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Consolidated Financial Statements 2016

Auditor's Report



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Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 34)

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Enagás, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2016, the consolidated income statement, the consolidated statement of recognized income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility 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 consolidated equity and consolidated financial position and the consolidated results of Enagás, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, 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.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit requires performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of Enagás, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions in the regulatory framework for financial information applicable in Spain.

Matter-of-emphasis paragraph

We call attention to the circumstances described in Note 8.1 of the accompanying consolidated financial statements related to the investee Gasoducto Sur Peruano, S.A. This matter does not modify our opinion.

Other matters

On February 16, 2016 other auditors issued their audit report on the 2015 consolidated financial statements, in which they expressed an unqualified opinion.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of Enagás, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

David Ruiz-Roso Moyano

February 13, 2017

Enagás, S.A. and subsidiaries

Consolidated Financial Statements at December 31, 2016

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2016

(Figures in thousands of euros)

Assets	Notes	12/31/2016	12/31/2015
NON-CURRENT ASSETS		7,960,994	7,072,033
Intangible assets	5	76,419	80,286
Goodwill		25,812	25,812
Other intangible assets		50,607	54,474
Investment properties	7	24,900	24,970
Property, plant and equipment	6	5,002,887	5,183,400
Equity-accounted investments	8 and 32	1,870,973	1,191,105
Other non-current financial assets	8	916,225	518,837
Deferred tax assets	21	69,590	73,435
CURRENT ASSETS		1,286,973	679,885
Inventories	9	18,217	16,881
Trade and other receivables	8 and 10	474,257	426,404
Other current financial assets	8	4,808	7,521
Other current assets		4,237	4,451
Cash and cash equivalents	11	785,454	224,628
TOTAL ASSETS		9,247,967	7,751,918

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2016

(Figures in thousands of euros)

Liabilities	Notes	12/31/2016	12/31/2015
EQUITY		2,462,936	2,391,572
SHAREHOLDER'S EQUITY	12	2,373,681	2,318,911
Issued capital		358,101	358,101
Reserves		1,737,183	1,674,200
Own Shares	12	(8,219)	-
Profit for the year		417,222	412,662
Interim dividend		(132,565)	(126,052)
Other equity instruments	29	1,959	-
NET UNREALISED GAINS (LOSSES) RESERVE	12	74,559	58,226
NON-CONTROLLING INTERESTS (EXTERNAL PARTNERS)	12	14,696	14,435
NON-CURRENT LIABILITIES		5,416,795	4,716,391
Non-current provisions	14	184,367	167,024
Non-current financial liabilities	15	4,888,749	4,192,752
Payables to related parties		-	17
Deferred tax liabilities	21	297,471	306,059
Other non-current liabilities	16	46,208	50,539
CURRENT LIABILITIES		1,368,236	643,955
Current financial liabilities	15	1,194,239	402,754
Trade and other payables	15 and 19	173,997	241,201
TOTAL EQUITY AND LIABILITIES		9,247,967	7,751,918

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Balance Sheet at December 31, 2016

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2016

(Figures in thousands of euros)

	Notes	12/31/2016	12/31/2015
Revenue	22	1,187,994	1,196,366
Revenue from regulated activities		1,146,977	1,159,494
Revenue from deregulated activities		41,017	36,872
Other operating income	22	29,522	25,233
Staff costs	23	(108,754)	(96,301)
Other operating costs	23	(226,271)	(224,948)
Depreciation and amortisation	5 and 6	(271,516)	(289,787)
Impairment losses and gains (losses) on disposal of assets	6 and 7	(458)	(8,600)
OPERATING PROFIT		610,517	601,963
Finance revenue	24	14,257	14,797
Finance and similar costs	24	(121,143)	(108,447)
Exchange differences (net)	24	(867)	630
Change in fair value of financial instruments	24	(5,644)	2,090
NET FINANCIAL GAIN/(LOSS)		(113,397)	(90,930)
Gain (loss) from equity-accounted investments	8 and 32	41,205	46,235
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		538,325	557,268
Income tax	21	(120,157)	(143,587)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		418,168	413,681
Loss attributable to non-controlling interests	12	(946)	(1,019)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		417,222	412,662
Attributable to: Equity holders of the parent		417,222	412,662
BASIC EARNINGS PER SHARE	13	1.75	1.73
DILUTED EARNINGS PER SHARE	13	1.75	1.73

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Income Statement at December 31, 2016

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE AT DECEMBER 31, 2016

(Figures in thousands of euros)

	12/31/2016	12/31/2015
PROFIT FOR THE YEAR	418,168	413,681
INCOME AND EXPENSE RECOGNISED IN EQUITY	(2,422)	21,721
Items that may be reclassified to profit and loss	-	-
Fully consolidated companies	(46,121)	(55,226)
Cash flow hedges	2,604	(15,656)
Translation differences	(48,074)	(43,484)
Tax effect	(651)	3,914
Equity-accounted companies	43,699	76,947
Cash flow hedges	(12,103)	(2,562)
Translation differences	53,003	78,842
Tax effect	2,799	667
TRANSFERS TO THE INCOME STATEMENT	18,755	8,950
Fully consolidated companies	14,267	7,435
Cash flow hedges	19,023	10,326
Tax effect	(4,756)	(2,891)
Equity-accounted companies	4,488	1,515
Cash flow hedges	8,710	2,338
Translation differences	(2,063)	-
Tax effect	(2,159)	(823)
TOTAL RECOGNISED INCOME AND EXPENSE	434,501	444,352
Attributed to non-controlling interests	946	1,019
Attributed to the parent company	433,555	443,333

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Statement of Income and Expense for the year ended at December 31, 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31 2016

(Figures in thousands of euros)

	Note	Capital	Share premium and service	Equity Instruments	Own shares	Profit of the year	Interim dividend	Net unrealised gains (losses) reserve	Non-controlling interested	Total Equity
BALANCE AT BEGINNING OF 2015		358,101	1,578,022	-	-	406,533	(124,142)	27,555	14,247	2,260,316
Adjustments due to changes in policies in 2015		-	-	-	-	-	-	-	-	-
Restatements for 2015 errors		-	-	-	-	-	-	-	-	-
ADJUSTED BALANCE AT JANUARY 1 2015		358,101	1,578,022	-	-	406,533	(124,142)	27,555	14,247	2,260,316
Total recognised income and expense		-	-	-	-	412,662	-	30,671	1,019	444,352
Transactions with shareholders		-	-	-	-	(186,213)	(126,052)	-	(831)	(313,096)
Dividends paid		-	-	-	-	(186,213)	(126,052)	-	(831)	(313,096)
Other changes in equity		-	96,178	-	-	(220,320)	124,142	-	-	-
Transfers between equity items		-	-	-	-	(220,320)	-	-	-	(220,320)
Other variations		-	96,178	-	-	-	124,142	-	-	220,320
BALANCE AT DECEMBER 31 2015		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
BALANCE AT BEGINNING OF 2016		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
Adjustments due to changes in policies in 2016		-	-	-	-	-	-	-	-	-
Restatements for 2016 errors		-	-	-	-	-	-	-	-	-
SALDO AJUSTADO AL INICIO DEL EJERCICIO 2016		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
Total recognised income and expense		-	-	-	-	417,222	-	16,333	946	434,501
Transactions with shareholders		-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Dividends paid		-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Operations Involving Own Shares		-	-	-	(8,219)	-	-	-	-	(8,219)
Other changes in equity		-	62,983	1,959	-	(223,828)	126,052	-	80	(32,754)
Payments Based on Equity Instruments		-	-	1,959	-	-	-	-	-	1,959
Transfers between equity items	Note 15	-	-	-	-	(223,828)	-	-	-	(223,828)
Other variations		-	62,983	-	-	-	126,052	-	80	189,115
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

