.

  The effective portion of the changes in fair value of the hedging instrument are recognized under equity, and the gains and losses relating to the ineffective portion are recognized in the consolidated income statement. The accumulated amounts under equity are transferred to the consolidated income statement in the periods in which the hedged items affect the consolidated income statement.

  c) Hedges of a net investment in a foreign operation
  These instruments hedge the foreign currency risk arising from net investments in foreign operations.

  The hedges for net investments in transactions carried out abroad are accounted for in a similar manner to cash flow hedges, though the valuation changes in these transactions are accounted for as translation differences under "Unrealized gains (losses) reserve" in the accompanying balance sheet.

  These translation differences are taken to the consolidated income statement when the gain or loss on disposal of the hedged item occurs.

- For these derivative financial instruments to qualify as hedges, they are initially designated as such, documenting the hedging relationship as well as the risk management objective and hedging strategy for the various transactions hedged. In addition, the Group assesses the effectiveness of its hedges from inception to derecognition/discontinuation (and at least at every close). Hedges are deemed effective if it is expected, prospectively, that the changes in fair value or cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

- Hedge accounting is discontinued when the hedging instrument expires, or when it is sold, or exercised, or when it no longer qualifies for hedge accounting. At that time, any accumulated gain or loss on the hedging instrument recognized in equity is retained in equity until the hedged transaction occurs.

- In accordance with IFRS 13, for purposes of presenting financial information, the measurements of fair value are classified as Level 1, 2, or 3, as indicated in Note 3.3.

Significant estimates

- The Group determined that the majority of inputs employed for determining the fair value of derivative financial instruments are classified as level 2; however, the adjustments to credit risk use inputs corresponding to level 3 for assessing credit based on credit ratings or comparable companies for evaluating the probability of a company or counterparties to the company going bankrupt. The Group evaluated the relevancy of the inputs and recognized the corresponding adjustments to credit risk for evaluation of the derivative financial instrument, which were not significant.
- Thus, the entire portfolio of derivative financial instruments is classified under level 2 of the hierarchy.

					Income and expenses recognized directly in equity		Transfers to the income statement			
Category	Type	Maturity	Notional amount	Fair value at 12.31.16	Hedging transactions	Translation differences	Changes in results	Counterparty risk and other	Other changes (*)	Fair value at 12.31.17
Cash flow hedges										
Interest rate swap	Variable to fixed	January 2017	475,000	(681)	-	-	113	-	568	-
Interest rate swap	Variable to fixed	May 2017	100,000	(217)	(3)	-	155	-	65	-
Interest rate swap	Variable to fixed	December 2019	150,000	(1,992)	(125)	-	1,326	(425)	(34)	(1,250)
Interest rate swap	Variable to fixed	January 2020	150,000	(986)	(80)	-	563	-	(264)	(767)
Interest rate swap	Variable to fixed	March 2020	65,000	(1,270)	(130)	-	396	-	282	(722)
Fair value hedges										
Cross currency swap	Fixed to variable	September 2039	147,514	16,670	-	-	-	239	(14,736)	2,173
Cobertura de inversión neta										
Cross Currency Swap	Fixed to fixed	April 2022	400,291	(102,684)	(12,898)	67,783	10,748	(2,150)	-	(39,201)
Cross Currency Swap	Fixed to fixed	May 2028	237,499	(12,419)	4,690	20,959	2,911	-	-	16,141
Total			**1,725,304**	**(103,579)**	**(8,546)**	**88,742**	**16,212**	**(2,336)**	**(14,119)**	**(23,626)**

(*) Includes interest accrued and not paid, other commissions relating to derivative financial instruments, as well as changes in the fair value of the hedging derivative.

The breakdown by maturity is as follows:

2017	2018	2019	2020	2021	2022 and beyond	Total
Derivatives	(13,000)	(12,171)	(10,680)	(9,867)	22,092	(23,626)

2016	2017	2018	2019	2020	2021 and beyond	Total
Derivatives	(17,280)	(11,612)	(11,637)	(10,352)	(52,698)	(103,579)

a) Cash flow hedges

With respect to cash flow hedges, the breakdown by period in which the related cash flows will arise is as follows:

Contracted amount (thousands of euros)	Total	2018	2019	2020 and beyond
150,000	(1,250)	(621)	(629)	-
65,000	(722)	(318)	(275)	(129)
150,000	(767)	(373)	(271)	(123)
365,000	**(2,739)**	**(1,312)**	**(1,175)**	**(252)**

Two cash flow hedges matured during 2017.

b) Fair value hedges

During 2009, the Enagás Group contracted a cross currency swap (CCS) to cover changes in the fair value of a yen-denominated bond arising from euro-yen exchange rate risk and the related interest rate risk. The fixed yen (JPY) component of this CCS covers changes in the value of the bond with respect to the specified risks. Said bond is recognized as a non-current liability under "Financial liabilities" in the consolidated balance sheet.

At the initiation date of the CCS, the principal exchange was carried out so that Enagás received 147,514 thousand euros and paid 20,000 million JPY, with the Group recognizing said item at fair value through profit and loss in the consolidated income statement. Likewise, Enagás will receive interest at a fixed rate in JPY and pay six-month Euribor until maturity. When the contract matures, Enagás will receive the principal in JPY and will return the principal in euros.

The changes in fair value experienced by the hedging instrument as well as the changes in the value of the hedged instrument are broken down as follows:

	Fair value at 12.31.16	Fair value at 12.31.17	Change (Income statement)
Valuation of the derivative (+asset/-liability)	16.670	2.173	(14.497)
Valuation of the hedged instrument (liability)	(168.332)	(153.596)	14.736
Total net amount recognized in the income statement (expense)			**239**

c) Hedges of net investments in foreign operations

The main characteristics of the two derivative financial instruments contracted as net investments hedges are the following:

Category	Contracted amount in Euros	Contracted amount in USD	Type	Maturity
Cross currency swap	400,291	550,000	Fixed to fixed	April 2022
Cross currency swap	237,499	270,000	Fixed to fixed	May 2028
Total	**637,790**	**820,000**		

The investments considered as hedged items in the aforementioned hedging relationships are the following:

Project	Investment hedged in USD
GNL Quintero, S.A.	179,989
Subgrupo Altamira LNG, C.V	52,423
TgP	587,588
Total	**820,000**

3.7 Financial risk and capital management

a) Qualitative information

The Enagás Group is exposed to certain risks which it manages with a risk control and management model which is directed towards guaranteeing achievement of the Company's objectives in a predictable manner with a medium-low risk profile. This model can adapt itself to the complexity of the Group's corporate activity in a competitive global environment and a complex economic context in which risk can materialize more quickly and the danger of contagion is evident.

The model is based on the following:

- the consideration of some standard types of risk to which the Company is exposed;
- segregation and independence of risk control and management functions articulated in three lines of "defense";
- the existence of governing bodies responsible for matters relating to risk exposure;
- Establishing a risk-prone framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the Group carries out its activities;
- transparency in the information provided to third parties, guaranteeing reliability and rigor.

The integrated analysis of all risks allows their adequate control and management, understanding the relationship amongst them and facilitating their overall assessment. Enagás has established a regulatory framework through its "Risk control and management policy" and "General risk control and management standards," which define the basic principles to be applied and identify the responsibilities of the different departments of the Company.

The risk control and management function is articulated around three lines of defense, each presenting different responsibilities:

- 1st line of defense: organizational units which assume risks in the normal course of their activities. The organizational units are responsible for identifying and measuring their respective risk exposure.
- 2nd line of defense: the Risk Department, mainly charged with ensuring the correct functioning of the risk control and management system, defining the regulatory and methodological framework while carrying out periodic supervision and global control of the Company's risk exposure.
- 3rd line of defense: the Internal Audit Department, responsible for supervising the efficiency of the established risk controls.

The governing bodies responsible for risk control and management are the followings:

- The Board of Directors: responsible for approving the risk control and management policy. Its other responsibilities relating to risk have been delegated to the Audit and Compliance Committee.
- Audit and Compliance Committee: the main function is to supervise the efficacy of the risk control and management systems as well as evaluating Group risk exposure (identification, measurement, and establishment of management measures).
- Risk Committee: the main functions include establishment of global risk strategies, establishing the global risk limits, revising the level of risk exposure, and acting to correct any instances of non-compliance.

The main risks of a financial and tax nature to which the Group is exposed are as follows:

Credit risk

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Enagás Group has granted net credit which is pending settlement or collection.

Credit risk in connection with trade receivables arising from its commercial activity is historically very limited as the Group operates in a regulated environment (Note 1.1). However, regulations have been developed establishing standards for managing guarantees in the Spanish gas system and which oblige gas supply companies to provide guarantees for: (i) contracting capacity in infrastructure with regulated third-party access and international connections, (ii) settlement of imbalances; and (iii) participation in the organized gas market.

The Enagás Group is also exposed to the risk of its counterparties not complying with obligations in connection with financial derivatives and placement of surplus cash balances. In order to mitigate this risk, these transactions are carried out in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of fixed-rate assets and liabilities and the future cash flows from floating-rate assets and liabilities.

The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the consolidated income statement.

Based on the Enagás Group's estimates and debt structure targets, hedges are put in place using derivatives that reduce these risks (Note 3.6).

Foreign currency risk
Changes in exchange rates during the consolidation process can affect the debt positions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses of subsidiaries that do not use the euro as functional currency, and translation differences of the financial statements for those companies whose functional currency is not the euro. With a view to mitigating said risk, the Group can avail itself of financing obtained in US dollars and Swedish kronas, as well as contracting derivative financial instruments which are subsequently designated as hedging instruments (Note 3.6). In addition, the Enagás Group tries to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies.

Liquidity risk
Liquidity risk arises as a consequence of differences in the amounts or payment and collection dates relating to the different assets and liabilities held by the Group.

The liquidity policy followed by the Enagás Group is oriented towards ensuring that all short-term payment commitments acquired are fully met without having to secure funds under burdensome terms. For this purpose, different management measures are taken such as maintenance of credit facilities ensuring flexibility, sufficient amounts and sufficient maturities, diversified sourcing for financing needs via access to different markets and geographical areas, as well as the diversification of maturities in debt issued.

The financial debt of the Group at December 31, 2017 has an average maturity of 6.8 years (Note 3.4).

Tax risk
The Enagás Group is exposed to possible modifications in tax regulatory frameworks and uncertainty relating to different possible interpretations of prevailing tax legislation, potentially leading to negative effects on results.

Other risks
Given the dynamic nature of the business and its risks, and in spite of a risk control and management system in keeping with the best international recommendations and practice, it is not possible to assure that all risks have been identified by the Enagás Group.

In addition, the internationalization process carried out by the Enagás Group in recent years means that a part of its operations are carried out by companies over which it does not exercise control and which perform their activities within different regulatory frameworks and with different business dynamics, so that potential risks may arise relating to financial investment.

b) Quantitative information

Interest rate risk
The percentage of net debt at fixed interest rates at December 31, 2017 and 2016, amounted to more than 80%.

Taking into account these percentages of net financial debt at fixed rates, and after performing a sensitivity analysis using a range of +1/-1% changes in market interest rates, the Group considers that according to its estimates the impact on results of such variations on finance costs relating to variable rate debt could be as follows:

	Interest rate change			
	2017		2016	
	25 basis points	-10 basis points	25 basis points	-10 basis points
Change in finance costs	2,709	(1,083)	2,691	(1,077)

In addition, the aforementioned changes would not produce any significant changes in the Company's equity position in connection with contracted derivatives.

Foreign currency risk
The Enagás Group mainly obtains its financing in euros, though certain financing is also obtained in US dollars, Japanese yen and Swedish kronas. The currency exposed to the greatest variations in its exchange rate is the US dollar, given that financing in yen is hedged via the use of exchange rate hedges (Note 3.6).

The exposure of the Group to changes in the US dollar/euro exchange rate is mainly determined by the effect of translating the financial statements of the companies whose functional currency is the US dollar. In addition, there are Group companies whose functional currency is the Peruvian nuevo sol and Swedish krona.

Further, the Group also holds loans denominated in US dollars granted by Enagás, S.A. to companies in which it does not control a majority stake.

The sensitivity of net profit and equity to exchange rate risk, via appreciation or depreciation of exchange rates and based on the financial instruments held by the Group at December 31, 2017, is shown below:

	Thousands of euros			
	Appreciation / (Depreciation) of Euro with respect US dollar			
	2017		2016	
	5,00%	-5,00%	5,00%	-5,00%
Impact on profit or loss after tax	3,779	(3,779)	1,166	(1,166)
Effect on equity	22,078	(22,078)	(44,409)	49,084

c) Capital management

The Enagás Group has developed capital management at a corporate level with a view to ensuring financial stability and achieving adequate financing for its investments, optimizing the cost of capital and thereby maximizing the creation of value for the shareholder while maintaining its commitment to solvency.

The Enagás Group uses its leverage ratio as an indicator for monitoring its financial situation and capital management. The ratio is defined as the result of dividing consolidated net financial debt by net consolidated assets (understood as the sum of net financial debt and consolidated own funds).

The Group's financial leverage, calculated as the ratio of net financial debt and total financial debt plus own funds at December 31, 2017 and 2016, is as follows:

	2017	2016
Net financial debt (Note 3.4)	5,007,703	5,088,703
Capital and reserves	2,585,639	2,373,681
Leverage ratio	**65.95%**	**68.2%**

The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative prognosis at December 31, 2017. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2017 with a stable prognosis.

3.8 Cash flows

Accounting policies

- Under this heading of the consolidated balance sheet the Group recognizes cash in hand, sight deposits, and other highly liquid short-term investments that can be readily converted into cash and are not exposed to the risk of changes in value.

a) Cash and cash equivalents

	12.31.2017	12.31.2016
Cash	627,864	765,453
Other cash equivalents	-	20,001
Total	**627,864**	**785,454**

"Other cash equivalents" includes those deposits that mature in the short term.

Generally, the banked cash accrues interest at rates similar to daily market rates. The deposits maturing in the short term are easily convertible into cash, and accrue interest at the going market rates. There are no significant restrictions regarding availability of cash.

b) Available funds

In order to guarantee liquidity, the Enagás Group has arranged loans and credit lines which it has not drawn down. Thus, liquidity available to the Enagás Group is broken down as follows:

Available funds	12.31.2017	12.31.2016
Cash and cash equivalents	627,864	785,454
Other available financing (Note 3.4)	1,856,393	1,623,755
Total available funds	**2,484,257**	**2,409,209**

In the opinion of the directors of the Company, its situation allows for sufficient funding to meet possible liquidity requirements in the short term considering its current obligations.

c) Reconciliation of movements in liabilities arising form financing activities and cash flows

		Borrowings from credit entities	Bonds and other marketable debt securities	Total
12.31.2016		2,056,746	3,611,742	**5,668,488**
Cash flows	Issues	7,916,366	1,340,773	**9,257,139**
	Repayment and redemption	(8,335,077)	(1,808,034)	**(10,143,111)**
	Interest paid	(21,474)	(114,220)	**(135,694)**
Without an impact on cash flows	Changes in the scope of consolidation	-	1,038,259	**1,038,259**
	Exchange rate and other adjustments	(34,442)	(17,994)	**(52,436)**
12.31.2017		1,582,119	4,050,526	**5,632,645**

4. Additional information

Significant matters

Investment property

- At 2017 year end, the Enagás Group recognized impairment losses in the amount of 5,290 thousand euros in light of the report issued by the independent expert, which determined that the recoverable amount of the investment property at December 31, 2017 amounted to 19,610 thousand euros.

Remuneration for Board of Directors and Senior Management

- Remuneration for the Board of Directors, without taking into account insurance premiums, amounted to 4,221 thousand euros (2016: 3,958 thousand euros) (Note 4.4).
- Remuneration for Senior Management, without taking into account the pension plans and insurance premiums, amounted to 3,355 thousand euros (2016: 2,875 thousand euros) (Note 4.4).

4.1 Investment property

Accounting policies

Investment property

- The cost model is applied for measuring investment property, that is, the corresponding assets are measured at acquisition cost less the corresponding accumulated depreciation and any impairment losses. However, as this heading only includes one plot of land not currently in use, it was measured at its recoverable amount, calculated as the fair value less the necessary costs for its sale.
- Market valuations carried out by the independent expert were carried out in accordance with the standards established in the Regulations of the Royal Institute of Chartered Surveyors ("RICS") and can be found in the so-called "Red Book" - Valuations Manual (RICS Valuation - Professional Standards, January 2014). Said market valuations defined by RICS are internationally recognized by advisors and accountants providing services for investors and corporations that own investment properties, as well as by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

	Balance at December 31, 2015	Impairment allowances 2016	Balance at December 31, 2016	Impairment allowances 2017	Balance at December 31, 2017
Cost (1)	47,211	-	47,211	-	47,211
Impairment	(22,241)	(70)	(22,311)	(5,290)	(27,601)
Net carrying amount	**24,970**	**(70)**	**24,900**	**(5,290)**	**19,610**

(1) Corresponds entirely to a plot of land located at km. 18 of the A-6 in Las Rozas (Madrid). At January 2, 2018, Jones Lang LaSalle España, S.A. issued a valuation report dated December 31, 2017, which concluded that the recoverable amount of the plot at that date amounted to 19,610 thousand euros (2016: 24,900 thousand euros). It is worth noting that the aforementioned independent expert's report did not include any scope limitations with respect to the conclusions reached. There are no mortgages or encumbrances of any type on said property. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

4.2 Tax matters

Accounting policies

- Income tax expense for the year is calculated as the sum of current tax, resulting from applying the corresponding tax rate to taxable income for the year (after applying any possible deductions) and any changes in deferred tax assets and liabilities.
- Income tax is recognized in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the related profits or losses were recognized.
- Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the carrying amounts of assets and liabilities and their tax bases, as well as any unused tax credits. These amounts are measured by applying the tax rate to the corresponding temporary differences or tax credits at which they are expected to be realized or settled.
- Deferred tax assets are only recognized when the Group expects sufficient future taxable profits to recover the deductible temporary differences. Deferred tax liabilities are recognized for all taxable temporary differences except for those arising from the initial recognition of goodwill.
- Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability.
- The Group offsets deferred tax assets and deferred tax liabilities corresponding to one and the same tax authority, as established in IAS 12.74.

Significant estimates

- In accordance with prevailing legislation in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. However, the four-year period can vary in the case of Group companies subject to other fiscal regulations. The directors of the Company consider that all applicable taxes open to inspection described in this note have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying consolidated financial statements.
- The deferred tax assets were recognized in the balance sheet as the directors believe, based on the best estimate of future profits and reversals of deductible temporary differences, that it is probable that these assets will be recovered.

a) Balances with tax authorities

	2017	2016
Credit balances		
Deferred tax assets	**96,910**	**69,590**
Income tax expense	-	448
Value added tax (VAT)	15,709	24,160
	15,709	**24,608**
Debit balances		
Deferred tax liabilities	**562,154**	**297,471**
Income tax expense (1)	19,736	10,118
Value added tax (VAT)	4,765	-
Accounts payable to the Treasury for withholdings and other	30,295	31,705
Total	**54,796**	**41,823**

(1) Corresponds to companies belonging to the tax consolidation group in the amount of 15,648 thousand euros (2016: 6,418 thousands euros) and those not belonging to the tax consolidation group in the amount of 4,088 thousand euros (2016: 3,700 thousand euros).

b) Tax returns

Enagás S.A. has been the parent company of the Tax Consolidation Group 493/12 for Corporate Income tax from January 1, 2013, comprised of the following subsidiaries at December 31, 2017:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.
- Compañía Transportista de Gas Canarias, S.A.
- Enagás Emprende, S.L.U.
- Infraestructuras de Gas, S.A.
- Scale Gas Solutions, S.L.
- Efficiency for LNG Applications, S.L.
- Gas to Move Transport Solutions, S.L.

The Group's remaining companies file individual tax returns in conformity with the applicable tax laws.

c) Corporate income tax

	2017	2016
Pre-tax consolidated book results	**631,166**	**538,325**
Permanent differences and consolidation adjustments (1)	(108,158)	(41,829)
Consolidated tax base	**523,008**	**496,496**
Tax rate	**25%**	**25%**
Adjusted results by tax rate (2)	130,752	124,124
Effect of applying different rates to tax base	232	2,337
Tax calculated at each country's prevailing income tax rate	-	300
Tax base	**130,984**	**126,761**
Effect of deductions	4,171	(2,423)
Effect of tax loss carryforwards not used during the period	-	99
Other adjustments to corporate income tax	(9,065)	(4,280)
Income tax for the period	**126,090**	**120,157**
Current income tax (3)	(121,192)	(121,159)
Deferred tax	12,793	11,325
Adjustments to income tax rate (4)	(17,691)	(10,323)

(1) The permanent differences mainly correspond to the elimination of the results of companies consolidated under the equity method, as well as other consolidation adjustments relating to the reconciliation of Spanish GAAP and IFRS. In order to determine income tax, a 25% rate was applied to all Spanish companies, except for those that file tax returns under the special regime of Vizcaya (Enagás Transporte del Norte, S.L.) where a 28% rate is applied.

(2) In order to determine income tax, a 25% rate was applied to all Spanish companies, except for those that file tax returns under the special regime of Vizcaya (Enagás Transporte del Norte, S.L) where a 28% rate is applied. The tax rates applicable in 2016 to the foreign companies Enagás Perú, S.A.C., Enagás Chile, S.P.A., and GNL Quintero and Enagás México, S.A. de C.V. were 28%, 24%, and 30%, respectively, while for 2017 they were 29.5%, 25.5%, and 30%.

(3) In 2017, 102,245.14 thousand euros were paid on account (2016: 110,979 thousand euros) in connection with the amount to be disbursed for settling 2017 corporate income tax, of which 96,264 thousand euros correspond to the Tax Consolidation Group (2016: 105,500 thousand euros).

(4) For comparative purposes with 2016, in 2017 the information relating to taxable income for the Economic Interest Groups (EIGs) is presented separately.

d) Tax recognized in equity

	2017			2016		
	Increases	Decreases	Total	Increases	Decreases	Total
Income and expenses recognized directly in equity						
Tax effect from cash flow hedges	2,961	(238)	2,723	3,704	(1,556)	**2,148**
Amounts transferred to income statement						
Tax effect from cash flow hedges	130	(4,849)	(4,719)	-	(6,915)	**(6,915)**
Total income tax recognized in equity	**3,091**	**(5,087)**	**(1,996)**	**3,704**	**(8,471)**	**(4,767)**

e) Years open to tax verification and inspections

In accordance with prevailing legislation in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. However, the four-year period can vary in the case of Group companies subject to other fiscal regulations.

In March 2017 a tax inspection was initiated by the Spanish Tax Authorities for general verification of Enagás, S.A., Enagás Transporte, S.A.U., and the Tax Consolidation Group 0493/12. The years and taxes subject to this process correspond to the corporate income tax for the years 2012 to 2015, VAT for the years 2013 to 2015, withholdings/payments on account with respect to tax on income from professional work, property taxes, and taxes levied on non-residents for the years 2013 to 2015.

At 2017 year end the verification and inspection processes were still ongoing. At any rate, the Group does not expect any additional liabilities to arise which may significantly affect its equity statement as a consequence of said verification and inspection processes.

Likewise, at 2017 year end, the inspections for 2016 and 2017 are pending with respect to applicable taxes. Additionally, in 2018 Enagás Transporte S.A.U. was notified by the Spanish Tax Authorities that a general tax inspection was being initiated with respect to the hydrocarbons tax corresponding to 2015 and 2016.

Also, notification was also received regarding the initiation of a partial verification with respect to VAT on imports and inspection of importation rights corresponding to 2016.

The Enagás Group does not expect these verification and inspection actions to give rise to any liabilities which may significantly affect the Group's equity situation.

f) Deferred tax assets and liabilities

2017	Initial value	Recognized in the income statement	Recognized in equity	Change in scope of consolidation [4]	Final value
Deductible temporary differences					
Capital grants and other	1,388	(101)	-	-	**1,287**
Limited deduction for amortization/depreciation R.D.L. 16/2012 [1]	34,119	(4,347)	-	-	**29,772**
Provisions for employee benefits	5,678	(751)	-	-	**4,927**
Asset provisions	3,906	13,031	-	-	**16,937**
Provisions for litigation and other	11,235	3,092	-	-	**14,327**
Derivatives	931	222	(776)	-	**377**
Tax loss carryforwards [5]	5,509	(11,408)	(3,280)	32,507	**23,328**
Pending deductions and other (2)	6,824	(869)	-	-	**5,955**
Total deferred tax assets	69,590	(1,131)	(4,056)	32,507	**96,910**
Accelerated depreciation/ amortization [3]	(282,683)	14,153	-	-	**(268,530)**
Derivatives	(5,882)	-	(444)	-	**(6,326)**
Amortization Property, Plant and Equiment [5]	-	15,931	27,457	(319,826)	**(276,438)**
Other	(8,906)	(1,954)	-	-	**(10,860)**
Total deferred tax liabilities	**(297,471)**	**28,130**	**27,013**	**(319,826)**	**(562,154)**
Net carrying amount	**(227,881)**	**26,999**	**22,957**	**(287,319)**	**(465,244)**

(1) Arises from the limitation to tax deductible amortization/depreciation with respect to the corporate income tax for the years 2013 and 2014. Said amortization/depreciation is recoverable from a tax point of view from 2015 on a straight line basis over 10 years.

(2) In addition, it includes the deduction to be applied from 2015 in accordance with the thirty-seventh transitory provision of Law 27/2014, by virtue of which those contributors for whom limited amortization/depreciation was applicable in 2013 and 2014 will have the right to a 5% deduction of the tax base with respect to the amounts included in the taxable income for the corresponding period.

(3) Arising from application of accelerated amortization/depreciation of certain assets for tax purposes during the period 2009-2014.

(4) Includes deferred tax assets and deferred tax liabilities integrated in the Group as a consequence of the GNL Quintero business combination on January 1, 2017 (Note 1.7).

(5) Includes deferred tax assets and liabilities of GNL Quintero, after the acquisition of control and its global consolidation dated January 1, 2017. The recognized effect in equity corresponds to the conversion differences to exchange rate at the end of the financial year 2017 these deferred tax assets and liabilities.

The Enagás Group offset deferred tax assets in the amount of 76,998 thousand euros from the Tax Group in Spain (67,059 thousand euros in 2016) against deferred tax liabilities in its consolidated statement of financial position in accordance with IAS 12.

	Final value of deferred tax assets and liabilities by nature	Offset of deferred tax assets and liabilities - Tax Group	Final value
Deferred tax assets	96,910	(76,998)	**19,912**
Deferred tax liabilities	(562,154)	76,998	**(485,156)**
Net value	**(465,244)**	-	**(465,244)**

The Enagás Group has unregistered deferred tax assets and liabilities amounting to 9,190 thousand euros and 12,664 thousand euros, respectively, at the end of 2017 (8,476 thousand euros and 18,653 thousand euros, respectively, at the end of 2016). These correspond mainly to taxable temporary differences associated with investments in companies that are accounted for using the equity method and that meet the requirements established in IFRS to apply the registration exception.

4.3 Transactions and balances with related parties

Accounting policies

- In addition to subsidiaries, associates, and joint ventures, the Group's "related parties" are considered to be its "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control as established by Order EHA/3050/2004, of September 15, and Circular 1/2008 of January 30 of the CNMV.
- The terms of transactions with related parties are equivalent to those made on an arm's length basis and the corresponding remuneration in kind has been recorded.

Income and expenses	Directors and executives	Group employees, companies or entities	Other related parties	Total [1]
2017				
Expenses:				
Finance expenses	-	-	8,715	**8,715**
Receipt of services	-	48,604	207	**48,811**
Losses on the disposal or derecognition of assets	-	-	-	**-**
Other expenses	1,844	-	-	**1,844**
Total Expenses	**-**	**48,604**	**8,922**	**57,526**
Income:				
Finance income	-	10,590	7	**10,597**
Rendering of services	-	7,563	-	**7,563**
Gains on the disposal or derecognition of assets	-	14	-	**14**
Other income	-	3,106	-	**3,106**
Total income	**-**	**21,273**	**7**	**21,280**
2016				
Expenses:				
Finance expenses	-	-	3,853	**3,853**
Receipt of services	-	34,449	234	**34,683**
Losses on the disposal or derecognition of assets	-	-	-	**-**
Other expenses	1,632	-	-	**1,632**
Total Expenses	**1,632**	**34,449**	**4,087**	**40,168**
Income:				
Finance income	-	7,342	-	**7,342**
Rendering of services	-	14,259	-	**14,259**
Gains on the disposal or derecognition of assets	-	14	-	**14**
Other income	**-**	**3,106**	**-**	**3,106**
Total income	**-**	**24,721**	**-**	**24,721**

(1) No transactions were carried out during 2017 and 2016 with significant shareholders.

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
2017				
Guarantees for related party debts (Note 1.10)	-	24,131	-	**24,131**
Guarantees and sureties granted - other (Note 1.10)	-	8,376	130,212	**138,588**
Investment commitments (Note 1.10)	-	68,800	-	**68,800**
Dividends and other earnings distributed	58,624	-	-	**58,624**
2016				
Guarantees for related party debts (Note 1.10)	-	24,779	-	**24,779**
Guarantees and sureties granted - other (Note 1.10)	-	9,464	144,175	**153,639**
Investment commitments (Note 1.10)	-	218,289	-	**218,289**
Dividends and other earnings distributed	30,970	-	-	**30,970**

The Banco Santander Group qualified as a related party for the years 2017 and 2016.

Of the transactions disclosed in the above table, 8,679 thousand euros of finance expenses correspond to this entity for 2017 (2016: 3,853 thousand euros), including finance expenses arising out of the interest rate hedging contracts, and 130,212 thousand euros of guarantees and sureties granted at December 31, 2017 (December 31, 2016: 144,175 thousand euros).