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Statement of Changes in Equity at December 31, 2016

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

(Figures in thousands of euros)

	Notes	12/31/2016	12/31/2015
PROFIT BEFORE TAX		538,325	557,268
Adjustments to profit		329,221	338,975
Depreciation and amortisation expense	5 and 6	271,516	289,787
Other adjustments to profit		57,705	49,188
Change in working capital		(128,927)	(23,085)
Inventories		(1,336)	(1,195)
Trade and other receivables	10	(100,448)	(4,817)
Other current assets and liabilities		(89)	344
Other non-current assets and liabilities		949	(1,221)
Trade and other payables	19	(28,003)	(16,196)
Other cash flows used in operating activities		(196,229)	(246,139)
Interest paid		(96,241)	(114,653)
Interest received		14,396	10,898
Income taxes paid	21	(116,442)	(143,656)
Other cash inflows/(outflows)		2,058	1,272
NET CASH FROM OPERATING ACTIVITIES		542,390	627,019
Payments for investments		(912,130)	(539,154)
Subsidiaries and associates	2, 3 and 8	(820,086)	(412,843)
Property, plant and equipment and investment property	5 and 6	(92,033)	(121,159)
Non-current assets held for sale		-	-
Other financial assets		(11)	(5,152)
Proceeds from disposals		12,170	8,944
Subsidiaries and associates		12,170	8,944
Non-current assets held for sale		-	-
Other cash flows from financing activities		86,262	46,568
Other cash inflows (outflows) from investing activities	8	86,262	46,568
NET CASH USED IN INVESTING ACTIVITIES		(813,698)	(483,642)
Receivables (and Payments) for equity Instruments		(8,219)	-
Equity Instruments Acquisition	12	(8,219)	-
Receivables (and Payments) for financial liabilities	15	1,163,354	(157,410)
Issues		4,178,904	1,518,407
Repayments and redemptions		(3,015,550)	(1,675,817)
Dividends paid	12	(322,164)	(313,097)
NET CASH USED IN FINANCING ACTIVITIES		832,971	(470,507)
EFFECT OF CHANGES IN CONSOLIDATION METHOD		-	-
Effect of changes in exchange rates		(837)	309
NET DECREASE IN CASH AND CASH EQUIVALENTS		560,826	(326,821)
Cash and cash equivalents at 1 January		224,628	551,449
CASH AND CASH EQUIVALENTS AT DECEMBER 31	11	785,454	224,628

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Cash Flow Statement at December 31, 2016.

1. Group activity

The parent company Enagás, S.A. was incorporated in Spain on July 13, 1972 in accordance with the Spanish Limited Liability Companies Law. Its corporate purpose is:

- The regasification, basic and secondary transport and storage of natural gas, by means of or through the corresponding owned or third-party gas infrastructures and facilities, and the performance of ancillary or related activities.
- The design, construction, commissioning, exploitation, operation and maintenance of all manner of gas infrastructures and complementary facilities, including control, remote control and telecommunications networks of any kind and electric grids, owned by it or third parties.
- The performance of all the duties related to the technical management of the gas system.
- The transport and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, by means of or through the corresponding owned or third-party infrastructure, and the design, construction, commissioning, exploitation, operation and maintenance of all manner of complementary infrastructure and facilities required to this end.
- The business of exploiting the heat, cooling and energy properties associated with or deriving from its core businesses.
- The provision of a range of services, including engineering, construction, advisory and consultancy services, in connection with the businesses constituting its corporate purpose, and participation in activities related to the management of the natural gas market to the extent compatible with the business activities vested in the Company by the law.

The foregoing activities may be carried out by Enagás, S.A. itself or through investees with an identical or analogous corporate purpose, subject to the scope and limits laid down in prevailing applicable oil and gas legislation. Under prevailing legislation, regulated transport and technical management activities of the system must be performed by two wholly-owned subsidiaries (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Accordingly, the following activities also form part of the corporate purpose:

- Management of the corporate group comprising the Company's equity investments in the companies constituting that group.
- The provision of assistance or support services to the Group companies and investees, to which end the Company may also extend any guarantees and securities deemed opportune.

Its registered office is at Paseo de los Olmos, no. 19, 28005, Madrid. The Articles of Association and other public information about the Company and its Group may be consulted on its web page, www.enagas.es, and at its registered office.

Enagás, S.A. is the parent of a group of companies that includes interests in subsidiaries, associates, jointly controlled operations and joint ventures engaged in the natural gas transport, storage and regasification business and which, together with Enagás, S.A., form the Enagás Group (the Group). Consequently, Enagás, S.A. is required to prepare consolidated financial statements for the Group in addition to its own financial statements, which also include information on its interests in subsidiaries, associates, jointly controlled operations and joint ventures.

The consolidated financial statements of the Group and those of each of the entities that compose the Group for 2016, which have served as the basis for the preparation of these consolidated financial statements, are pending approval by their respective Ordinary General Shareholders' Meetings and it is expected they will be approved without any modifications.

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

2. Basis of presentation of the financial statements and consolidation principles

2.1. Basis of presentation

The consolidated financial statements of the Enagás Group for 2016 were prepared based on the accounting records maintained by the parent company and the other entities forming part of the Group, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

For the preparation of these consolidated financial statements, all accounting policies and standards and mandatory measurement bases have been taken into consideration in order to present fairly the equity and financial position of the Group at December 31, 2016, the results of its operations, and the changes in its equity, cash flows and recognised income and expense during the year then ended.

The Consolidated Financial Statements for 2015 of the Enagás Group that are included for comparison purposes have also been prepared in accordance with IFRS as adopted by the European Union in a manner consistent with prior years, except for the standards and interpretations applicable to the Group that entered into force in 2016 (described in Note 2.6) and, if applicable, have been used by the Group in the preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements of the Enagás Group for 2016 were authorised for issue by the directors at their Board meeting held on February 13, 2017. The separate and consolidated financial statements for 2015 were approved by the shareholders of Enagás, S.A. at the General Meeting held on March 18, 2016 and were subsequently filed at the Madrid Mercantile Registry.

Notes 2.4, 2.6 and 3 include a summary of the most significant accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2016.

2.2. Responsibility for the information and estimates made

The information included in these consolidated financial statements is the responsibility of the directors of the parent company (Enagás, S.A.).

The Group's 2016 consolidated financial statements include estimates made by senior management of the Group and of the consolidated entities – subsequently ratified by their directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates relate basically to the following:

- The useful life of intangible assets and the assets recognised as property, plant and equipment (see Notes 3.b and 3.c).
- Provisions for dismantling/abandonment costs (see Note 3.c)
- The measurement of non-financial assets to determine impairment losses (see Note 3.d)
- Recognition of investments accounted for by the equity method (see Note 3.g).
- The fair value of financial instruments (see Note 3.i).
- Recognition of provisions and contingencies (see Note 3.m).
- The calculation of income tax and deferred tax assets (Note 3.p).
- The fair value of equity instruments granted under the long-term bonus plan (see Note 3.r).

Although these estimates were made on the basis of the best information available at December 31, 2016 regarding the facts analysed, it is possible that future events may require them to be modified (upwards or downwards) in the years ahead. This would be carried out prospectively, recognising the effects of the changes to accounting estimates in the consolidated income statement, as is stipulated in IAS 8.

The consolidated balance sheet at December 31, 2016 included negative working capital amounting to 81,263 thousand euros, as a consequence of recognizing trade payables relating to the Gasoducto Sur Peruano, S.A. project (hereinafter GSP) under current liabilities, as disclosed in Note 15. In the opinion of the parent company's directors, this situation will be resolved via the availability of unused credit lines (see Notes 12 and 15) as well as the business plan approved by them.