In addition, this banking entity carried out the following transactions with the Enagás Group:

- The Enagás Group maintains a multi-currency club deal for financing purposes, in which the related party represents 9.63% of all banks participating in this financing source.
- In February 2017, Enagás, S.A. arranged a credit line denominated in US dollars in the amount of 150,000 thousand USD.
- As described in Note 2.2, on December 1 Enagás Transporte, S.A.U. ceded the credit rights recognized by sector legislation on the amount of accumulated deficit in the gas system to which it held title at December 31, 2014, amounting to a total of 354,751 thousand euros, to the Banco Santander Group.
- The directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognized in the accompanying consolidated balance sheet.

4.4 Remuneration for the Board of Directors and Senior Management

Accounting policies

Share-based payments

- The Group classifies its share-based settlement plan for executive directors and senior management according to the manner of settling the transaction:
  - With Company shares: Personnel expense is determined based on the fair value of the shares to be delivered at the grant date, taking into account the degree to which the objectives relating to said plan have been fulfilled. This expense is recognized over the stipulated period during which employee services are rendered, with a credit to "Other equity instruments" in the accompanying balance sheet.
  - In cash: Personnel expense is determined based on the fair value of the liability at the date recognition requirements are met. This expense is recognized over the stipulated period during which employee services are rendered with a credit to "Non-current provisions" in the accompanying balance sheet. The liability is subsequently measured at fair value at each balance sheet date, up to and including the settlement date, with changes in fair value recognized in the income statement.
- The Enagás Group used the Monte-Carlo model to evaluate this program. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the Company takes into account the fact that the dividends accrued during the plan period are not paid to the beneficiaries as they do not become shareholders of the Company until the plan has effectively been settled.

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Significant estimates and judgments

- The Enagás Group estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.
- As for that part of the plan payable in shares, the Enagás Group estimates the fair value of the amount payable in cash on an accrual basis over the plan period (January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.
- At December 31, 2017, the estimate is made assuming that all the objectives relating to the plan have been fully achieved

Remuneration received	Salaries	Per diems	Other items	Pension plans	Insurance premiums
2017					
Board of Directors	2,215	1,844	161	-	21
Senior management	3,162	-	128	65	21
Total	**5,377**	**1,844**	**289**	**65**	**42**
2016					
Board of Directors	2,121	1,630	206	-	111
Senior management	2,738		137	62	61
Total	**4,859**	**1,630**	**343**	**62**	**172**

Remuneration received by members of the Board of Directors for Board membership and remuneration corresponding to the Executive Chairman and CEO for exercising their executive functions during 2017 was approved in detail by the shareholders in general meeting on Saturday, March 18, 2017 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018," which was in turn approved under agenda item number 7.

The two executive directors are beneficiaries of the 2016-2018 long-term incentive plan approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8. In said meeting, a total of 97,455 rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

Senior management saw a new member join the team starting from October 1, 2017.

Members of Senior Management (members of the Management Committee) are equally beneficiaries of the 2016-2018 long-term incentive plan. As approved by the shareholders in general meeting, the Board has assigned them a total of 99,433 rights relating to shares as well as an incentive in cash amounting to 903 thousand euros. Said rights do not at present constitute acquisition of shares or collection of any amounts until the program has finalized, the final bonus depending on the degree to which the program objectives have been met.

Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2017, 419 thousand euros correspond to Executive Directors and 708 thousand euros to Senior Management.

The aforementioned remuneration, broken down for each member of the Board of Directors, without taking into account insurance premiums, is as follows:

	2017	2016
Mr. Antonio Llardén Carratalá, (Executive Director) (1)	1,793	1,839
Mr. Marcelino Oreja Arburúa (Executive Director) (2)	818	693
Sociedad Estatal de Participaciones Industriales (Proprietary Director)(4)	140	127
Mr. Luis García del Río (Independent Director) (3) (4)	98	-
Mr. Ramón Pérez Simarro (Independent Director) (3) (4)	37	126
Mr. Martí Parellada Sabata (External Director) (4)	148	142
Mr. Luis Javier Navarro Vigil (External Director) (4)	144	126
Mr. Jesús Máximo Pedrosa Ortega (Proprietary Director) (4)	144	126
Ms. Rosa Rodríguez Diaz (Independent Director) (4)	144	127
Ms. Ana Palacio Vallelersundi (Coordinator Independent Director) (4)	166	133
Ms. Isabel Tocino Biscalorasaga (Independent Director) (4)	157	139
Mr. Antonio Hernández Mancha (Independent Director) (4)	144	126
Mr. Luis Valero Artola (Independent Director) (4)	144	127
Mr. Gonzalo Solana González (Independent Director) (4)	144	127
Total	**4,221**	**3,958**

(1) The remuneration for the Executive Chairman in 2017 was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2017, the Executive Chairman received fixed remuneration in the amount of 1,000 thousand euros and variable remuneration in the amount of 540 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 135 thousand euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totaled 1,793 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 20 thousand euros for the period. The Group has outsourced its pension commitments with respect to its executives through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death, and employment disability. The Executive Chairman is one of the beneficiaries covered by this policy, and of the total premium paid during the year, 252 thousand euros correspond to the Executive Chairman. The Executive Chairman is beneficiary of the long-term incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 69,711 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

(2) The remuneration for the CEO in 2016 was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2017, the CEO received fixed remuneration in the amount of 460 thousand euros and variable remuneration in the amount of 215 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 26 thousand euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totaled 818 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.2 thousand euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 167 thousand euros for the period. In addition, the CEO is beneficiary of the long-term incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 27,744 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

(3) On March 31, 2017 Mr. Ramón Pérez Simarro resigned as director and Mr. Luis García del Río occupied his position.

(4) The remuneration for these directors relating to Board and committee membership was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018."

Share-based payments

On March 18, 2016, the Enagás, S.A. shareholders in general meeting approved a long-term incentive plan aimed at executive directors and senior management of the Company and its Group, with a view to maximizing motivation and loyalty as well as promoting the good results achieved by the Enagás Group, aligning its interests with the long term value of shareholders.

The plan consists in an extraordinary mixed multi-year incentive which will permit the beneficiaries to receive, after a certain period of time, a bonus payable in (i) Enagás, S.A. shares and (ii) cash; provided that certain strategic objectives of the Enagás Group are met.

With respect to the portion payable in shares, the total number to be delivered will be 307,643 shares. The cash part of the plan is limited to an estimated maximum payment of approximately 2.5 million euros should all the objectives be fully met.

The portion to be settled in Enagás, S.A. shares accrued during 2017 is included in the consolidated income statement under "Employee benefits expense" in the amount of 2,206 thousand euros (2016: 1,959 thousand euros), with a credit to "Other equity instruments" under consolidated equity in the consolidated balance sheet at December 31, 2017.

With respect to that part of the bonus payable in cash, the Enagás Group recognized the rendering of services corresponding to this plan as an employee benefits expense amounting to 877 thousand euros (2016: 800 thousand euros), with a credit to "Provisions" under non-current liabilities in the consolidated balance sheet at December 31, 2017.

At December 31, 2017, the estimate is made assuming that all the objectives relating to the plan have been fully achieved.

4.5 Other information on the Board of Directors

The information included below as required by article 229 and subsequent of the Spanish Corporate Enterprises Act was prepared considering that they are companies with similar or complementary activities to those carried out by Enagás, that is, natural gas transport, regasification, distribution, and marketing activities regulated by Law 34/1998 of the Hydrocarbons Sector.

The interest held in companies performing the same, similar or complementary activities as communicated to the Group by the Board members at December 31, 2017 and 2016 was as follows:

Board member	Company	No. of shares	% shareholding
2017			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega (1)	Iberdrola	8,508	0.00%

(1) Via the company Inversores Asfis, for which it acts as solidary director, with a 60% stake.

Board member	Company	No. of shares	% shareholding
2016			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega (1)	Iberdrola	8,508	0.00%

(1) Via the company Inversores Asfis, for which it acts as solidary director, with a 60% stake.

The positions or functions of the Group's Board members in other companies with the same, similar or complementary activities, as communicated to Enagás, S.A. at December 31, 2017 and 2016, were the following:

Board member	Company	Position
2017		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V..	Board Member
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member
2016		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V..	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member

There are no activities of the same, similar or complementary nature to those carried out by Enagás which are performed by its Board members, on their own behalf or on behalf of third parties, not included in the above section.

At 2017 year end, neither the members of the Board of Directors of the Company nor any parties related to them, as defined in article 229 of the Spanish Enterprises Act, had notified the remaining Board members of any conflicts of interest, direct or indirect, with those of the Company.

4.6 Other information

a) Environmental information

The Enagás Group carries out the activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources as part of its environmental management in order to mitigate the impact of its activities.

The Group has integrated protection of the environment within its policy and strategic programs via implementation of an Environmental Management System developed and certified by LLOYD'S, in accordance with the requisites of standard UNE EN ISO 14001, which guarantees compliance with applicable environmental legislation and continuous improvement of its environmental behavior with respect to the activities it carries out in the LNG storage and regasification plants of Barcelona, Cartagena, Huelva, and Quintero (Chile), the underground storage facilities of Serrablo, Gaviota, and Yela, the basic gas pipeline network installations, the Olmos headquarters, the Zaragoza laboratory, and management of development projects for new infrastructure.

In 2017, the certifying company LLOYD'S (SGS - Quintero) issued the corresponding audit report on the Environmental Management System with favorable results, concluding that the system's maturity and degree of development ensure continuous improvement for the Company in this field.

The Enagás Group makes ongoing efforts to identify, characterize, and minimize the environmental impact of its activities and installations, evaluating the related risks and strengthening eco-efficiency, responsible management of waste and discharges, minimizing the impact in terms of emissions and climate change.

In addition, the Group incorporates environmental criteria in its relationship with suppliers and contractors, as well as in connection with decision-making with respect to the awarding of contracts for the provision of services and products.

During 2017, environmental actions were carried out in the amount of 5,288 thousand euros, recognized as investments under assets in the consolidated balance sheet (2016: 11,084 thousand euros). In addition, the Company also assumed environmental expenses amounting to 2,422 thousand euros in 2017, recognized under "Other operating expenses" (2016: 1,853 thousand euros).

The Group has arranged sufficient civil liability insurance to meet any possible contingencies, compensation and other risks of an environmental nature which it might incur.

The Group did not benefit from any tax incentives during 2017 as a consequence of activities relating to the environment.

b) Greenhouse gas emission rights

Some of the Enagás Group's installations are included within the scope of Law 1/2006 of March 9, which regulates the commercial regime for greenhouse gas emission rights.

On November 15, 2013, the Council of Ministers approved the final assignation of free greenhouse gas emission rights to institutions subject to the greenhouse gas emission allowance trading regime for the period 2013-2020, amongst which the Enagás Transporte, S.A.U. installations are included.

The total free rights assigned definitively to the Enagás Group's installations amounted to 985,915 rights for the 2013-2020 period, with 53,811 corresponding to 2017 and 90,224 to 2016.

Within the Group, the rights assigned for 2017 and 2016, were valued at 6.11 euros/right and 8.04 euros/right, respectively, corresponding to the spot price of the first business day in 2017 and 2016 from RWETrading GMBH, which represents additions during the period amounting to 329 thousand euros (2016: 639 thousand euros).

The Enagás Group consumed 154,647 greenhouse gas emission rights during 2017 while 133,878 rights were consumed during 2016.

During 2017 the Enagás Group did not engage in any negotiations for future contracts relating to greenhouse gas emission rights, nor were there any contingencies relating to penalties or provisional cautionary measures in the terms established by Law 1/2005.

c) Audit fees

"Other operating expenses" includes the fees for audit and non-audit services provided by the auditor of the Group, Ernst & Young, S.L., or by a company belonging to the same network or related to the auditor, broken down as follows:

Categories	2017 Services rendered by the auditor of accounts and related companies	2017 Services rendered by other auditors of the Group	2016 Services rendered by the auditor of accounts and related companies	2016 Services rendered by other auditors of the Group
Audit services [1]	1,259	95	712	89
Other assurance services [2]	229	-	239	-
Total audit and related services	**1,488**	**95**	**951**	**89**
Other services rendered [3]	-	-	140	-
Total other professional services	**-**	**-**	**140**	**-**
Total professional services	**1,488**	**95**	**1,091**	**89**

(1) Audit Services: This heading includes services rendered for the performance of statutory audits of the Group's annual financial statements and the limited review work performed with respect to the interim and quarterly consolidated financial statements as well as the Certification of the Financial Information Control System (CFICS). For comparative purposes, fees corresponding to GNL Quintero were included in 2017.

(2) Other audit-related assurance services: This heading includes the work relating to the Annual Corporate Governance Report, the review of non-financial information included in the Annual Report, the audit reports for issuing Comfort letters, as well as the issuing of a Quarterly Report on Agreed-Upon Procedures for Alternative Performance Measures.

(3) Other professional services rendered: This heading includes other professional services rendered by the auditor and qualified as permitted services under Law 22/2015.

4.7 Segment reporting

Accounting policies

Basis of segmentation

- Segment reporting is structured based on the Group's various business lines as described in Note 1.1. The Group identifies its operating segments based on internal reports relating to the companies comprising the Group which are regularly reviewed, discussed, and evaluated in the decision-making process.

a) Main business segments

Regulated activities – Infrastructure activity

Gas transportation: The main activity consists in the delivery of gas via its transport network, comprised of primary transport pipelines (with maximum design pressure equal to or greater than 60 bars) and secondary transport pipelines (with maximum design pressure ranging from 16 to 60 bars) up to the distribution points, as owner of most of the gas transportation network in Spain.

Regasification: The gas is transported from the producing countries in methane tankers at 160ºC below zero in its liquid state (LNG) and is unloaded at the regasification plants where it is stored in cryogenic tanks. At these installations, via a physical process which normally makes use of vaporizers with sea water, the temperature of the liquefied gas is increased until it is transformed into its gaseous state. The natural gas is injected into the gas pipelines for transportation to the whole peninsula.

Storage of gas: The Enagás Group operates the following underground storage facilities: Serrablo (located between Jaca and Sabiñánigo - Huesca), Gaviota (off-shore storage, located close to Bermeo - Vizcaya), and Yela (Guadalajara).

Regulated activities - Technical Systems Manager Activity

The Enagás Group continued carrying out its functions as Technical Systems Manager in 2017 in compliance with Royal Decree 6/2000 of June 23 and Royal Decree 949/2001 of August 3, with a view to guaranteeing supply continuity and safety, as well as the correct coordination amongst the access, storage, transportation, and distribution points.

Non-regulated activities

This item includes all non-regulated activities as well as transactions related to investments in associates and jointly controlled entities, except for those corresponding to BBG, Saggas, MIBGAS e Iniciativas del Gas, S.L.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transport and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively).

The structure of this information is designed as if each business line were an autonomous business with its own independent resources which are distributed based on the assets assigned to each line in accordance with an internal cost distribution system by percentages.

Income statement	Infrastructures		Technical Systems Management		Non-regulated activities [3]		Adjustments [1]		Total Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenue										
Third parties	1,170,280	1,173,615	23,984	23,966	179,640	2,381	-	-	**1,373,904**	**1,199,962**
Group companies	8,489	8,967	1,890	1,672	66,763	78,990	(66,472)	(72,075)	**10,670**	**17,553**
Depreciation and amortization allowances	(245,993)	(251,054)	(8,642)	(9,688)	(64,611)	(10,919)	153	145	**(319,093)**	**(271,516)**
Operating profit (loss) [4]	644,740	673,172	(765)	(824)	81,292	(19,957)	6,805	(669)	**732,072**	**651,722**
Finance income	16,456	1,937	-	10	522,176	432,821	(436,256)	(420,511)	**102,376**	**14,257**
Finance expense	(51,102)	(53,321)	(276)	(97)	(181,050)	(118,237)	46,256	50,512	**(186,172)**	**(121,143)**
Income tax	(148,144)	(148,823)	330	234	21,648	28,267	76	165	**(126,090)**	**(120,157)**
After tax profit	461,117	468,270	(711)	(677)	413,550	320,133	(383,119)	(370,504)	**490,837**	**417,222**

Balance de situación	Infrastructures		Technical Systems Management		Non-regulated activities [3]		Adjustments [1]		Total Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total assets	5,821,771	6,887,426	71,174	59,092	8,419,727	8,105,135	(4,740,036)	(5,870,745)	**9,572,636**	**9,180,908**
Acquisition of assets	34,347	71,584	5,755	8,993	12,729	9,789	(420)	(814)	**52,411**	**89,552**
Non-current liabilities [2]	437,016	454,658	(1,239)	(1,180)	268,916	5,875	1,206	1,634	**705,899**	**460,987**
Deferred tax liabilities	221,036	239,204	(1,725)	(1,735)	264,639	(8,691)	1,206	1,634	485,156	230,412
Provisions	173,641	169,246	486	555	4,277	14,566	-	-	178,404	184,367
Other non-current liabilities	42,339	46,208	-	-	-	-	-	-	42,339	46,208
Current liabilities [2]	668,295	1,039,621	43,279	31,853	60,502	45,390	(565,172)	(952,985)	**206,904**	**163,879**
Trade and other payables	668,295	1,039,621	43,279	31,853	60,502	45,390	(565,172)	(952,985)	**206,904**	**163,879**

(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted) as well as the elimination of Investments - Own Funds.

(2) Financial liabilities are not included.

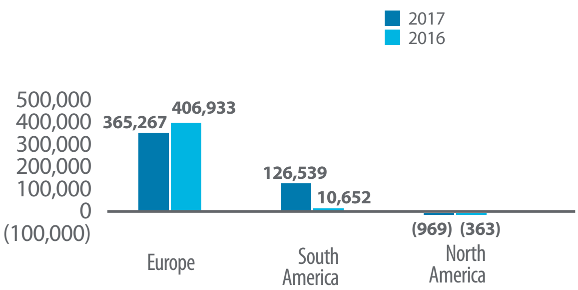
(3) From January 1, 2017 GNL Quintero, S.A. is consolidated under the full consolidation method.

(4) The consolidated income statement at December 31, 2016 has been restated, in accordance with the change in presentation described in Note 1.2 to the accompanying consolidated financial statements.

b) Segments by geographical information

The majority of companies in the Enagás Group operating outside Europe were consolidated under the equity method, with the corresponding expenses and income thus recognized under "Profit/(loss) from investments consolidated under the equity method" in the consolidated income statement. In view of this, the information relating to geographical markets is based on net revenue.

The distribution of consolidated results for 2017 and 2016, broken down by geographical markets, is as follows:



4.8 Inventories

As established in Order IET/2736/2015 of December 17: "From October 1, 2016, the quantity of working gas is zero." At December 31, 2015, the Enagás Group, as Technical Systems Manager, maintained control of approximately 755 GWh of working gas necessary for enabling operation of the gas system as established in the fifth additional provision to Order ITC/3863/2007 of December 28. This gas is not reflected in the consolidated financial statements as it is gas available for the System and therefore not owned by the Enagás Group.

4.9 Subsequent events

From January 1, 2018, up to the date of preparation of these Consolidated Annual Accounts, no events have occurred that significantly affect the results of the Group or its financial position.

5. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (Note 1.2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I.
Subsidiaries at December 31, 2017

Subsidiaries	Country	Activity	% of ownership interest and voting rights controlled by the Enagás Group	Amount of share capital in functional currency
Enagás Transporte, S.A.U.	Spain	Regasification, storage, and transportation of gas	100.00%	532,089,120 euros
Enagás GTS, S.A.U.	Spain	Technical Management of the Gas System	100.00%	5,914,451 euros
Enagás Internacional, S.L.U.	Spain	Holding	100.00%	125,659,767 US dollars
Enagás Financiaciones, S.A.U.	Spain	Financial management	100.00%	890,000 euros
Enagás Transporte del Norte S.L.	Spain	Gas transport	90.00%	38,501,045 euros
Compañía Transportista de Gas Canarias, S.A.	Spain	Regasification and storage of gas	100.00%	900,000 euros
Enagás Chile, S.P.A.	Chile	Holding	100.00%	383,530,442 US dollars
Enagás México, S.A.	Mexico	Holding	100.00%	2,696,486 US dollars
Enagás Perú, S.A.C.	Peru	Holding	100.00%	7,154,428 US dollars
Enagás USA, LLC	USA	Holding	100.00%	1,450,000 US dollars
Infraestructuras de Gas, S.A.	Spain	Holding	85.00%	340,000 euros
Enagás Emprende, S.L.	Spain	Holding	100.00%	600,000 euros
Terminal Bahía de Quintero, SpA.	Chile	Holding	51.90%	5,200 US dollars
Efficiency for LNG Aplications, S.L.	Spain	Development of industrial projects and activities relating to the GNL terminals	92.00%	90,000 euros
Scale Gas Solutions, S.L.	Spain		90.00%	64,920 euros
GNL Quintero, S.A.	Chile	Reception, unloading, storage, and regasification of LNG	45.40%	114,057,777 US dollars
Terminal de Valparaíso, S.A.	Chile	Holding	100.00%	347,615,214 US dollars
Gas to Move Transport Solutions, S.L.	Spain	Development of industrial projects and activities relating to the GNL terminals	82.00%	99,000 euros

Appendix II. Business combinations, joint operations, and associates

					Thousands of euros [1]		Net carrying amount in functional currency		
Company	Country	Activity	%	% of voting rights controlled by the Enagás Group	Net carrying amount	Dividends received	Thousands of euros	Thousands of US dollars	Thousands of Swedish kronas
Joint operations									
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	66.96%	66.96%	15,183	12,363	15,183	-	-
Gasoducto Extremadura, S.A.	Spain	Gas transport	51.00%	51.00%	5,392	7,662	5,392	-	-
Joint ventures									
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	50.00%	50.00%	54,884	4,000	54,884	-	-
Subgrupo Altamira LNG, C.V. (3)	Holland (4) / Mexico	Holding/ Regasification	40.00%	40.00%	46,878	3,248	-	52,423	-
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	50.00%	50.00%	14,576	-	-	16,205	-
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	50.00%	50.00%	3	3,578	-	4	-
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	50.00%	50.00%	9,933	-	9,934	-	-
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	50.00%	50.00%	2	-	-	2	-
Compañía Operadora de Gas del Amazonas, S.A.C.	Peru	Operation and maintenance	51.00%	51.00%	20,605	-	-	23,995	-
Tecgas, Inc.	Canada	Holding	51.00%	51.00%	1,120	-	-	1,191	-
EC Soto la Marina O&M SAPI de CV	Mexico	Operation and maintenance	50.00%	50.00%	1	-	-	2	-
Morelos O&M, S.A.P.I de CV	Mexico	Operation and maintenance	50.00%	50.00%	36	-	-	39	-
Subgrupo Swedegas (4)	Sweden	Gas transport	50.00%	50.00%	86,665	7,540	-	-	98,447
Iniciativas de Gas, S.L. (5)	Spain	Holding	60.00%	60.00%	46,648	-	46,648	-	-
Planta de Regasificación de Sagunto, S.A. (5)	Spain	Storage and regasification	72.50%	72.50%	1,500	19,575	1,500	-	-
Vira Gas, SL	Spain	Development and commercialization of technological activities	49.00%	49.00%	209	-	209	-	-
Associates									
Transportadora de gas del Perú, S.A.	Peru	Gas transport	28.94%	28.94%	487,451	74,926	-	629,450	-
Trans Adriatic Pipeline, A.G. (2 y 3)	Switzerland (2 and 3)	Gas transport	16.00%	16.00%	148,803	-	179,784	-	-
Mibgas Derivatives, S.A.	Spain	Operation of organized gas market	28.34%	28.34%	432	-	432	-	-
Mibgas, S.A.	Spain	Operation of organized gas market	13.34%	13.34%	417	-	417	-	-

1) For those companies whose local currency is different to that of the Group, the euro (Note 1.3), the "net carrying amount" of the financial investment is shown in historic euros and includes the capitalized acquisition costs. The euros corresponding to "dividends received" are translated at the exchange rate corresponding to the transaction date.

(2) This company has three permanent establishments: in Greece, Italy, and Albania.

(3) Both companies are owned together with other international industrial partners. Their activity consists in the development and operation of infrastructure projects, such as the regasification plant already operational in Altamira and the TAP trans-adriatic gas pipeline project (declared Project of Common Interest by the European Union).

(4) The Group holds a 50% stake in the Swedish company Knubbsäl Topholding AB together with Fluxys Europe BV. This company in turn indirectly holds a 100% stake in Swedegas AB, operator of the Swedish gas system.

(5) Iniciativas de Gas, S.L. and Infraestructuras de Gas, S.L. each hold a 50% stake in Planta de Regasificación de Sagunto Gas, S.A. Both companies are in turn investees of the Enagás Group, which holds a 60% stake and an 85% stake in them, respectively. Thus, the indirect interest held by the Enagás Group in Planta de Regasificación de Sagunto Gas, S.A. amounts to 72.50%. The dividend distribution is carried out by Planta de Regasificación de Sagunto Gas, S.

Balance sheet figures 2017

Company	Thousands of euros								
	Investee figures (1)(2)								
	Assets			Equity		Liabilities			
	Non-current	Current		Other results	Remaining equity	Non-current		Current	
		Cash and cash equivalents	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	22,876	17,252	5,271	-	37,885	-	-	-	7,514
Gasoducto de Extremadura, S.A.	10,279	8,511	3,463	-	19,287	-	-	-	2,966
Bahía de Bizkaia Gas, S.L.	239,584	27,664	15,049	(4,711)	77,770	164,712	23,814	15,201	5,510
Subgrupo Altamira LNG, C.V.	299,098	11,449	15,404	170	153,806	67,264	62,216	33,140	9,356
Gasoducto de Morelos, S.A.P.I. de C.V.	269,821	21,564	45,254	(2,434)	24,497	132,697	63,079	5,250	113,549
Morelos EPC, S.A.P.I. de C.V.	(42)	3,615	30,610	-	23,913	-	-	-	10,271
EC Soto La Marina SAPI de CV	75,364	3,227	2,495	-	12,128	-	2,826	55,270	10,862
EC Soto La Marina EPC SAPI de CV	-	41	11,365	-	(2,031)	-	-	42	13,395
Transportadora de gas del Perú, S.A.	1,157,739	104,751	73,785	-	293,265	881,771	101,074	7,927	52,237
Trans Adriatic Pipeline, A.G.	2,758,971	44,133	62,072	(1,818)	661,414	1,863,105	61,811	-	280,664
Compañía Operadora de Gas del Amazonas, S.A.C.	1,669	9,131	14,347	-	5,888	-	-	-	19,259
Vira Gas, S.L.	251	102	142	-	392	-	-	-	104
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	2,229	174	711	-	159	2,215	-	1	739
Morelos O&M, S.A.P.I de CV	142	735	111	-	199	-	-	-	789
Subgrupo Swedegas	637,365	16,460	9,147	(7,693)	155,440	395,955	112,513	-	6,757
Iniciativas de Gas, S.L.	986	631	-	-	1,611	-	-	-	6
Planta de Regasificación de Sagunto, S.A.	302,392	22,572	37,658	(5,950)	60,102	252,343	25,830	25,546	4,750
Mibgas, S.A.	776	1,732	33,613	-	3,347	-	-	31,715	1,060

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2017

Company	Thousands of euros						
	Figures for investee[(1)(2)]						
	Income statement						
	Revenue	Depreciation and amortization	Interest income	Interest expense	Income tax	Other expenses and income	Net profit/ (loss)
Gasoducto Al-Andalus, S.A.	39,602	(7,251)	-	-	(6,241)	(7,296)	18,813
Gasoducto de Extremadura, S.A.	26,129	(3,185)	-	-	(4,209)	(6,007)	12,728
Bahía de Bizkaia Gas, S.L.	55,893	(13,969)	141	(9,320)	(5,136)	(17,008)	13,209
Subgrupo Altamira LNG, C.V.	67,969	(13,223)	89	(4,724)	(11,631)	(15,172)	23,307
Gasoducto de Morelos, S.A.P.I. de C.V.	36,559	(13,103)	-	(11,692)	4,738	(13,111)	3,391
Morelos EPC, S.A.P.I. de C.V.	15,753	-	-	-	(4,133)	(970)	10,650
EC Soto La Marina SAPI de CV	11,588	(5,436)	1,319	(3,691)	2,701	20,667	27,148
EC Soto La Marina EPC SAPI de CV	-	-	864	(193)	(3,200)	10,444	7,914
Transportadora de gas del Perú, S.A.	598,653	(84,466)	638	(62,884)	(82,879)	(181,470)	187,591
Trans Adriatic Pipeline, A.G.	-	640	8	(297)	(3,202)	24,928	22,077
Compañía Operadora de Gas del Amazonas, S.A.C.	104,116	(630)	39	-	(1,029)	(100,343)	2,153
Tecgas, Inc.	-	-	-	-	-	N,D,	N,D,
EC Soto la Marina O&M S.A.P.I. de C.V.	2,592	-	-	(13)	(31)	(2,481)	67
Morelos O&M, S.A.P.I de C.V.	2,356	(8)	-	-	(147)	(2,074)	126
Subgrupo Swedegas	42,631	(13,658)	-	(9,886)	(846)	(15,522)	2,718
Iniciativas de Gas, S.L.	-	-	13,500	-		(70)	13,430
Planta de Regasificación de Sagunto, S.A.	77,017	(21,108)	388	(12,586)	(5,853)	(20,010)	17,849
Vira Gas, S.L.	134,345	-	-	-	-	(126,063)	8,282
Mibgas, S.A.	4,113	(45)	-	-	(117)	(3,801)	150

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the income statement figures were translated at the average exchange rate for the reporting period.