2.3 Changes in the scope of consolidation

The following changes in the consolidation scope of the Enagás Group occurred during 2016:

- On April 21, 2016, once the deadline for exercising the preferential subscription rights granted to the remaining partners had elapsed without any of them exercising said rights, the acquisition by Enagás Internacional, S.L.U. of an additional 1.64% interest in Transportadora de Gas del Perú, S.A. (hereinafter, TgP), amounting to 31,900 thousand US dollars (28,253 thousand euros) paid to Graña y Montero, S.A.A., became effective.

Subsequently, on December 15, 2016, and once the deadline for exercising the preferential subscription rights had elapsed without any partner exercising said rights, the acquisition by Enagás Internacional, S.L.U. and Carmen Corporation, L.P. (CPPIB) of the totality of interest held by International Power, S.A. in TgP became effective. The transaction amounted to a total of 62,641 thousand US dollars (58,860 thousand euros), with Enagás Internacional increasing its interest held in TgP by 2.96%.

Considering that Enagás Internacional, S.L.U. already held a stake of 24.34% as a result of the previous two acquisitions, its total interest increased to 28.94%, maintaining the significant influence it exercises over the company. Thus, consolidation will still be carried out using the equity method.

- At June 14, 2016, in accordance with the stipulations of article 65 ter. of Law 34/1998 of October 7, for the Hydrocarbon sector, relating to the MIBGAS, S.A., share dispersion, the acquisition by Enagás GTS, S.A.U of a 13.34% stake in the share capital of said company became effective. Said article establishes that MIBGAS, S.A. 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%. The acquisition amounted to a total of 400 thousand euros corresponding to shares and 4 thousand euros to the associated share premiums. Given that 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.
- On July 29, 2016, after approval of the transaction by the regulatory authorities and once the pertinent authorisations had been obtained, the acquisition of an 85% stake in Infraestructuras del Gas, S.A. from Unión Fenosa Gas, S.A. became effective, the former in turn holding 50% of the Sagunto, S.A. regasification plant (hereinafter Saggas). The total price of the transaction amounted to 92,218 thousand euros for the acquisition of shares. Likewise, a participative loan amounting to 14,442 thousand euros was subrogated. Given that Enagás Transporte S.A.U. already held 30% of indirect interest in Saggas via its subsidiary Iniciativas del Gas, S.L., the indirect interest held by Enagás Transporte, S.A.U. in said company increased by 42.5% to reach a total of 72.5%. By virtue of the current shareholder agreements, joint control is maintained over Saggas subsequent to these transactions as increased majorities are required for taking relevant decisions that require the vote of more than one partner. Consolidation is consequently also carried out with the equity method.
- For its part, Infraestructuras del Gas, S.A. consolidates its assets and liabilities using the full consolidation method, recognizing the 15% interest held in Omán Oil Company, S.A.O.C. under "Minority interests" in Equity.
- On July 29, 2016, Enagás Emprende, S.L.U. was incorporated for an amount of 150 thousand euros. This company, domiciled in Spain, is fully owned by Enagás, S.A., which has direct control over it, fully consolidating its assets and liabilities.
- On July 29, 2016, Vira Gas Imaging, S.L. was incorporated for 400 thousand euros. This company, domiciled in Spain, is 49% owned by Enagás Emprende, S.L.U. and is consolidated using the equity method as the latter exercises joint control over it.
- On September 15, 2016, once the deadline for exercising preferential subscription rights had elapsed without any partner exercising said rights, the acquisition by Enagás Chile, Spa. of the 20% interest in GNL Quintero, S.A. (hereinafter, GNL Quintero) held by Endesa Chile, Spa. and amounting to 197,365 thousand US dollars (175,458 thousand euros), became effective. Subsequently, and on November 8, 2016 the acquisition by Enagás Chile, Spa. of an additional 20% of interest held by Aprovisionadora Global de Energía, S.A. (AGESA) in GNL Quintero became effective. This acquisition cost 197,365 thousand US dollars (178,829 thousand euros).

With the closing of this transaction, Enagás Chile, Spa. directly acquired a 40% stake in the share capital of GNL Quintero, which in addition to the 20.4% it already held indirectly via its interest in Terminal de Valparaíso, S.A., increases its total interest in said company up to 60.4%. After these transactions, and by virtue of the current shareholder agreements, joint control over GNL Quintero is maintained and the company is thus consolidated utilizing the equity method.

- On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%. After this transaction, significant influence over the company was maintained and consolidation will therefore continue with the equity method.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the parent company Enagás, S.A. and its subsidiaries, associates, jointly controlled operations and joint ventures at December 31, 2016.

Subsidiaries are considered to be those companies in which Enagás Group meets all of the following requirements:

- It exercises authority over the subsidiary, which is understood to exist when a company holds rights that allow it to direct relevant activities, which are understood to be those that significantly affect the performance of the subsidiary.
- It maintains exposure or rights to variable returns deriving from its involvement with the subsidiary.
- It has the capacity to use its authority to influence the amount of the returns to be obtained from that subsidiary.

Subsidiaries are fully consolidated.

Interests held by minority shareholders in the equity and the results of the Enagás Group's consolidated subsidiaries are presented under the account 'Non-controlling interests (External Partners)' in 'Equity' in the accompanying consolidated balance sheet and under 'Results attributable to external partners' in the accompanying consolidated income statement.

Subsidiaries are consolidated starting on the acquisition date, i.e., the date on which the Group obtains control, and they continue to be consolidated until such control is lost. The financial statements for subsidiaries are prepared for the same period as those of the parent company.

A distinction is made between jointly controlled operations and joint ventures with respect to joint agreements, i.e., those in which the Enagás Group maintains joint control together with one or more partners. Joint control is understood to be shared control by virtue of a contractual agreement that requires the unanimous consent of all of the parties when taking decisions regarding relevant activities.

Jointly controlled operations are considered to be companies in which a contractual agreement provides a right to assets and obligations with respect to liabilities. Stakes in jointly controlled operations are proportionately consolidated.

Joint ventures are those in which a contractual agreement provides a right to the net assets of the business. Shareholdings in joint ventures are consolidated using the equity method. Where the Enagás Group acquires control over companies previously classified as joint ventures, a new estimate is made of the fair value of the previous stake in the equity of the company on the acquisition date, with income or loss recognised in the consolidated income statement for the period.

Associates are considered to be companies over which Enagás Group maintains significant influence, which is understood to be the authority to intervene in the investee company's financial and operating policy decisions, but over which neither control nor joint control is held. These stakes in associates are consolidated using the equity method.

If appropriate, adjustments are made to the financial statements of subsidiaries, investee companies, jointly controlled operations and joint ventures in order to unify their accounting policies with those applied by the Enagás Group.