Balance sheet figures 2016

	Thousands of euros								
	Investee figures (1)(2)								
	Assets			Equity		Liabilities			
	Non-current	Current		Other results	Remaining equity	Non-current		Current	
Company		Cash and cash equivalents	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	29,035	25,764	4,175		41,371	-	-	-	17,603
Gasoducto de Extremadura, S.A.	12,344	15,684	2,356	-	23,554	-	-	-	6,830
Bahía de Bizkaia Gas, S.L.	249,973	25,182	11,213	(5,294)	67,565	179,336	24,235	15,087	5,439
Subgrupo Altamira LNG, C.V.	351,220	4,786	22,470	(389)	157,446	102,796	5,186	25,690	87,747
Gasoducto de Morelos, S.A.P.I. de C.V.	301,859	11,571	16,019	(3,480)	25,822	212,553	-	13,889	80,665
Morelos EPC, S.A.P.I. de C.V.	2	11,396	27,762	-	26,001	-	-	-	13,159
GNL Quintero, S.A.	878,996	243,093	23,381	(77,490)	108,387	1,018,417	62,564	20,100	13,492
Terminal de Valparaiso, S.A.	328,971	64	8	-	329,028	-	-	-	15
EC Soto La Marina SAPI de CV	88,061	3,103	3,254	-	(11,424)	65,043	1,484	6	39,309
EC Soto La Marina EPC SAPI de CV	2,555	5	13,523	-	(10,752)	-	-	46	26,789
Transportadora de gas del Perú, S.A.	1,397,012	81,841	97,136	-	410,892	1,000,355	115,130	8,472	41,140
Gasoducto Sur Peruano, S.A.	2,435,719	46,263	24,201	-	605,602	819,002	-	-	1,081,579
Trans Adriatic Pipeline, A.G.	1,602,261	46,136	72,835	(1,818)	357,281	1,066,968	17,693	-	281,108
Compañía Operadora de Gas del Amazonas, S.A.C.	2,052	15,179	10,604	-	4,112	-	-	-	23,723
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	46	18	697	-	112	-	-	-	649
Morelos O&M, S.A.P.I de CV	170	531	172	-	90	-	-	-	783
Subgrupo Swedegas	667,530	15,358	13,181	(10,364)	172,344	409,596	116,906	-	7,587
Iniciativas de Gas, S.L.	986	13	679	-	1,678	-	-	-	-
Planta de Regasificación de Sagunto, S.A.	324,855	40,340	32,722	(7,258)	69,277	273,503	26,813	29,412	6,170
Vira Gas, S.L.	249	78	53	-	383	-	-	-	(3)
Mibgas, S.A.	909	2,344	7,386	-	3,220	-	-	7,059	360

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2016

Company	Thousands of euros						
	Figures for investee[1][2]						
	Income statement						
	Revenue	Depreciation and amortization	Interest income	Interest expense	Income tax	Other expenses and income	Net profit/ (loss)
Gasoducto Al-Andalus, S.A.	36,502	(7,380)	4	-	(5,092)	(8,758)	15,276
Gasoducto de Extremadura, S.A.	28,000	(3,303)	3	-	(4,643)	(6,128)	13,929
Bahía de Bizkaia Gas, S.L.	53,166	(14,178)	1	(9,007)	(4,256)	(15,372)	10,354
Subgrupo Altamira LNG, C.V.	75,513	(14,515)	52	(5,480)	(14,382)	(20,270)	20,918
Gasoducto de Morelos, S.A.P.I. de C.V.	33,158	(11,957)	-	(12,754)	(1,784)	(6,321)	342
Morelos EPC, S.A.P.I. de C.V.	32,016	-	-	-	(7,064)	(11,412)	13,540
GNL Quintero, S.A.	170,145	(32,851)	455	(67,060)	(12,368)	(32,936)	25,385
Terminal de Valparaiso, S.A.	10,993	-	-	-	-	4	10,997
EC Soto La Marina S.A.P.I. de C.V.	11,463	(4,459)	-	(3,828)	192	(5,294)	(1,926)
EC Soto La Marina EPC S.A.P.I. de C.V.	-	-	-	-	(9,352)	(635)	(9,987)
Transportadora de gas del Perú, S.A.	563,424	(81,039)	245	(61,676)	(72,220)	(182,271)	166,463
Gasoducto Sur Peruano, S.A.	864,817	-	1,982	(51,398)	-	(1,183,185)	(367,784)
Trans Adriatic Pipeline, A.G.	-	(649)	20	(181)	4,078	(25,795)	(22,527)
Compañía Operadora de Gas del Amazonas, S.A.C.	118,373	(586)	56	-	(1,160)	(114,866)	1,817
Tecgas, Inc.	-	-	-	-	-	(3,547)	(3,547)
EC Soto la Marina O&M S.A.P.I. de C.V.	3,631	-	-	-	(59)	(3,489)	83
Morelos O&M, S.A.P.I de C.V.	1,532	(5)	-	-	2	(1,517)	12
Subgrupo Swedegas	50,148	(13,680)	-	(9,261)	(2,046)	(17,881)	7,280
Iniciativas de Gas, S.L.	-	-	-	-	-	(25)	(25)
Planta de Regasificación de Sagunto, S.A.	101,193	(23,243)	-	(13,468)	(11,213)	(17,232)	36,037
Vira Gas, S.L.	-	-	-	-	5	(20)	(15)
Mibgas, S.A.	2,179	(20)	-	-	(56)	(1,934)	169

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the income statement figures were translated at the average exchange rate for the reporting period.

Appendix III. Regulatory framework

a) Income from regasification, storage, and transport activities

The regulatory framework for these activities applicable from 2002, based on Law 34/1998 of October 7, of the Hydrocarbons Sector, and later developments of said law, was updated subsequent to Royal Decree Law 8/2014 of July 4 becoming effective, approved by Parliament and subsequently passing into legislation, finally published as Law 18/2014 of October 15, on approving urgent measures for growth, competitiveness, and efficiency.

The bases of the new remuneration scheme are as follows:

- The principle of economic and financial sustainability of the gas system is established as a guiding principle for actions conducted by Public Administrations and other subjects participating in the gas system. By virtue of said principle, any regulatory measure with respect to the sector which involves an increased cost for the gas system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium in the system. In this manner, the possibility of deficits accumulating is definitively eliminated.

  This principle is reinforced with the establishment of restrictions relating to the appearance of temporary annual imbalances, establishing a rebalancing mechanism via the obligation for automatic reviews of the corresponding tolls and royalties if certain limits are exceeded. The limits introduced allow for overruns provoked by temporary circumstances or the volatility for gas demand, which can be reversed in the following period without any need to modify tolls and royalties, while at the same time guaranteeing that imbalances may not arise which put the financial stability of the system at risk.

  The temporary mismatches which arise subsequent to the present Royal Decree Law becoming effective, without exceeding the aforementioned limits, will be financed by all participants in the settlement system based on the collection rights they generate.

  This principle of economic and financial sustainability must be understood in such a manner that income collected in connection with use of the installations can cover the totality of costs generated by the system. The regulated remuneration methodologies in the natural gas sector consider the necessary costs for a company to manage its activities well and efficiently in accordance with the principle for performing its activities at the lowest cost for the system.

- Regulatory periods of six years are fixed to establish the remuneration of regulated activities, providing regulatory stability for said activities. The first regulatory period terminates on December 31, 2020. From January 1, 2021, the subsequent consecutive regulatory periods will each last six years.

  Should there be significant variations in terms of income and costs, adjustments can be made every three years with respect to the remuneration parameters of the system, such as the unit reference values relating to clients, sales, operation and maintenance costs, improved productivity factors, etc.

- The remuneration system for transportation, regasification, and storage installations was established under harmonized principles adapting the net carrying amount of the asset as a basis for calculating remuneration for the investment, and likewise includes variable remuneration based on transported, regasified, or stored gas, depending on the type of asset, and any automatic review procedure for remuneration values and parameters in connection with price indices are eliminated.

- Accumulated deficit at December 31, 2014. The amount corresponding to the accumulated system deficit at December 31, 2014 is determined in the definitive settlement for 2014. The participants in the settlement system have the right to recover the annual amounts relating to said accumulated deficit in the settlements corresponding to the following 15 years, recognizing market based interest rates. On December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights for the accumulated deficit at December 31, 2014 (Note 2.2).

- In order to limit any further increase in the deficit, when the annual mismatch between income and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the recognized annual amounts pending payment exceeds 15%, the tolls and royalties for the following year will be increased to recover the amount exceeding that limit. In any event, as long as there are annual amounts pending payment from prior years, tolls and fees cannot be revised downwards.

- Remuneration is comprised of a fixed portion for availability of the installation and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization/depreciation, and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.

Inclusion of the variable portion for supply continuity in the remuneration for the installations balances income and system costs by linking part of said costs to the changes in demand.

This portion is based on the total changes in domestic consumption of natural gas, excluding supply through satellite plants, with respect to the prior year in the case of transport installations, of the change in demand for regasified gas in all the plants operating in the system in the case of regasification installations, and the change in useful gas held at the storage facilities, at November 1 of the corresponding year and including cushion gas mechanically extracted of the latter.

Remuneration for supply continuity is divided amongst all the installations based on the weighting of their replacement value with respect to all installations relating to the activity, calculating said values by applying the unit investment values prevailing for each year.

Once the regulatory useful life of the installations has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the installation exceeds the regulatory useful life, not accruing any amounts as investment remuneration.

a.1) Accredited fixed cost Remuneration for Availability (RA)

This cost is determined individually for each of the assets in production. This parameter compensates the investment and operating costs of the assets used for operating in the gas system.

a.1.1. Remuneration for investment costs is comprised of the following:

- Value of assets recognized. The amounts recognized for assets in the previous regulatory framework are maintained. For installations put to use before 2002, the corresponding amounts are calculated based on the carrying amounts of the assets once the accounting restatement of 1996 is taken into account (Royal Decree Law 7/1996), less grants received for the purpose of financing said assets, applying a restatement coefficient comprised of the adjusted average Consumer Price Index (CPI) and Industrial Price Index (IPI) to this difference.

  For the new installations put to use from 2002, the standard value of each investment as established by the regulator is used, while for those which require expansion, the real cost is used.

  Given that for investments in underground storage facilities there are no standard values, they are also measured at real cost.

  Transport installations put to use from 2008 are measured by taking the average of the standard value and real cost.

  Regasification installations put to use from 2006 are measured at real cost plus 50% of the difference between the standard value and said real cost, up to a maximum of the standard value.

- Remuneration for amortization/depreciation of system assets. The value of the resulting amount recognized for the investment is amortized/depreciated applying a rate corresponding to its useful life, obtaining the related income in this manner.

  The new framework maintains the useful lives of the assets except for gas pipelines, which are attributed a useful life of 40 years for all installations, regardless of when they were put to use.

- Financial remuneration of the amount invested. This item is calculated by applying a financial remuneration rate to the net carrying amounts of the assets without restatement. During the first regulatory period, the remuneration rate for assets relating to transport, regasification, and basic storage with a right to remuneration on account of the gas system will be the average of the returns generated by the ten-year government bonds in the secondary market amongst titleholders of unsegregated accounts with respect to the previous 24 months preceding the regulation becoming effective, increased by a spread of 50 basis points. The financial remuneration rate for the regulatory period was set at 5.09% (ratified by Law 8/2015, of May 21).

- Remuneration for fully amortized/depreciated assets. Once the regulatory useful life of each asset finalizes, if the asset is still in use, the remuneration accrued for said installation corresponding to remuneration for investment, depreciation, and financial remuneration will be nil.

  In contrast, remuneration for operation and maintenance of the asset "i" each year "n" will be increased. In this manner, the value recognized will be the amount corresponding to it multiplied by a coefficient for increasing its useful life, µin.

This parameter will have the following values:

- During the first five years in which the regulatory useful life has been exceeded: 1.15
- When the regulatory useful life has been exceeded by 6 to 10 years, the value of the coefficient for extending the useful life will be: 1.15+0.01(X-5).
- When the regulatory useful life has been exceeded by 11 to 15 years, the value of the coefficient for extending the useful life will be: 1.20+0.02 (X-10).
- When the regulatory useful life has been exceeded by more than 15 years, the value of the coefficient for extending the useful life will be: 1.30+0.03 (X-15).

Where "X" is the number of years that the asset has exceeded its regulatory useful life. The parameter µin can never be greater than 2.

a.1.2. In general, the calculation for remuneration corresponding to operating costs in connection with transport, regasification, and underground storage assets will be maintained. The only difference is the application of unit costs for operation and maintenance of all transport installations, regardless of when the asset is put to use.

a.1.3. Enagás Transporte, S.A.U. has established a straight-line criterion for attributing the revenue corresponding to the accredited fixed cost to the income statement. In this manner the company manages to correlate income (remuneration) and expenses (amortization/depreciation) on an inter-monthly basis.

a.2) Remuneration for continuity of supply (RCS)
Remuneration for continuity of supply (RCS) is calculated as a whole for each of the activities: transport, regasification, and underground storage.

The remuneration for this item in year "n" is in all cases calculated based on the remuneration for the previous year "n-1" multiplied by an efficiency factor and the change in demand.

The efficiency factor is set at a value of 0.97 for the first regulatory period and the changes in demand considered are the following:

- With respect to the gas pipeline transport network, the change in total domestic demand for gas will be considered excluding the supply via satellite plants, with the following maximum and minimum limiting values for demand: 410 TWh and 190 TWh.

- With respect to regasification plants, the change in total demand for gas produced by all the regasification plants in the gas system will be considered, with the following maximum and minimum values of gas produced: 220 TWh and 50 TWh.

- With respect to storage installations, the change in useful gas stored at November 1 of the corresponding year will be considered, including the portion of cushion gas that can be mechanically extracted, with the following maximum and minimum values for stored gas: 30 TWh and 22 TWh.

Remuneration for continuity of supply which results for each activity in year "n" will be divided amongst each of the installations "i" which remain in operation, based on a coefficient, αi, which results from dividing the replacement cost of installation "i" by the sum of the replacement costs for all installations. This replacement cost is calculated based on the prevailing unit investment costs, except for singular installations and underground storage, for which the investment value will be used.

a.3) Variable accredited cost for regasification and transfer of LNG to ships
a.3.1. This amount is determined based on the kWh actually regasified as well as the kWh loaded in LNG cisterns for each period and the variable unit value for regasification in the period considered. For 2017 this cost was set at 0.000162 €/kWh regasified and 0.000194 €/kWh loaded in cisterns.

a.3.2. For the LNG ship loading services from regasification plants or cooling down ships, a cost is recognized identical to the variable cost of the cistern loads. For ship-to-ship transfer the cost is 80% of said value.

b) Income corresponding to Technical System Management (TSG)

Income from this activity is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical System Manager, which includes coordinating the development, operation, and maintenance of the transport network, supervising the safety of natural gas supply (storage levels and emergency plans), carrying out plans for future development of gas infrastructure, and controlling third-party access to the network.

The fee meant for the Technical Systems Manager to be collected for 2017 from companies that own regasification, transport, storage, and natural gas distribution installations as a percentage of billing for tolls and royalties associated with third-party access to the network amounts to 0.778%. This fee is paid into the CNMC account held for this purpose by said companies in installments, as established in the settlement procedure.

The previous percentage over billing is calculated based on the result of applying maximum tolls and royalties to the amounts invoiced, without deducting possible discounts which may have been agreed upon by the owners and users of the installations.

Without prejudice to the above, provisional remuneration recognized for the activity of Technical System Management in 2017 in accordance with ETU/1977/2016, of December 23, amounts to 23,966 thousand euros.