The consolidation methods of the Enagás Group are described below:

- a. The full consolidation method was applied to wholly-owned investee companies Enagás Transporte, S.A.U., Enagás GTS, S.A.U., Enagás Internacional, S.L.U., Enagás Financiaciones, S.A.U., Enagás U.S.A., L.L.C., Enagás Perú, S.A.C., Enagás México, S.A. de C.V., Compañía Transportista de Gas Canarias, S.A. (hereinafter Gascan), Enagás Emprende, S.L.U. and Enagás Chile, Spa., Gasoducto Villa de Reyes, S.A.P.I. de C.V., and Gasoducto Tuxpan, S.A.P.I. de C.V. This method is also used to consolidate Enagás Transporte del Norte, S.L. and Infraestructuras del Gas, S.A. A 90% stake is held in the former, while an 85% stake is held in Infraestructuras del Gas, S.A., recognizing the 10% interest held by Ente Vaso de la Energía and the 15% interest held by Omán Oil Company, S.A.O.C. respectively, in the “Non-controlling interests (External Partners)” under Equity in the consolidated balance sheet at December 31, 2016.
- b. The companies considered to be jointly controlled operations, Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A., were proportionately consolidated.
- c. Lastly, the equity method has been applied to the companies Morelos EPC, S.A.P.I. de C.V.; Gasoducto de Morelos, S.A.P.I. de C.V.; Morelos O&M, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.; Compañía Operadora de Gas del Amazonas, S.A.C. (hereinafter COGA); Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.; Bahía de Bizkaia Gas, S.L. (hereinafter BBG), Trans Adriatic Pipeline AG (hereinafter TAP), GSP; Terminal de LNG de Altamira, S. de R.L. de C.V. (hereinafter TLA); TgP, Saggas, Iniciativas del Gas, S.L., MIBGAS, Vira Gas Imaging, S.L., Tecgas, Inc., Terminal de Valparaíso, S.A., GNL Quintero as well as Knubbsäl Topholding AB which is the parent company of the Swedegas Group and which includes the indirect participation of Swedegas AB.

The Enagás Group consolidation process took place as follows:

- a. Intra-group transactions: All balances, transactions, income and expenses between fully consolidated companies are eliminated on consolidation. In the case of proportionately consolidated companies, the balances, transactions and gains and losses on transactions with other Group companies are eliminated to the extent of the ownership interest consolidated. Realised gains and losses on transactions between Group companies and equity-accounted investees are eliminated to the extent of the Group’s ownership interest in the latter.
- b. Consistency: For investees which apply accounting principles and measurement bases different from those of the Group, adjustments have been made on consolidation, provided that the effect is material, in order to present the Consolidated Financial Statements based on consistent measurement bases.
- c. Translation of financial statements denominated in foreign currencies: The companies included in the scope of consolidation are presented in euros, with the exception of Enagás Internacional, S.L.U.; Enagás U.S.A., L.L.C.; TLA; Morelos O&M, S.A.P.I. de C.V.; Gasoducto de Morelos, S.A.P.I. de C.V.; Morelos EPC, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina, S.A.P.I. de C.V., GSP, TgP; Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.; Enagás Perú, S.A.C.; Enagás México, S.A. de C.V., Tecgas, Inc., Gasoducto Villa de Reyes, S.A.P.I. de C.V., Gasoducto Tuxpan, S.A.P.I. de C.V., GNL Quintero, Terminal de Valparaíso, S.A. and Enagás Chile, Spa, whose functional currency is the US dollar. In addition, COGA uses the Peruvian Nuevo Sol as its functional currency and Knubbsäl Topholding AB, parent company of the consolidated subgroup of the Swedegas Group, uses the Swedish krona (SEK).

These companies’ financial statements were translated to euros in the process of consolidation into the Enagás Group financial statements using the following procedures:

- The assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- The income and expenses for each income statement item are translated at the average exchange rates for the year in which the transactions were performed.
- The resulting exchange differences arising on net assets are recognised as a separate component of equity, as “Translation differences” under “Adjustments due to changes in value”.

When a company with a functional currency other than the euro is sold or is derecognised as a result of the loss of control, the translation differences relating to that company recognised in equity are reclassified from equity to profit or loss when the gain or loss on the disposal is recognised.

The exchange rates with respect to the euro of the Group companies' main foreign currencies in 2016 and 2015 are shown below:

Currency	Average exchange rate in 2016	Closing exchange rate at December 31, 2016
US dollar	1.10667	1.05668
New Peruvian Sol	3.86536	3.60100
Swedish krona	9.46999	9.58465

Currency	Average exchange rate in 2015	Closing exchange rate at December 31, 2016
US dollar	1.11035	1.08683
New Peruvian Sol	3.58057	3.78290
Swedish krona	9.35839	9.18248

The effect of the application of the translation process to the net assets of the companies and are integrated globally, whose functional currency is the dollar in the main headings of the Group's consolidated financial statements is as follows:

	Thousand of euros			Conversion to US Dollar
	Consolidated total	Contribution of companies with Euro functional currency	Contribution of companies with US dollar functional currency	
Other non-current financial assets	916,225	650,338	265,887	280,957
Trade and other receivables	474,257	465,361	8,896	9,400
Other current financial assets	4,808	8	4,800	5,072
Cash and cash equivalents	785,454	747,649	37,805	39,948
Non-current financial liabilities	4,888,749	4,330,631	558,118	589,752
Current financial liabilities	1,194,239	1,068,004	126,235	133,390
Trade and other payables	173,997	168,311	5,686	6,008

- d. Elimination of dividends: Intra-group dividends are those recognised as revenue for the year by a Group company and which have been paid by another Group company.

During the consolidation process, the dividends received by fully and proportionately consolidated companies are eliminated by considering them to be reserves of the recipient company and they are included under the heading 'Reserves'. In the case of non-controlling interests in fully consolidated companies, the amount of the dividend relating to the stake held by minority shareholders is eliminated from the heading "Non-controlling interests (External Partners)" under consolidated equity.

- e. Equity method: The investment is initially recognised at cost and it is subsequently adjusted for the changes in net assets at the investee company that are attributed to the investor. The dividends received are recognised as a reduction in the heading "Equity-accounted investments".

Consolidated profit for the year includes the Company's share in the investee's period profits under the heading "Profit on equity-accounted investments" in the accompanying consolidated income statement. If the interest in the losses of an associate or joint venture equals or exceeds the stake held, the loss is no longer recognised under additional losses. Once the interest held by the company is reduced to zero, additional losses will be maintained and a liability is recognised only to the extent that the company has incurred legal or implicit obligations, or has made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the company will again recognise its interest in them only after its stake in those profits equals the share in the unrecognised losses.

The accompanying consolidated statement of recognised income and expense includes the Company's interest in the same statement of that investee company.

The recognition of investments accounted for by the equity method is disclosed in Note 3.g. Note 32 discloses information on the joint ventures of the Group at 2016 year end.

2.5. Comparative information

The information provided as at 2015 is presented solely for comparison purposes with the information for 2016.

2.6. Accounting standards and interpretations

a. Standards, amendments and interpretations in issue and effective in the current year

The accounting policies adopted for the preparation of the consolidated financial statements for the year ended December 31, 2016 are the same as those followed for the preparation of the consolidated financial statements for 2015, except for the adoption, from January 1, 2016, of the following standards, amendments and interpretations issued by the IASB (International Accounting Standards Board) and the IFRS-IC (IFRS Interpretations Committee), and adopted by the European Union for use in Europe:

Approved for use in the European Union		
Standards, amendments and interpretations	Index	Mandatorily applicable in annual periods beginning on or after
Improvements to IFRS 2010-2012 Cycle	Minor modifications to a set of standards.	Annual periods starting February 1, 2015
Amendment to IAS 19: Employee contributions to defined benefit plans	The modification is issued to facilitate the possibility of deducting these contributions from the cost of the service in the same period in which they are paid if certain requirements are met.	Annual periods starting February 1, 2015
Amendment of IAS 16 and IAS 38 - Acceptable methods of depreciation and amortization	It clarifies that income-based amortization methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits of an asset.	Annual periods starting January 1, 2016
Amendment of IFRS 11 - Acquisitions of interests in joint operations	The modification requires that when the joint operation is a business the method of acquisition of IFRS 3 is applied.	Annual periods starting January 1, 2016
Amendment of IAS 16 and IAS 41: Production plants	Modification by which the producing plants will be carried at cost, instead of at fair value.	Annual periods starting January 1, 2016
Improvements to IFRS Cycle 2012-2014	Minor modifications to a set of standards.	Annual periods starting January 1, 2016
Amendment of IAS 27: Equity method in separate financial statements	This amendment is intended to allow for the equivalence of an investor in the individual financial statements.	Annual periods starting January 1, 2016
Amendment to IAS 1: Disclosures Initiative	Various clarifications regarding the breakdowns (materiality, aggregation, order of notes, etc.).	Annual periods starting January 1, 2016
Amendment to IFRS 10, IFRS 12 and IAS 28: Investment Companies	Clarifications on the consolidation exception for investment companies.	Annual periods starting January 1, 2016

Application of the amendments to standards described in the previous section had no material impact on the consolidated financial statements. Furthermore, the preparation of the consolidated financial statements did not include early application of any standards or amendments that were not obligatory.

b. Standards, amendments and interpretations in issue but not effective in the current year

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not become effective, either because their effective date was subsequent to their reporting date or because they had yet to be adopted by the European Union, are as follows:

Approved for use in the European Union		
Standards, amendments and interpretations	Index	Mandatority applicable in annual periods beginning on or after:
IFRS 15 – Income from contracts with customers	IFRS 15 establishes the new model for recognition of income derived from contracts with clients. It presents, in an integrated manner, all applicable requirements and will replace current income recognition standards. IAS 18 Income from ordinary activities and IAS 11 Construction Contracts, as well as other related interpretations (IFRICs 13, 15 and 18 and SIC 31).	Annual periods starting January 1, 2018
IFRS 9 – Financial Instruments	This Standard will replace the current IAS 39 Financial Instruments: Recognition and Measurement, the conceptual change being important in all the sections of the Standard, changing the classification and valuation model of financial assets being adapted to the entity's business model, refocusing the Hedge accounting model so as to be more aligned with economic risk management as well as modifying the current model of impairment based on incurred losses to a model based on expected losses.	Annual periods starting January 1, 2018

Below we provide a brief description of each of these standards as well as the current status of diagnostic work and analysis being carried out by the Enagás Group to identify the potential impact of their future application:

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 Note 4, no significant differences resulting from future application of IFRS 15 were identified as compared to the standards it replaces. Thus, no material impact on the recognition of revenue arising from this type of activity is expected.
- Income arising from non-regulated activities included under "Revenue" in the consolidated income statement mainly 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 (See Notes 3.n, 16, and 22).

Due to the types of contracts used with respect to this type of revenue, additional analysis is being carried out with a view to identifying whether there may be any type of impact requiring disclosure once IFRS 15 is implemented. Given that the analysis is in progress, at the date of preparation of these consolidated financial statements it is not possible to offer any quantitative analysis regarding implementation of IFRS 15 for this type of revenue.

- 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 (see Notes 3.n, 16, and 22).

As in the case of infrastructure connection work, additional analysis is being carried out with a view to identifying whether there may be any impact requiring disclosure once IFRS 15 is implemented, and therefore at the date of preparation of these consolidated financial statements it is not possible to offer a quantitative analysis of implementing IFRS 15 for this type of income.

Finally, with respect to the companies accounted for using the equity method, and for purposes of harmonization, the Company is carrying out an analysis of potential impacts for each of the investee companies. As this analysis is in progress, it is not yet possible to offer reasonable estimates of the effects.

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 is currently examining the future impact of adopting this standard and will not be able to provide a reasonable estimate of its impact until this analysis has been completed.

In view of the circumstances described previously, given that the Group is still in the diagnostic phase of analysing the potential impact arising from future implementation of these standards, they have not been applied early.

Finally, the standards that are still pending approval for their application in the European Union and therefore not yet applicable for the Enagás Group are described below:

Not approved for use in the European Union yet		
Standards, amendments and interpretations	Index	Mandatorily applicable in annual periods beginning on or after:
IFRS 15 Revenues from contracts with customers	They revolve around the identification of performance obligations, principal versus agent, licensing and accrual at one point over time, as well as some clarification of the rules.	Annual periods beginning on or after 1 January 2018.
IFRS 16 Leases	A new standard of leases that replaces IAS 17. The central novelty is that the new standard proposes a single accounting model for tenants, which will include all leases (with some limited exceptions) with a similar impact to the current financial leases (there will be amortization of the asset by the right of use and a financial expense for the amortized cost of the liability).	Annual periods beginning on or after 1 January 2019.
Amendment to IAS 7: Disclosure Initiative	Introduces additional breakdown requirements in order to improve the information provided to users.	Annual periods beginning on or after 1 January 2017.
Amendment of IAS 12: Recognition of deferred tax assets for unrealized losses	Clarification of the established principles regarding the recognition of deferred tax assets for unrealized losses.	Annual periods beginning on or after 1 January 2017.
Amendment of IFRS 2: Classification and valuation of share-based payments	The modifications limit to clarify specific issues such as the effects of accrual conditions on share-based payments to be settled in cash, the classification of share-based payments when it has net settlement clauses and some aspects of changes in the type of payments based on actions.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 4: Insurance contracts	It allows entities within the scope of IFRS 4 the option of applying IFRS 9 or their temporary exemption.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 40: Reclassification of investment property	The amendment clarifies that a reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	Annual periods beginning on or after 1 January 2018.
Improvements to IFRS Cycle 2014-2016	Minor modifications to a set of standards.	Annual periods beginning on or after 1 January 2018.
IFRIC 22 – Transactions and Advances in Foreign Currency	Sets the date of the transaction, in order to determine the exchange rate applicable in transactions with foreign currency advances.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 10 and IAS 28 – Sale of contribution of assets between and investor and its associate or joint venture	Clarification regarding gains and losses on these transactions, whereby a full gain or loss should be recognised in the case of the sale of a business and a partial gain or loss in transactions with assets.	Without a fixed date.

3. Measurement bases

The main measurement bases used in the preparation of the accompanying 2016 consolidated financial statements are as follows:

a. Goodwill and business combination

The acquisition by the parent of control over a subsidiary constitutes a business combination and is accounted for using the acquisition method. In subsequent consolidations, the elimination of the investments in/net assets of these subsidiaries is carried out, as a general rule, on the basis of the amounts resulting from the use of the acquisition method (described below) on the date on which control was obtained.

Business combinations are accounted for using the acquisition method, to which end the acquisition date and cost of the business combination are determined; the identifiable assets acquired and liabilities assumed are recognised at their acquisition-date fair values.

Goodwill or the loss on the combination is the difference between the recognised acquisition-date fair values of the assets acquired and liabilities assumed that meet the pertinent recognition requirements and the cost of the business combination.

The cost of the business combination is the sum of:

- The acquisition-date fair values of any assets transferred, liabilities incurred or assumed and equity instruments issued, and
- The fair value of any contingent consideration, i.e., that which depends on future events or on the fulfilment of certain pre-defined conditions.

The cost of the business combination does not include expenses relating to the issuance of equity instruments offered or financial liabilities delivered in exchange for the items acquired.

Goodwill arising upon the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the company acquired, and is translated to euros at the exchange rate prevailing on the balance sheet date.

Goodwill is not amortised. It is subsequently measured at cost less any impairment losses. Impairment losses recognised in goodwill are not reversed in subsequent years (see Note 3.d).

In the exceptional case in which a loss arises on the combination, it is recognised in the income statement as income.

If at the end of the year in which a combination occurs it has not been possible to complete the valuation work needed to apply the acquisition method outlined above, the combination is accounted for provisionally. The provisional amounts can be adjusted during the time interval needed to obtain the required information, which in no case may exceed one year. The effects of any adjustments made during the measurement period are accounted for retroactively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration was classified as equity, in which case subsequent changes in its fair value are not recognised.

b. Intangible assets

The Enagás Group initially measures these assets at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and impairment losses.