The inter-monthly attribution of previous income to the consolidated income statement is carried out on a straight line basis.

c) Settlement of tolls associated with third-party access to gas installations

The invoicing and collection of remuneration for the regulated activities subject to settlement (third-party access to the network and Technical System Management) is carried out in accordance with the settlement procedure, as per Ministerial Order of October 28, 2002.

d) Settlement system

On November 1, 2002, Ministerial Order ECO/2692/2002, of October 28 was published, regulating the settlement procedures relating to remuneration for regulated activities and establishing an information system which the companies must present.

The fifth additional provision to Order ITC/3993/2006 modifies section I.5 to Appendix II of this Order on settlements, establishing that interest will be applied to the amounts to be settled with each transport entity or distributor. Said interest is calculated as the result of applying the average values of the one-year treasury bond during 60 days.

e) Income corresponding to heel gas and minimum gas levels for filling gas pipelines

Order IET/3587/2011 establishes in article 16 that the gas meant for minimum levels in gas pipelines for transport and regasification plants (heel gas) will be remunerated as a necessary investment for transport activity, recognizing financial remuneration.

Remuneration for this item was maintained subsequent to the new remuneration framework taking effect, which applies the same rate for financial remuneration and transport, regasification, and underground storage. The acquisition cost will be the result of applying the price resulting from the auction to the acquired quantity.

f) Income corresponding to the purchase of gas for self-consumption

Until 2015, the gas was acquired by transporters and recognized at the auction price, while the payments made were considered reimbursable expenses.

In accordance with the stipulations of article 7 of Order IET/2736/2015, of December 17, from 2016 onwards operating gas for transport installations and basic underground storage, as well as the operating gas of regasification plants the costs of which are borne by the gas system, is acquired by the Technical System Manager in the organized gas market. The acquisition cost for this gas is recognized at the auction price and is considered a reimbursable expense.

In addition, with the new remuneration framework of 2014 taking effect, the purchase of gas for self-consumption at regasification plants is no longer considered a recognized cost, though a transitional period was established for adaptation.

During this period, the following percentages will be recognized for purchases of operating gas at regasification plants.

	2014	2015	2016	2017
Transitional period - gas for self-consumption recognized	100%	90%	50%	20%

g) Settlement of accumulated deficit

Royal Decree Law 8/2014, of July 4, and Law 18/2014, of October 15, establish the principle of economic and financial sustainability in the gas system. In accordance with this principle, the system income will exclusively be dedicated to sustaining remuneration corresponding to regulated activities relating to gas supply. Further, this income must be sufficient to satisfy the totality of costs incurred by the gas system. In addition, in order to ensure economic sufficiency and avoid the appearance of new deficits ex ante, all regulatory measures relating to the gas system which involve an increase in costs for the system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium for the system.

Likewise, the new remuneration framework establishes a specific methodology for the resolution of temporary imbalances between system income and costs, which together with the aforementioned measures is meant to avoid gas system deficits definitively, establishing a period of various years for the recovery of these imbalances and further recognizing financial costs accrued by regulated companies for the financing of these imbalances.

The methodology established in articles 61 and 66 of this Royal Decree Law and in this Law distinguishes between the accumulated deficit at December 31, 2014 and the deficit which may be generated in subsequent years, so that:

- The quantity corresponding to the deficit accumulated in the gas system at December 31, 2014 will be determined in the definitive settlement of 2014, and the participants in the settlement system will have the right to recover the annual amounts corresponding to said accumulated deficit in the settlements corresponding to the subsequent fifteen years, recognizing interest at market rates.
- Definitive settlement in 2014 was approved by the regulatory oversight chamber of the CNMC in its session held on November 24, 2016, recognizing 1,025,053 thousand euros for the accumulated deficit of the gas system at December 31, 2014. This deficit will be recovered in 15 consecutive annual installments starting on November 25, 2016 (the day following the approval of the definitive settlement) and continuing until November 24, 2031.

In addition, with respect to the temporary imbalances between income and expenses that may manifest themselves from 2015 onwards, the Royal Decree Law and the Law foresee that they will be recovered once the definitive settlements have been obtained during the following five years while recognizing an interest rate corresponding to conditions equivalent to those of the market.

Definitive settlement in 2015 was approved by the regulatory oversight chamber of the CNMC in its session held on November 24, 2016, recognizing 27,232 thousand euros for the regulated deficit of the natural gas sector corresponding to the year 2015. This deficit will be recovered annually starting from November 25, 2016 (the day following approval of the definitive settlement for 2015) and continuing until November 24, 2021.

From the year 2017, the annual payments for the deficit will be distributed in 12 equal monthly installments which will be settled as a single payment in each of the first twelve settlements of the year, prioritizing collection over the remaining system costs on the terms established in articles 66 and 61.2 of Law 18/2014, of October 15.

In order to limit any further increase in the deficit, when the annual mismatch between income and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the recognized annual amounts pending payment exceeds 15%, the tolls and royalties for the following year will be increased to recover the amount exceeding that limit. In any event, as long as there are annual amounts pending payment from prior years, tolls and fees cannot be revised downwards.

Finally, it is worth noting that Order ETU/1977/2016, of December 23, establishes that the annual payment for 2016 will be settled in the first available installment of 2016 as a single payment, while the remaining annual payments for 2017 and subsequent years will be distributed in 12 equal monthly installments which will be settled in a single payment in the first installment of the year prioritizing collection over other system costs on the terms established in articles 66 and 61.2 of Law 18/2014, of October 15. In addition, Order ETU/1977/2016, of December 23, established the provisional interest rates for the gas system to be applied to the accumulated deficit of December 31, 2014 and the temporary mismatch of 2015. The values were the following:

- The provisional interest rate for the accumulated deficit at December 31, 2014 will be 1.104%. The interest recognized for said deficit accrues from the day following approval of the definitive settlement for 2014.
- The provisional interest rate for the temporary mismatch between income and expenses in the gas system for 2015 will be 0.836%. The interest recognized for said mismatch accrues from the day following approval of the definitive settlement for 2015.

The final settlement of 2016 was approved by the chamber of the regulatory oversight of the National Commission of markets and competition at its meeting on 30 November 2017, Recognizing 90,014 Thousands of Euros in concept of deficit of the regulated activities of the natural gas sector for the year 2016. This deficit will be recovered annually since 1 December 2017 (day following the adoption of the final liquidation of the year 2016) and until the 30 of November of 2022.

According to the ETU/1283/2017, the annuity of the year 2017 will be paid in the first settlement available this year, as a single payment and applying a market rate of interest.

h) Establishment of the organized gas market

Law 8/2015 of May 21, amending Law 34/1998, of October 7, on the Hidrocarburos Sector, designates MIBGAS S.A. as Organized Gas Market Operator. This law was enacted by Royal Decree 984/2015, of October 30, which assigns the principal functions of the Organized Gas Market Operator to the mercantile company MIBGAS, establishing its functions and role within the gas sector.

It is worth noting that in its article 65 ter. "Operator of organized gas market," it establishes that a mercantile company will act as an operator in the organized gas market and that its shareholders will be made up of any natural or legal persons, with the direct interest held in said company by the Technical Managers of the Spanish and Portuguese gas systems equal to 20%. On June 14, 2016, in compliance with the stipulations of article 65 ter., the acquisition of 13.34% of said company by Enagás GTS, S.A.U. became effective, as indicated in Note 1.3.

i) Recognition of costs associated with the dismantling of natural gas installations

Royal Decree 949/2001, of August 3, which regulates third-party access to the gas installations and determines an integrated economic system of the natural gas sector ("RD 949/2001"), establishes that with respect to regulated activities, when plants and storage facilities are shut down remuneration will cease from the closing date, without prejudice to the net dismantling costs recognized if the plants and storage facilities are actually dismantled.

j) Adjusting the agreements for international gas transit to the prevailing regulatory framework

The CNMC in its Board meeting of April 11, 2013 required Enagás, S.A. (currently succeeded in its transport activity by Enagás Transporte, S.A.U.), Galp Gas Natural, S.A., and Gasoducto Al-Ándalus, S.A. to adjust the gas transit agreements to Portugal, signed in 1996 by Transgas, S.A. (currently Galp Gas Natural, S.A.) in order to adapt to the new regulatory framework introduced by Directive 2009/73/CE and Regulation (CE) 715/2009, of July 13, 2009, of the European Parliament and of the Council.

With a view to complying with said requirement, Galp Gas natural, S.A. and Enagás Transporte, S.A.U. signed a Framework Contract on February 27, 2014 for access to the transport and distribution system of Enagás Transporte, S.A.U. via international gas pipeline connections with Europe. Subsequently, on November 18, 2014, both companies signed the corresponding long-term access contract to transport and distribution networks and an addendum to the Framework Contract, which took effect on January 1, 2015, thereby complying with all CNMC requirements.
The CNMC considered the adjustments to said contracts for third-party access to the transport and distribution system to be in compliance with prevailing regulations.

k) Regulatory framework development

The main regulatory developments applicable to the gas sector, approved in the course of 2017, were the following:

1. Supranational regulations

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of Regions, of November 23, 2017, on strengthening the energy networks of Europe.

Commission Regulation (EU) 2017/1938 of the European Parliament and of the Council, of October 25, 2017 on measures to guarantee the security of gas supply, repealing Commission Regulation (EU) no. 994/2010.

Commission Regulation (EU) 2017/459 of March 16, 2017, establishing a network code for assignment mechanisms with respect to capacity in the natural gas transportation networks and repealing Regulation (EU) nº 984/2013.

Commission Regulation (EU) 2017/460 of March 16, 2017, establishing a network code in connection with the harmonization of tariff structures for gas transportation.

2. Spanish regulations

Remuneration, tolls, and fees
Order ETU/1283/2017, of December 22, 2017, establishing the tolls and royalties for third-party access to gas facilities and remuneration of regulated gas sector activities for 2018.

Resolution of April 20, 2017, modifying Appendix IV "instructions for filling out forms" of Circular 1/2015, of July 22, of the CNMC, on the regulatory information regarding costs for regulated transport, regasification, storage, and technical system management activities for natural gas, as well as transportation and operation of the electricity system.

Correction of errors, of January 18, 2017, of Order ETU/1977/2016, of December 23,establishing the tolls and fees for third-party access to gas facilities and remuneration of regulated gas sector activities for 2017.

Resolution of December 26, 2017, of the DGEPM, publishing the tariff of last resort for natural gas.

Resolution of September 25, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of June 28, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of March 24, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of March 29, 2016, of the DGEPM, publishing the tariff of last resort for natural gas.

Resolution of January 21, 2016, of the DGEPM, correcting errors in the Resolution of December 23, 2015, publishing the tariff of last resort for natural gas.

Operation of the System

Circular 3/2017, of November 22, of the CNMC, relating to the assignment mechanisms with respect to capacity in the international natural gas connections to Europe.

Resolution of the DGEPM of April 5, 2017, establishing the parameters for auctioning capacity in basic storage facilities (not published in the Official State Gazette - BOE in Spanish).

Resolution of March 30, 2017, of the Secretariat of Energy, establishing the procedure for awarding capacity in basic underground storage facilities, as well as injection and extraction rights.

Resolution of March 15, 2017, of the DGPEM, establishing operating gas volume and the volume of gas required for minimum levels in gas pipelines and basic underground storage facilities for the period 2017-2018.

Resolution of January 30, 2017, of the DGEPM establishing the assigned and available capacity for basic underground storage of natural gas for the period from April 1, 2017 to March 31, 2018.

Resolution of December 22, 2017, of the DGEPM, awarding of the voluntary market making service in the organized natural gas market during the first half of 2018 to "ENGIE ESPAÑA S.L.U." (not published in the BOE).

Resolution of July 6, 2017, of the DGEPM, awarding the role of market maker in the organized gas market to AXPO IBERIA S.L. during the second half of 2017 (not published in BOE).

Resolution of January 20, 2017 of the DGEPM, awarding the role of market maker in the organized natural gas market to "GUNVOR INTERNATIONAL B.V. AMSTERDAM, GENEVA BRAND."

Resolution of December 11, 2017, of the SEE, establishing the conditions for the rendering of obligatory market making services by the dominant operators in the natural gas market.

Resolution of November 14, 2017, of the SEE, publishing the Agreement of the Council of Ministers of November 10, 2017, establishing the obligation of presenting purchase and sales offers to the dominant natural gas market operators.

Resolution of November 27, 2017, of the DGEPM, approving the Winter Action Plan for operation of the gas system.

Resolution of July 21, 2017, of the DGEPM, partially modifying the appendix to the Resolution of May 3, 2010, approving the models for statements of responsibility and communication of initiation of the various marketing activities in the hydrocarbons sector.

Resolution of July 5, 2017 of the DGEPM, updating and publishing the Preventive Action Plan and the Emergency Plan of the Spanish gas system.

Resolution of June 16, 2017, of the DGEPM, modifying Resolution of July 25, 2006, by virtue of which the conditions for assigning and the procedure applied for the interruptibility of the gas system are regulated.

Order ETU/175/2017, of February 24, determining the transfer of clients from Investigación Criogenia y Gas, S.A. to a last resort supplier and establishing the supply terms for said clients.

Resolution of February 15, 2017 of the DGEPM, by virtue of which Investigación, Criogenia y Gas, S.A. was disqualified from performing natural gas supply activities.

Announcement of January 24 of the Sub-directorate General of Hydrocarbons, publishing the Agreement of the DGEPM by virtue of which the debarment procedure was initiated with respect to Investigación, Criogenia y Gas, S.A. in connection with the activity of supplying natural gas; and another Agreement by virtue of which the transfer procedure was initiated with respect to the clients of said company to a last resort supplier as well as determining the supply terms for said clients.

Consolidated Managment Report

I.-Enagás situation

Business Model

Enagás, a midstream company with almost 50 years of experience and independent European TSO (Transmission System Operator), is an international reference in the development and maintenance of gas infrastructure and in the operation and management of gas networks.

It participates in gas infrastructures in Mexico, Chile, Peru, Sweden and in the TAP project, a key gas pipeline in Europe that will link Greece, Albania and Italy. In Spain, it has developed the major infrastructure of the Gas System, which has become a model for security and diversification of supply, and has been the Technical Manager of the System since 2000.

Through our activities we strengthen and guarantee the security of energy supply, promoting the use of natural gas in preference to other more polluting alternative fuels such as oil or coal. In addition, natural gas is of great importance for improving competitiveness, as it allows for the introduction of efficient industrial technologies which improve the intensity of energy usage and competitiveness in the industry, generating direct and indirect employment.

Enagás Gas Infrastructure

At December 31, 2017, the gas infrastructure of the Enagás Group was integrated by the Natural Gas Basic Network as follows:

Spain:

- Nearly 11,000 kilometers of gas pipelines throughout Spain.
- Three underground storage facilities: Serrablo (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya).
- Four regasification plants in Cartagena, Huelva, Barcelona y Gijón.
- It also owns 50% of the Regasification Plant BBG (Bilbao) and 72.5% of the Sagunto plant (Valencia).

Chile:

- Subsequent to different agreements reached amongst the GNL Quintero shareholders in April 2017, Enagás holds an indirect stake of 45.40%, maintaining control and consolidating said interest under the full consolidation method. Chile is a key country for the strategy pursued by Enagás and GNL Quintero is an asset to which it has committed for the long term.