The criteria used to recognise impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those for assets recognised as property, plant and equipment (see Note 3.d).

Development costs are amortised on a straight-line basis over their useful life, as long as the costs are assigned to specific projects, their amount may be clearly quantified and proven grounds exist to guarantee the technical success and economic-commercial profitability of the project.

The Group expenses all research and development costs whose technical and commercial feasibility cannot be established. Research costs recognised as an expense in the accompanying consolidated income statement amounted to 780 thousand euros in 2016 (472 thousand euros in 2015) (see Note 23.2).

Service concession arrangements may be capitalised only when a company has acquired the assets for consideration, in the case of concessions which may be transferred, or for the amount of the expenses incurred in obtaining them directly from the State or from the relevant public body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

The acquisition and development costs incurred in relation to the basic information technology systems are recognised under "Intangible assets" in the consolidated balance sheet. Maintenance costs related to these systems are recognised with a charge to the consolidated income statement in the year in which they are incurred. They are measured at the amount paid for ownership or the right to use the software programs, or the production cost if developed internally. They are amortised over a period of four years.

Intangible assets with a finite useful life are amortised over that period, which is equivalent to the following amortisation rates:

	Amortisation rate	Useful life
Development costs	5%-50%	20-2
Concessions, patents, licences, brands and similar		
Port concessions at the Barcelona plant	1,28%-1,33%	78-75
Port concessions at the Huelva plant	7.6%	13
Port concessions at the Cartagena plant	1.9%	53
Use of the public radioelectric domain	20%	5
Computer software	25%	4

In 2013, the Spanish Cabinet approved the final free-of-charge assignment of greenhouse gas emission rights to institutions covered by the emission rights trading system in 2013-2020, including the facilities maintained by Enagás Transporte, S.A.U.

In the second quarter of 2016, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2015 for all these installations (see Note 27).

c. Property, Plant and Equipment.

The assets recognised as property, plant and equipment are initially measured at acquisition or production cost, with the exception of revaluations made by Enagás, S.A. in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria set forth in the following note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. In contrast, regular maintenance, upkeep and repair expenses are charged to profit and loss in the year in which they are incurred.

Capitalised costs of assets relating to projects that are fully or proportionately consolidated include:

1. Finance costs associated with the financing of infrastructure projects accrued during the construction period if this is more than one year. The average gross capitalisation rate used to calculate the amount of the borrowing costs to be capitalised during 2016 was 1.8% (2.30 % on 2015), amounting 2,876 thousand euros (see Note 6).
2. Employee benefits expense directly related to work in progress. To this end, the Group has a “Functional procedure for attributing staff costs to investment projects”, which contains the calculation assumptions. This procedure establishes that the calculation of the work performed for the Group’s own assets takes into account direct employee expenses, i.e., the hours charged to each project based on the prices per hour calculated at the start of the year. The amounts capitalised for these items are recognised in the 2016 consolidated income statement as a decrease in staff costs (see Notes 6 and 23) amounting 6,782 thousand euros.
3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo, Yela and Gaviota underground storage facilities and the Barcelona, Huelva and Cartagena regasification plants at the end of their useful lives. The carrying amounts of these assets include an estimate of the present value at the date of acquisition of the costs to the Group of dismantling, with a credit to “Non-current provisions” (see Note 14) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted and discounted in subsequent periods. The before-tax discount rate used at December 31, 2016 is 2.76%. This rate reflects current market valuations of the time value of money and the specific risks relating to the obligation to be provisioned. A change in the discount rate of 0.05% and -0.05% would result in a change of -1.49% and 1.52%, respectively.

Pursuant to Royal Decree 1061/2007 of July 20, 2007, which grants Enagás, S.A. the concession to operate the Yela underground natural gas storage facility, in compliance with article 25.3 of Law 34/1998 of October 7, which establishes a provision of 14,700 thousand euros for dismantling costs, this amount is recognised as an increase in the value of the asset (see Note 14).

In 2011, in keeping with the provisions of article 25.3 of Law 34/1998, of October 7, the Company recognised the dismantling provision of 69,000 thousand euros associated with the Gaviota underground storage facility (see Note 14).

These provisions will be discounted to present value each year to reflect the financial impact of a non-current account receivable with the National Market and Competition Committee (CNMC), given that, once the dismantling is approved, the Company can request payments on account against dismantling costs.

The expenses and pertinent discounting for dismantling the Serrablo underground storage facility are reflected in the provision allocated to comply with the requirements of ‘Order of September 6, 1995 regarding the concession, to Enagás, S.A., for the storage of natural gas in Jaca, Aurín, and Suprajaca, located in Serrablo’, which required that a project for dismantling the Serrablo site be presented and approved prior to engaging in storage activities.

Regarding to the regasification plants owned by the Company in Barcelona, Cartagena, Huelva and Gijón, article 100 of the State Ports and Merchant Navy Act mandates that upon termination of the concession, the titleholder must remove from the port area all materials, equipment or dismantable facilities when ordered to do so by the Port Authority. The latter may undertake such removal at the expense of the titleholder of the terminated concession if such titleholder should fail to do so at the time or in the period indicated; in all cases of termination of a concession, the Port Authority will decide on the maintenance of works and installations that cannot be dismantled. Hence, the Company maintains a provision for dismantling for each of these plants at December 31, 2016.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss.

Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

The volume of gas that must remain 'immobilised' in the storage facility to operate underground natural gas storage facilities (i.e., cushion gas) is recognised as property, plant and equipment and depreciated over the useful life specified by prevailing legislation, or over the lease term, if shorter.

Both the natural gas related to the minimum linepack of the gas pipelines for system security and the minimum operating levels of the regasification plants (also called "heel gas") are considered non-depreciable property, plant and equipment as this gas is not available and is thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (see Note 6).

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates.

The useful lives estimated by the Enagás Group are as follows:

	Amortisation rate	Useful life (years)
Buildings	2%-3%	50-33
Plant (transport network)	2,5%-5%	40-20
Tanks	5%	20
underground storage facilities	5%-10%	20-10
Cushion gas	5%	20
Other plant and machinery	5%-12%	20-8,33
Tools and equipment	30%	3,33
Furniture and fixtures	10%	10
IT hardware	25%	4
Transportation equipment	16%	6,25

The Group's directors consider that the carrying amount of property, plant and equipment does not exceed their recoverable amount, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in the prevailing legislation.

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the gain on the sale and the carrying amount of the asset, and is recognised in the consolidated income statement under "Impairment losses and gains (losses) on disposals of fixed assets" (see Note 3.d).

Government grants related to property, plant and equipment are considered to be a decrease in the acquisition cost of the assets and they are charged to profit over the expected useful life of the asset as a decrease in depreciation of the related asset.

d. Impairment of the assets recognised as property, plant and equipment, intangible assets and goodwill and the method for estimating recoverable amount

At the end of each reporting period in the case of goodwill or assets with indefinite useful lives, or whenever there are indications of impairment for all other assets, the Group analyses the recoverable amounts of its assets to determine whether there is any indication that they may be impaired.

When the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognised in the consolidated income statement for the difference between both with a charge to "Impairment losses and

gains (losses) on disposals of fixed assets". The impairment loss is applied by firstly reducing the carrying amount of the goodwill corresponding to the cash-generating unit where the impairment loss is to be recognised. If the impairment charge is greater than the carrying amount of goodwill, the rest of the assets belonging to the cash-generating unit are then reduced, in proportion to their respect carrying amounts, down to the higher of the following: (i) their fair value less costs to sell and (ii) their value in use.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount, by increasing the value of the asset via a credit to the income statement up to the carrying amount that would have been determined had no impairment loss be recognised. Note however, that impairment losses on goodwill cannot be subsequently reversed.