México:

- Enagás holds a 50% stake in the Soto La Marina compression station, another 50% stake in the Morelos gas pipeline, and a 40% stake in the Altamira plant.

Greek, Albania e Italy:

- Enagás holds 16% of interest in the compay responsible for developing the Trans Adriatic Pipeline (TAP) project, which consists in the construction of a gas pipeline linking Turkey and Italy via Greece and Albania, and is considered a Project of Common Interest (PCI) by the European Union.

Peru:

- In 2017 Enagás increased its interest in Compañía Operadora de Gas del Amazonas (COGA) from 30% up to 51%, positioning itself as one of the main shareholders of the natural gas transportation system in Peru and as active operator in said country.
- Enagás further holds a 28.94% stake in Transportadora de gas del Perú (TgP).

Sweden:

- Enagás Group owns 50% of Knubbsal Topholding AB, an indirect holder of 100% stake in Swedegas AB, the company that owns the entire network of the high pressure gas system in Sweden and the only operator in Sweden with European TSO certification (Transmission System Operator).

Government Structure

General Meeting of Shareholders

The General Shareholders' Meeting is the highest representative of the shareholders.

Enagás is one of the companies in the Spanish continuous market with more free float (95%). More than 70% of our international shareholding, highlighting the shareholding in the US-Canada and the United Kingdom (27% and 12% respectively).

Enagás applies a proprietary separation model, which establishes the maximum limit of ownership by any shareholder at 5%, with a limitation on the voting rights of 1% for agents in the gas sector and 3% for the rest of shareholders. These limitations do not apply to direct or indirect participation to the public sector.

Board of Directors

Enagás has a percentage of independence (54%) higher than the average of the Spanish market and has been reducing the number of members of the Board of Directors up to 13 members currently.

In addition, Enagás' commitment to promoting gender diversity in the Board is reflected in the significant increase in the percentage of women, from 6% in 2007 to 23% in 2017, with a commitment to reach 30% by 2020.

Behavior and probable evolution

Enagás works for the development of the gas sector, because natural gas is a key element to achieve a sustainable, safe and efficient energy in a low carbon economy. It is the most efficient technical-economic solution compared to other conventional fuels, with the lowest cost for citizens and companies. Natural gas contributes to the competitiveness of the industry and reduces the environmental impact.

In 2017, Enagás has operated in a context of relatively stagnant energy demand, in which gas has accelerated its growth in the last two years, moving towards mostly coal and being overtaken by renewables, whose growth has been faster. LNG is being the main protagonist of the gas sector, with growth in 2016 and in 2017 much higher than the demand for gas.

In Spain, the gas demand grow by 9% in 2017, compared to the previous year (growth for the third consecutive year). This increase is mainly due to the growth of industrial demand (7% respect to the previous year) and the demand for electricity generation (27% increase).

In relation to the net profit during 2018, it is expected that the growth of the result without taking the effect of the revaluation of the cost of the first acquisition of Quintero is 1% in 2017. Enagás Group plans to make net investments for the year 2018 for an approximate value of 67 million euros, of which is expected that around 150 million euros will be allocated to regulated assets in Spain and the rest come from international investment.

The Strategic Priorities 2017-2020, which gives continuity to the approach that the company has been developing in recent years. During 2017, Enagás continued to develop its activity in a consistent manner with the drivers and established strategic criteria, focusing on the three identified growth axes.

- Participate in the integration of the European natural gas market: Enagás aspires to become a key European player with growing relevance in the Internal Energy Market.
- Develop natural gas infrastructures in growing markets: lay the foundations for deploying Enagás' business model as an independent TSO in countries with high growth potential.
- Strengthen Enagás 'position as a global specialist in LNG (regasification and liquefaction): Take advantage of opportunities to interconnect markets globally while maintaining Enagás' position as a leader in LNG.

The Strategic Plan of Enagas, it is based on the following strategic priorities:

- Growth
- Solid financial and liquidity
- Efficiency and regulatory visibility
- Attractive and sustainable shareholder remuneration
- Leadership in sustainability

II. Evolution and results

The information included in "Enagás: good new energy," "Our project for the future,""Our culture: doing things properly,""Creating economic, social and environmental value," and "Key indicators" in the Annual Report forms a part of this Management Report, fulfilling the stipulations of Royal Decree Law 18/2017, of November 24, on non-financial information and diversity.

Economic Dimension

Good governance

Good governance is a priority for the company, as reflected in Enagas Sustainability and Good Governance Policy. This Policy confirms that a good governance model allows us to generate value in the short, medium and long term for shareholders, customers, suppliers and other interest groups. In addition, it strengthens the control environment of the company, its reputation and credibility with third parties.

The key areas on which our governance model is based are the strategy and objetives of the company, the structure and functioning of the company bodies (independence, diversity, etc.), their performance and the incentive systems for the takings decisions. In 2017, the Board's training in key financial and non-financial matter in the management of the company continued, as well as the Board's evaluation by an independent external auditor.

Financial and operational excellence

Principal Economic Results

Net Profit amounted to 490.8 million euros, 17.6% higher than 2016, compared to the estimated 12%. The result was by the equity method of 72.9 million euros (15% contribution of the investee companies to the profit after taxes). In 2017, investments worth 329 million euros were made, focusing the effort on managing the heavy investment made in recent years.

The dividend per share of 2017 increased by 5% over the previous year, reaching 1.5 euros per share. Enagás concluded 2017 at 23.9 euros per share. This implies a capitalization of 5,699 million euros. The share capital of Enagás as of December 31, 2017 was 358.1 million euros, with 238.7 million shares.

Enagás has adapted to the new context derived from the crisis, reducing the external financing of banks and replacing it with another type of financing -such as bonds-, which has allowed it to achieve a more diversified structure. Net debt at a fixed rate is higher than 80%, without significant debt maturities until 2022.

In 2017 the rating agencies Standard & Poor's and Fitch Ratings in its annual review report has reaffirmed Enagás' long-term "A-" rating.

Enagás is part of the Dow Jones Sustainability Index for the tenth consecutive year, with the leading company in the Oil & Gas Storage & Transportation with a rating of 86 points.

Business growth
As a consequence of the options agreement signed by Enagás Chile and ENAP in 2016, in 2017 various agreements were reached amongst the GNL Quintero shareholders, with the following results: Enagás Chile continues to maintain control and consolidate its indirect stake of 45.40% in GNLQ under the full consolidation method, resulting in a net cash flow of 150 million US dollars for the Enagás Group. Amongst said agreements, Enagás Chile reached an options agreement for acquisition of an additional 5% of GNLQ share capital, held by OMERS via Terminal de Bahía de Quintero SpA, and exercisable in one year.

Via Enagás Internacional S.L.U., Enagás increased its share in Compañía Operadora de Gas del Amazonas (COGA) by 21%, that is, from a total holding of 30% up to 51%. As a result of this acquisition, the shareholder structure of COGA is as follows: Enagás Internacional, S.L.U. 51%, Carmen Corporation (CPPIB) 49%. As a result of this agreement, Enagás became the main shareholder of the company responsible for operating and maintaining the natural gas transportation systems in Peru.

In 2017, two companies derived from the Enagás Emprende corporate project were formed and the majority owned by Enagas Emprende, SLU: Scale Gas Solutions, SL, amounting to 216 thousand euros and Efficiency for LNG Applications, SL, amounting to 300 thousand euros.

In July 2017, the company Mibgas Derivatives, S.A. was set up amounting to 500 thousand euros. This company was initially created by Mibgas, S.A., but after signing a contract for the sale of shares, the result is that the Enagás Group holds a total participation of 28.34% over this company.

Social Dimension

Human resources management
Enagás, as a certified Top Employer company, offers stable and quality employment with high percentages of permanent and full-time labor contracts, totalling 98.3% and 97.8%, respectively. In addition, the commitments acquired by Enagás in the policy it pursues for Management of Human Resources, together with the measures and actions implemented, translate into high levels of employment satisfaction and motivation, as reflected in low staff turnover (1.9% voluntary turnover) and the results obtained in the survey conducted on the working environment and atmosphere.

Enagás' integrated talent management model to promote the achievement of the Company's strategic objectives and plans through four principles: to attract the best talent to Enagás, to know our internal talent, to continuously train our professionals and to develop the Internal talent.

Corporate guidelines on diversity and equal opportunities, define the principles on which Enagás frames its action in this area. These principles reflect the integration of diversity in key Human Resources processes such as access to employment, personal growth and development and career advancement. It also reflects the company's commitment to the promotion of policies and measures that favor the balance between work and personal life of its professionals. In the same way, Enagás extends this commitment to all its stakeholders, paying special attention to suppliers and contractors as indispensable collaborators for the achievement of the company's business objectives.

In 2017 Enagás renewed its certification as a Top Employer Company, its commitment to the Charter for Diversity, and the Equality Distinction issued by the Ministry of Health, Social Services, and Equality.

Security and Health
Enagás' global security approach is based on the integration of the safety and health culture into the environment, people, facilities and information, through the involvement of leaders and the development of a model of security behaviors and health.

The Enagás Group's Occupational Risk Prevention Management System, certified according to OHSAS 18001 (100% of activities), has procedures and standards for the identification and evaluation of risks, as well as for the notification of accidents.

In addition, Enagás is certified as a Healthy Company.

Ethical compliance and human rights
Enagás has a framework of policies, procedures and regulations that consists of: the Group's Code of Ethics, corporate policies and guidelines, and the management and regulatory procedures necessary to ensure due diligence in related matters.

The Enagás Ethics Channel is a platform for consulting doubts and notifying irregularities or breaches of the Code of Ethics and is managed by the Ethics Compliance Committee of the company. In 2017 two reports were made via the Ethics Channel: a complaint alleging a superior's abuse of power and privileges, the subsequent investigation of which concluded with corrective measures; and a second report relating to a selection process, which was rejected and filed subsequent to communicating with the interested party.

The Compliance Model applied by Enagás is the main tool to ensure ethics and integrity in the performance of its activities. This model is articulated around the Compliance Policy and its related regulations.

In addition, framed in the compliance model, Enagás has a crime prevention model that is configured as the main core of the company's criminal compliance.

Relationships with the community
The objective of Enagás social investment is to contribute to the socio-economic development of local communities, giving priority to those areas in which the company operates, through sustainable social action models. Through dialogue and collaboration with stakeholders, the positive social impact of the company's initiatives, whether in the form of volunteering (387 participating employees and 2,675 dedicated hours), sponsorship, patronage or donation (2 million euros in 2017).

Supply chain
Management of the supply chan is one of our key material issues. Adequate management of the supply chain allows us to identify and manage regulatory, operational, and reputational risks, as well as take advantage of opportunities for collaboration and the creation of shared value.

In order to work with Enagás, the suppliers must be certified; and to qualify for certification, the following requirements must be met:

- Capacity and resources to meet technical, quality, environmental and safety requirements, and upholding thereof over an extended period of time.
- Observance of the principles of the United Nations Global Compact and the Universal Declaration of Human Rights.
- Certifications relating to quality, environmental matters, and security for suppliers of certain product or service families.

The Group's average payment period for its suppliers is 32 days.

Environmental issues

Activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources are essential elements in the Enagás Group's environmental management to mitigate the impact of its activities.

Environmental management
Enagás undertakes its environmental commitments (as reflected in the Health & Safety, Environment and Quality Policy) through the Environmental Management System and 100% of its activity is certified in accordance with ISO 14001. In addition, in 2017 EMAS verification was conducted for the storage facilities of Serrablo and Yela; the Huelva and Barcelona regasification plants having already received the corresponding certification.

During 2017, environmental actions were carried out in the amount of 5,288 thousand euros, recognised as investments under assets in the balance sheet (11,084 thousand euros in 2016). The Company also assumed environmental expenses amounting to 2,422 thousand euros in 2017, recognised under "Other operating expenses" (1,853 thousand euros in 2016).

Climate change and energy efficiency
Enagás increases its commitment to fighting against climate change every year through its management and continuous improvement model, based on public commitment, emission reduction measures and the reporting of our performance and results, as well as the extending of our commitment to our supply chain.

In addition, Enagás is invested in the use of gas as the least polluting fuel and, therefore, key to the power generation mix for meeting emission reduction targets and allowing the development of more efficient energies; as well as replacing other fossil fuels as we move towards more sustainable mobility in sea, rail and road transport.

The Company sets itself improvement challenges by establishing objectives for reducing annual emissions in the medium term, as well as via the definition of an emissions compensation strategy. In order to achieve said objectives, the Company implemented an Energy Efficiency and Emissions Reduction Plan some years ago, through which different energy saving measures are identified, developed, and quantified.

Noteworthy in 2017 was the signing of a commitment to adopt the reporting recommendations prepared by the Task Force on Climate related Financial Disclosures (TFCD) and the initiation of a voluntary compensation program for greenhouse gas emissions.

III. Liquidity and capital resources

Enagás has adapted to the new circumstances arising out of the crisis, reducing its external financing through banks and resorting to other types of financing, such as bond issues, which has permitted the Company to achieve a more diversified structure. Net debt in 2017 decreased by 5,008 thousand euros with respect to 2016.

The Enagás debt structure is noteworthy in that fixed rate debt predominates, comprising more than 80% of debt. Likewise, 72% of the debt corresponds to capital markets, 20% to long-term institutional debt (BEI and ICO), and 8% to bank financing.

	2016	2017
Net Debt/ Adjusted EBITDA (*)	5.2x	4.4x
FFO / Net Debt	15%	17.4%
Debt Cost	2.4%	2.7%
Liquidity (millions of euros)	2,409	2,484

(*) Adjusted EBITDA for dividends received from subsidiaries.

IV. Main business risks

The Enagás Group is exposed to various risks intrinsic to the sector, markets in which it operates and the activities it performs, which, should they materialise, could prevent it from achieving its objectives and executing its strategies successfully.

The Enagás Group has established a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model allows to adapt to the complexity of its business activity in a globalized competitive environment, in a complex economic context, where the materialization of a risk is more rapid and with an evident contagion effect.

This model is based on the following features:

- The consideration of some standard types of risk to which the Company is exposed.
- Segregation and independence of risk control and management functions articulated by the Company in three lines of "defense".
- Governing bodies with responsibilities regarding supervision of the Company's risk level.
- Establishing a risk appetite framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the activities are carried out.
- Transparency in the information provided to third parties, guaranteeing reliability and rigor.

The integral analysis of all risk permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

The main risks associated with the Group's business activities are classified as follows:

1. Strategic and business Risks

These are risks which are inherent to the gas sector and are linked to potential losses of value or results derived from external factors, strategic uncertainties, economic cycles, changes to the environment, changes to patterns of demand, competition and market structure or changes to the regulatory framework, as well as those derived from taking the incorrect decisions in relation to business plans and company strategies.

The activities carried out by the Enagás Group are notably affected by legislation (local, regional, national and supranational). Any change in that legislation could negatively affect profits and the value of the company. Within this type of risk, regulatory risk is of special relevance, and is associated with the remuneration framework and, therefore, the regulated income from business activities.

Similarly, the new developments of infrastructures are subject to obtaining licences, permits and authorisation from governments, as well as legislation of various types, notably environmental regulations. These long-term and complex processes may give rise to delays or modifications to the designs initially projected due to: i) obtaining authorisation, ii) the processes relating to environmental impact studies, iii) public opposition in the affected communities, and iv) changes in the political environment in the countries in which it operates. All of these risks may increase costs or delay projected income.