The recoverable amount is the higher of fair value less costs necessary to sell and value in use, considered to be the present value of the estimated future cash flows. The Enagás Group considers the value in use to be the recoverable amount and it uses the method described below in its calculation.

To estimate value in use, the Enagás Group prepares after-tax cash flow projections based on the latest budgets approved by the Group's directors. These budgets include the best income, cost and investment estimates available for the cash-generating units, using past experience, industry projections and future expectations based on the current regulatory framework and contracts.

For the purposes of determining impairment, the assets are grouped at the lowest level at which cash flows may be independently identified. Both assets and goodwill are assigned to cash-generating units (CGUs) based on professional judgement and in accordance with the characteristics of the business, the segments and the geographic areas in which the Group operates.

The period used by the Enagás Group to determine the cash flow projections for cash-generating units is the period over which the asset obtains remuneration associated with the investment (see Note 4). At the end of this period, the Enagás Group takes into consideration a residual value based on the flows over the past year using a zero growth rate.

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 Note 25 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).

Under these premises, the CGUs identified for the regulated business of the Enagás Group are shown below:

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

With respect to the aforementioned infrastructure activity, as described in Note 4.a., 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 ("SCR"), calculated in accordance with the parameters established and described in Note 4.a.
- The remuneration for operating and maintenance costs of the last projected period, applying the prevailing regulatory framework for the fully amortized/depreciated items indicated in the aforementioned Note 4.
- Financial remuneration or remuneration related to depreciation was not considered as said remuneration ends 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 finalizes 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 normalisation adjustments. This is due to the fact that, as indicated in Note 4.b., 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, together with the nature of the business, enables them to predict cash flows over periods such as those taken into consideration.

The most representative assumptions included in the projections employed, which are based on business forecasts and on past experience, are as follows:

- Regulated remuneration: estimated in accordance with the remuneration approved by the law for the years in which it is available, while for subsequent years the same discounting mechanisms established by the legislation have been used.
- Investment: the best information available regarding investment plans for assets and for maintaining infrastructures and systems have been used, based on the mandatory planning for the gas system, over the entire estimated time horizon.
- Operating and maintenance costs: the maintenance contracts that have been concluded have been taken into consideration, together with the remaining costs estimated based on knowledge of the industry and past experience. They have been projected in line with expected growth based on the investment plan.
- Other costs: other costs have been projected based on knowledge of the industry, past experience and in line with the growth expected to derive from the investment plan.

To calculate the present value, the projected cash flows are discounted at an after-tax rate that reflects the weighted average cost of capital (WACC) for the business and in the geographical area in which the business' activities are carried out. The calculation is based on the time value of money, the risk-free rate and the risk premiums commonly used by analysts for the business and the geographical region in question. The risk-free rate corresponds to Treasury issues in the market concerned that have sufficient depth and solvency, and a maturity date that is in line with the period over which the future cash flows will be generated. The associated country risk for each geographic area is nevertheless taken into consideration. The risk premium for the asset relates to the specific risks affecting that asset, the calculation of which takes into account the estimated betas based on the selection of comparable companies that have a similar primary activity.

The discount rate after tax in 2016 and 2015 for regulated activities in Spain is 4.37% and 4.48% respectively (being 6.01% and 5.92% the discount rate before tax for 2016 and 2015). The sensitivity test of the discount rate of 0.5% and -0.5% carried out at the 2016 year-end indicates that the Group shows no sign of significant risks associated to potential reasonable variations. Therefore, the Management of the Company considers that, given the abovementioned ranges, there will be no impairment losses.

Property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed for the Group to carry out its regulated gas sales activities for regulated customers and as the System Technical Manager.

e. Investment property

The heading Investment properties in the accompanying balance sheet includes the value of the land described in Note 7.

After initial recognition, the Enagás Group measures that land in accordance with the cost model, whose requirements are the same as those established for property, plant and equipment, both with respect to their measurement and to the impairment test (see Note 3.c and 3.d).

However, given that there is no determined use for that land, its recoverable amount matches its fair value less the costs necessary to sell.

In the aforementioned measurement process, the Enagás Group obtained the advisory services of the appraisal firm Jones Lang LaSalle España, S.A., which issued a report on January 19, 2017.

f. Leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When consolidated entities act as lessees, lease expenses, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

The group did not hold any finance leases in 2016.

g. Financial Assets

Financial assets are recognised in the consolidated balance sheet when the Group becomes party to the contractual terms of the instrument.

Group companies classify financial assets into the following categories established by International Financial Reporting Standards:

Loans and receivables

These are financial assets arising from the sale of goods or the rendering of services in the normal course of business, or financial assets which do not arise from the ordinary course of business, and are not equity instruments or derivatives, and which have fixed or determinable payments and are not traded on an active market.

These financial assets are initially measured at the fair value of the consideration given plus any directly attributable transaction costs. They are subsequently measured at amortised cost, and accrued interest is recognised in the consolidated income statement in accordance with the relevant effective interest rate.

Receivables that do not explicitly accrue interest are measured at their nominal value, provided that the effect of not financially discounting the cash flows is not significant. In this case, they subsequently continue to be measured at their nominal value.

An impairment loss affecting the financial assets measured at amortised cost arises when there is objective evidence that the Group will not be capable of recovering all of the amounts in accordance with the original terms. The amount of the impairment loss is recognised as an expense in the consolidated income statement and is calculated as the difference between the carrying amount and the present value of the future cash flows discounted using the effective interest rate.

If in subsequent periods there is any recovery of the value of the financial asset measured at amortised cost, the recognised impairment loss will be reversed. This reversal will be limited to the carrying amount that the financial asset would have had if the impairment loss had not been recognised. The reversal is recognised in the consolidated income statement for the year.

The Group derecognises financial assets when they expire or when the rights to the cash flows from the relevant financial assets have been assigned and the risks and benefits inherent to ownership have been substantially transferred, such as firm sales of assets, assignments of receivables in factoring transactions under which the company does not retain any credit or interest rate risk, sales of financial assets at fair value under repo agreements or the securitisation of financial assets in which the assigning company does not retain any subordinated financing, grant any type of surety or assume any other type of risk.

The Group does not derecognise financial assets, and recognises a financial liability in the amount of the consideration received, in the case of the assignment of financial assets in which it substantially retains the risks and benefits inherent to ownership, such as the discounting of bills, factoring with recourse, sales of financial assets under fixed-price repo agreements or at the selling price plus interest and the securitisation of financial assets in which the assigning company retains subordinated financing or another type of surety that substantially absorbs all of the expected losses.

Equity-accounted investments

As indicated in Note 2.4, Investments carried under the equity method are considered to be both investments in associates and investments in joint ventures.

For this type of financial asset, the investment is initially recognised at cost and is subsequently adjusted for the changes in net assets at the investee company that are attributed to the investor. The dividends received are recognised as a reduction to the investment.

At the acquisition date of the associate or joint venture, any difference between the cost of the investment and the interest held in the net fair value of the identifiable assets and liabilities at the associate or joint venture is recorded as follows:

- Any capital gain relating to these companies or joint ventures is included in the carrying amount of the investment. This capital gain cannot be amortised.
- Any interest in the net fair value of identifiable assets and liabilities that exceeds the cost of the investment will be recognised as income in the calculation of the stake in the profit for the period obtained by the associate or joint venture in the period in which the investment is acquired.