The growth in demand may also bring negative effects that will have a different impact in the short and medium- to-long term. Growth may also depend on meteorological conditions or the competitiveness of natural gas compared to other energy sources, performance of the general economy, etc.

In the short term, the variation in the demand for transport, regasification and underground storage of natural gas in Spain has a direct impact on a component of the regulated remuneration received by these activities. The degree to which regasification plants are used may have a negative impact on the forecasted operating costs, through greater internal consumption and greenhouse gas emissions.

In the medium-to-long term, the increase in the demand is a factor that creates opportunities for building new projects in transport, regasification and underground storage infrastructure for natural gas and its development may alter or delay decisions taken in dealing with these projects.

The results of the company may also be affected by the legal risk arising from the uncertainties related with the different interpretation of contracts, laws or regulations which the company and third parties may have, as well as the results of any law suits undertaken.

The internalisation process that Enagás Group is undertaking means that its operations are being developed in specific regulatory frameworks and contexts of different investment needs, which have specific risks associated with them.

This context includes risks resulting economic or political crises that affect the operations of subsidiaries, the expropriation of assets, changes in commercial, tax, accounting or employment legislation, restrictions applied to the movement of capital, etc.

Major infrastructure projects are being undertaken, which are exposed to various risks of construction, for example deviations in completion deadlines or changes to plans and designs, with potential negative impact on the planned investment, penalties, etc.

Certain internal regulatory frameworks mean that subsidiaries assume a commercial risk and their short-term revenue is affected by the increase in the demand, competitiveness of natural gas compared with other sources of energy or the negotiation of tariffs with industrial clients.

The Enagás Group has implemented measures to control and manage its strategic and business risk within acceptable risk levels, consisting in the continuous supervision of risk in connection with regulatory changes, market conditions, competition, business plans, strategic decision-making, etc. as well as the management measures to contain risk at that level.

2. Operational and technological risk

During the operation of the infrastructures of the Enagás group, losses of value or deterioration of results can occur due to the inadequacy, failures of physical equipment and computer systems, errors of human resources or derived from certain external factors. This type of risk can in turn be classified as industrial infrastructure risk (related to the nature of the fluids under management), risks associated with infrastructure maintenance, logistical and commercial processes, as well as other risks associated with corporate processes.

The main operational and technological risks to which the Enagás Group is exposed are the following:

- Industrial risk, relating to incidents during operation of transport infrastructure, regasification plants, and underground storage, which potentially involve great damage; very often conditioned by the nature of the fluid under management.
- Internal and/or external fraud.
- Cybersecurity, in the different guises it may present itself (economic fraud, espionage, activism, and terrorism).

The Enagás Group identifies the activities relating to control and management which can provide an adequate and appropriate response to these risks. Amongst the control activities thus defined there are emergency plans, maintenance plans, control and alerting systems, training and skill upgrading for staff, application of certain internal policies and procedures, defining quality indicators, establishing limits, and quality certifications and audits, prevention and environment, etc. which allow the Group to minimise the probability of occurrence relating to these risks. To mitigate the negative economic impact that materialisation of any of these risks may have on the Enagás Group, a series of insurance policies have been arranged.

Some of these risks could affect the reliability of the financial information prepared and reported by the Enagás Group. A Financial Information Internal Control System was implemented to control these types of risk, the details of which can be consulted in the Corporate Governance Report.

3. Credit and Counterparty Risks

Credit risk consists of the possible losses arising from a failure to pay the financial or quantifiable obligations owed by a counterparty to which the Enagás Group has extended net credit and is pending settlement or collection.

The counterparty risk includes the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.

The Enagás Group monitors in detail this type of risk for its commercial activity, which is particularly relevant in the current economic context among the activities. The activities carried out include analysing the risk level and monitoring the credit quality of counterparties, regulatory proposals to compensate the Group for any possible failure to comply with payment obligations on the part of marketers (an activity that takes place in a regulated environment), the request for guarantees or guaranteed payment schedules in the long-term agreements reached with respect to the international activity, etc.

However, regulations have been developed establishing standards for managing guarantees in the Spanish gas system and which oblige gas supply companies to provide guarantees for: (i) contracting capacity in infrastructure with regulated third-party access and international connections, (ii) settlement of imbalances; and (iii) participation in the organised gas market.

The measures for managing credit risk involving financial assets include the placement of cash at highly-solvent entities, based on the credit ratings provided by the agencies with the highest international prestige. Interest rate and exchange rate derivatives are contracted with financial entities with the same credit profile.

The regulated nature of Enagás Group business activity does not allow an active customer concentration risk management policy to be established. However, the internalisation process that the Company is carrying out will facilitate the reduction of this potential risk.

Information concerning credit and counterparty risk management is disclosed in Note 3.7 to the consolidated financial statements.

4. Financial and Fiscal Risks

The Enagás Group is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that bear fixed rates as well as the future cash flows generated by assets and liabilities accruing variable rates. The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the income statement. Changes in exchange rates during the consolidation process can affect the debt positions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses of subsidiaries that do not use the euro as functional currency, and translation differences of the financial statements for those companies whose functional currency is not the euro. The Enagás Group's exchange rate risk management is designed to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies. It also involves analyzing the possibility of contracting exchange rate derivatives to hedge against volatility when collecting dividends for each of the opportunities for international expansion analyzed.

The Enagás Group maintains a liquidity policy that is consistent in terms of contracting credit facilities that are unconditionally available and temporary financial investments in an amount sufficient to cover the projected needs over a given period of time.

With respect to large-scale projects, the Enagás Group is also exposed to the uncertainty of whether it will effectively obtain the required financing on the terms foreseen in its business plans. On certain occasions, this financing risk could be related to other risks arising from contractual terms and conditions regarding services (which may even lead to termination of the concession agreement).

With respect to tax risk, the Enagás Group is exposed to possible modifications in tax regulatory frameworks and uncertainty relating to different possible interpretations of prevailing tax legislation, potentially leading to negative effects on results.

The financial risk management policy is described in Note 3.7 to the consolidated financial statements.

5. Reputational Risks

Reputational risk refers to any action, event or circumstance that could have either a harmful or beneficial effect on the company's reputation among its stakeholders.

The Group has implemented a reputational risk self-assessment procedure which uses qualitative measurement techniques. This process considers the potential reputational impact of any of the risks listed in the current inventory as a result of strictly reputational events arising from the action, interest or opinion of a third party.

6. Compliance Risk and Model

The Enagás Group is exposed to the compliance risk, which includes the cost associated with potential penalties for breach of laws and legislation, or penalties resulting from the materialisation of operational events (environmental damage, damage to third parties, filtration of confidential information, health, hygiene and workplace security, etc.). In addition, the use of improper business practices (infringement of competition laws, independence of functions, etc.) or the breach of internal company policies and procedures.

Also, the Group may be affected by risks associated with the improper use of assessment models and/or risk measurement, and hypotheses that are outdated or do not have the necessary precisions to be able to correctly evaluate their results.

7. Criminal Liability Risk

The amendments made to Article 31 bis of the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this regard, the Enagás Group could be held liable in Spain for certain crimes committed by its directors, officers and staff in the course of their work and in the interest of the Company.

To prevent this risk from materialising, the Enagás Group has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the Company.

As a result of the international development of the company, the Crime Prevention Model is being expanded for the purpose of meeting the requirements of Mexican criminal legislation and US anti-corruption legislation.

8. Other risks

Given the dynamic nature of the business and its risks, and despite having a risk management and control system that responds to the best international recommendations and practices, it is not possible to guarantee that some risk is not identified in the risk inventory of the Enagás Group.

V. Subsequent Events

a) Since January 1 2018 and the date on which these Consolidated Annual Accounts were drown up, no events have occurred that would significantly affect the profit(loss) of the Group or its equity.

VI. Reserch and Development activies

In the field of technological innovation developed by Enagás during 2017, the main actions have been to improve various aspects of its present activity and to analyze and deepen the knowledge of other possible technologies that may be in the future supported and put into value the infrastructures and / or the know-how of the Company. Among the first are efficiency in a broad sense; gas measurement and analysis of its components; operational safety; the materials and equipment necessary for their activity. Among the second are the production and transport of biogas and hydrogen and, on a second level, a hypothetical future development of the infrastructure needed to deploy CTS (Capture, Transport and Storage CO2) technologies.

Find a description of each of the following performace:

1. Efficiency

This section includes two distinct chapters: energy efficiency and technical efficiency.

Energy Efficiency

During 2017 Enagás has continued its efforts, on the one hand, to reduce the energy consumption of its facilities and, on the other hand, to raise the level of energy it produces for self-consumption or export.

The consumption reduction in its facilities is to mainly focus on the optimization of its processes, to minimize the energy needs of them, and in the modification or replacement of their equipment, to improve their unit performance.

The production of energy is based on the use of the residual energies of its processes to, in turn, produce electrical energy. The residual energy used is the heat that is lost through the exhaust gases of the gas turbines, the cold that is wasted during the vaporization process of the liquefied natural gas (LNG) and the pressure that dissipates in the points in which is regulated by needs of the gas transportation system or for the delivery of gas to other carriers or distributors. Currently, Enagás has facilities for each of these three types. In the course of 2017 various projects were initiated or further developed, such as Feasibility studies for wind turbines in Zaragoza and Bermeo, Optimization of ORV seawater consumption, Measurement of fugitive methane emissions, Frequency variators in seawater pumps at plants in Barcelona and Cartagena and the primary tank pump at the Cartagena plant, Optimization of dry-coolers in compressor stations, and Predictive control in regulation and measurement stations.

Technical Efficiency

As a result of the experience acquired in previous years, during 2017, the possible technical and economic convenience of self-producing certain inputs necessary for the operation of the facilities has continued. In this sense, the most noteworthy production is that of expanding the autonomous generation of nitrogen at the Huelva plant.

In addition, during 2017, the technical-economic analysis of possible installation alternatives for the BOG/LNG heat exchanger equipment which increase the amount of boil-off recovered in the reliquefaction unit and, consequently, reduce the consumption of electric energy in the compressors. Based on the results obtained from the study, and subsequent to carrying out a sensitivity analysis in order to determine how changes in the initial parameters affect project profitability, the proposal for optimal configuration of the Cartagena plant involves installation of LNG/BOG heat exchanger equipment in series with the existing seawater/BOG.

2. Measurement and analysis of natural gas

Enagás continues to equip itself with the best available techniques to reduce the level of uncertainty in the measurement of the energy contained in natural gas, both in the liquid state (LNG) and in the gaseous state (NG), at the points at which it is received or delivered to third parties. This innovative effort has been translated into different studies and actions during the year 2017, among which we highlight the following: Upgrading the Communications and Measurement Model, upated with the most ideal technology available in the market, and upgrading the LACAP management and control system (Laboratory for the calibration of high pressure counters).

Although it is a matter of minor economic importance compared to the previous one, due to its possible impact on the operation, Enagás also continued during 2017 its effort to improve the results obtained in the analytical of certain minor components of natural gas: water, sulfur, hydrocarbons and odorant. After finalizing the study, measures could be determined, such as an archiving system for incidents, acquisition of portable measurement equipment, corrective procedures, evaluation of preventive measures.

3. Operational Safety
Throughout 2017, Enagás continued with the pipeline safety research line and other installations. The work has focused on improving the mathematical models used. To this end, participation in different international joint projects has been maintained, which has also confirmed that the level of security of the Enagás facilities is adequate and is in line with that of other foreign companies with similar characteristics.

It has also continued to update the tools developed to meet the needs of different areas of the Company both in the design of new facilities and in the operation of existing ones.

All of the above has been carried out in accordance with the legislation in force in the matter.

4. Materials y equipment
During 2017, Enagás has continued its activities to keep up to date a set of specifications and technical requirements, applicable to the materials and equipment with which it designs, builds and operates its facilities, which collects the state of the art at all times and ensures that the best alternatives are adopted in order to optimize the total cost (CAPEX + OPEX) of these facilities for the Company, without undermining the security levels. For this purpose, we work actively in different national and international organizations and technological entities. Participation in normative organizations (ISO, AENOR, BEQUINOR) and in groups and associations of research and development (GERG, EPRG) stands out.

5. Evolution of gas infraestructure
Enagás is aware of the wide diversity of scenarios and solutions that the energy sector could evolve in the future in a broad sense. As a consequence and independently of other actions that are carried out in various areas of the company to anticipate events and adapt to the profound changes that will arrive, in the area of R&D remains in contact with technologies complementary and/or alternative to natural gas and which can also use part or all of the gas infrastructure in its hypothetical future development and implementation. In this sense, the following are considered as more plausible technologies: mixtures of hydrogen with natural gas in certain percentages; pure hydrogen; biogas and biomethane. In addition, the possibility of future development of CO2 capture, transport and storage technologies is also contemplated. In this way, the experience and know-how of Enagás would be fully applied, due to its similarity, in the deployment of the different infrastructures linked to this technology (pipeline transport and underground storage of CO2).

In line with the above, during 2017, the Group continued with and finalized development of the RENOVAGAS Project, a project initiated and led by Enagás, which concluded in June 2017. This project mainly consisted in the design and construction of a 15 kW pilot installation which transforms the CO2 present in biogas produced at the waste treatment plant of FCC-AQUALIA in Jerez de la Frontera into methane. The biogas is made to pass through a reactor which, via appropriate catalyzers and with hydrogen input produced by hydrolysis using excess electricity energy of a renewable nature, makes the CO2 react with the hydrogen, thereby producing methane.

Finally, during 2017, participation in the Spanish CO2 Platform and collaboration in two very promising European projects (HYREADY; NGHPIPE), which deal with the feasibility of injecting hydrogen, in certain percentages, into the gas networks has also been extended.

VII. Acquisition and sale of treasury shares
In 2017, there was not acquisitions or disposals of treasury shares.

On February 19, 2018, the Board of Directors of Enagás, S.A. authorised the consolidated financial statements and management report for the year ended December 31, 2017, consisting of the accompanying documents, sined and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce.

Declaration of Responsibility

For the purposes of article 8.1 b) of Spanish Royal Decree 1632/2007, of October 19, 2007, the undersigned directors state that, to the best of their knowledge the annual consolidated financial statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the Group and that the Group's management report includes a fair analysis of the performance and results of the businesses and the situation of the Group, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the annual consolidated financial statements or management report.

Chairman

Mr. Antonio Llardén Carratalá

Chief Executive Officer

Mr. Marcelino Oreja Arburúa

Consultant

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por Mr. Bartolomé Lora Toro)

Mr. Luis Javier Navarro Vigil

Mr. Martí Parellada Sabata

Mr. Luis García del Río

Mr. Gonzalo Solana González

Mr. Luis Valero Artola

Mr. Antonio Hernández Mancha

Ms. Ana Palacio Vallelersundi

Mr. Jesús Máximo Pedrosa Ortega

Ms. Rosa Rodríguez Diaz

Ms. Isabel Tocino Biscarolasaga

Managment Board

Mr. Rafael Piqueras Bautista