To determine if an impairment loss must be recognised with respect to the net investment in the associate or joint venture, the Group performs an analysis of all of the carrying amount of the investment in accordance with IAS 36, on an individual asset basis by comparing the recoverable amount against the carrying amount, provided that there are indications that the investment may have become impaired. An impairment loss recognised under these circumstances will not be assigned to any asset (including any gain) which forms part of the carrying amount of the investment in the associate or joint venture. Any reversals of this impairment loss will be recognised in accordance with IAS 36 to the extent that the recoverable amount from the investment subsequently increases.

To determine the value in use of the investment, the Group estimates the present value of the estimated future cash flows that are expected to arise as a dividend receivable from the investment. The amount recoverable from an investment in an associate or joint venture will be assessed with respect to each associate or joint venture, unless the associate or joint venture does not generate cash inflows due to continuous use that are largely independent from those originating from other Group assets.

Investments in associates and joint ventures, except those relating to BBG, Saggas and Iniciativas del Gas, S.L. are recognised in the segment 'Unregulated activities' (see Note 25.3).

With regard to the impairment test relating to the investees, the discount rate applied (equity cost) in 2016 was between 5% and 10%, depending on the country of application (6%-11% in 2015). The sensitivity test of the discount rate of 0.5% and -0.5% carried out at year-end 2016 indicates that the Group shows no sign of significant risks associated to potential reasonable variations. Therefore, the Management of the Company considers that, given the abovementioned ranges, there will be no impairment losses.

Cash and Cash Equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid current investments that can readily be realised in cash and which are not affected by changes in value.

h. Inventories

Natural Gas Inventories

The only natural gas inventories held by the Enagás Group are those held as cushion gas and linepack gas for the pipelines and regasification facilities it operates; these stocks of gas are therefore classified as property, plant and equipment.

Other Inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the direct cost of materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

The Group applies the appropriate measurement adjustments, recognising them as an expense in the income statement when the net realisable value of the inventories is less than their acquisition price (or production cost).

i. Equity and financial liabilities

Capital and other equity instruments issued by the Group are recognised at the amounts received, net of direct issue costs.

Financial liabilities include the Group's trade payables arising from the purchase of goods and services in the normal course of business, or non-trade payables that cannot be considered to be derivative financial instruments.

Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs. The Group recognises its financial liabilities after initial recognition at amortised cost, except in the case of derivative financial instruments. Any difference between the amount received as financing (net of transaction costs) and the reimbursement value is recognised in the consolidated income statement over the life of the financial instrument using the effective interest rate method.

Trade and other payables are financial liabilities that do not explicitly accrue interest and which, in the event that the financial discount is not significant, are recognised at their nominal value.

The Enagás Group derecognises financial liabilities when the contractual obligations are cancelled or expire.

Financial liabilities are classified according to the terms and economic substance of the contractual agreement.

The Enagás Group contracts derivative financial instruments to cover its exposure to financial risks deriving from changes in interest rates and/or exchange rates. All derivative financial instruments are always measured at fair value. These derivative financial instruments will be recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Differences in fair value are recognised in the consolidated income statement, unless a specific treatment is required under hedge accounting.

The Enagás Group does not use derivative financial instruments for speculative purposes.

The criteria for recognising and measuring derivative financial instruments based on the various type of hedge accounting are set out below:

a. Fair value hedges

Hedges for exposure to changes in the fair value of an asset or liability recognised in the accounts, or an identified portion of such assets or liabilities, that may be attributed to a specific risk and which could affect profit for the period.

Changes in the fair value of the hedge instrument and changes in the fair value of the hedged items attributed to the hedged risk are recognised in the consolidated income statement.

b. Cash flow hedge

Hedges for exposure to changes in cash flows that: (i) are attributed to a specific risk associated with an asset or liability recognised in the accounts, with a highly probable expected transaction or with a firm commitment if the hedge risk is an exchange rate hedge and which (ii) may affect profits for the period.

The effective portion of changes in the fair value of the hedge instrument are recognised under Equity, and the gain or loss relating to the ineffective portion (which relates to the excess amount, in absolute terms, of the accumulated change in the fair value of the hedge instrument with respect to the relevant hedged item) is recognised in the income statement. The amounts accumulated under Equity are transferred to the consolidated income statement in the periods in which the hedged items affect the consolidated income statement.

c. Hedge of a net investment in a foreign operation

Hedges of exposure to changes in exchange rates relating to a net investment in a foreign operation.

Hedges of net investments in foreign operations are recorded in a manner similar to cash flow hedges, although changes in the measurement of these transactions are recognised as exchange differences in the heading "Adjustments due to changes in value" in the accompanying consolidated balance sheet.

Translation differences will be transferred to the consolidated income statement when the foreign transaction being hedged is sold or otherwise disposed of.

In order for these derivative financial instruments to be classified as hedges they are initially designated as such and the relationship between the hedge instrument and the hedged items is documented, together with the risk management objective and the hedge strategy for the various hedged transactions. In addition, the Group verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) the hedge's effectiveness.

A hedge is effective if it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by those of 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, is sold, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument recognised under equity at that time remains in equity until the forecast hedged transaction takes place.

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (for example, a starting price), regardless of whether that price is directly observable or it is estimated using another measurement technique.

For financial reporting purposes, measurements of fair value in accordance with IFRS 13 are classified as Level 1, 2 or 3 based on the degree to which the applied inputs are observable and their importance for the full measurement of fair value, as described below:

- Level 1 – The inputs are based on quoted prices (unadjusted) for identical instruments traded on active markets.
- Level 2 – The inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar instruments in markets that are not active, or techniques based on measurement models for which all significant inputs are observable in the market or may be verified using observable market data.
- Level 3 – The inputs are not generally observable and do not generally reflect the estimates of the market events in order to determine the price of the asset or liability. The non-observable data used in the measurement models is significant in the fair values of the assets and liabilities.

The Group has determined that most of the inputs employed to determine the fair value of the derivative financial instruments are in Level 2 of the hierarchy, but that the adjustments for credit risk use Level 3 inputs such as credit estimates based on a credit rating or comparable companies to evaluate the likelihood of the bankruptcy of the company or of the company's counterparties. The Group has evaluated their relevance, proceeding to recognise the corresponding credit risk adjustments in the full measurement of the derivative financial instruments.

The Group has therefore determined that the entire derivative financial instrument portfolio is classified in Level 2 of the hierarchy.

The Group uses average market prices (mid-market) as observable inputs based on external sources of information recognised in financial markets.

The Group uses a bilateral credit risk adjustment in the measurement techniques when obtaining the fair value of its derivatives in order to reflect both its own risk as well as the counterparty risk affecting the fair value of the derivatives.

To determine the credit risk adjustment, a technique has been applied based on the calculation through total expected exposure simulations (which include both current exposure and potential exposure), adjusted for the likelihood of non-compliance over time and the LGD (or potential loss) assigned to the Company and to each of the counterparties.

The credit risk adjustment has been more specifically obtained using the following formula:

$EAD * PD * LGD$

- EAD (Exposure at default): Exposure at the time of non-compliance at each point in time. The EAD is calculated by simulating market price curve scenarios (e.g., Monte Carlo).
- PD (Probability of default): Likelihood that one of the counterparties will fail to comply with payment commitments at each point in time.
- LGD (Loss given default): Severity = 1- (recovery rate): Percentage of loss that ultimately arises when one of the counterparties has failed to comply.

The total expected exposure of the derivatives is obtained using observable market inputs, such as interest rate, exchange rate and volatility curves in accordance with market conditions on the measurement date.

The inputs applied to obtain the Company's own credit risk and counterparty risk (determination of the likelihood of default) are based mainly on the application of the credit spreads relating to the Company or comparable companies that are currently traded in the market (CDS curves, IRR debt issues). Where own or comparable company credit spreads were not available, in order to maximise the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS quoted on the market.

To adjust fair value to credit risk, credit improvements relating to guarantees or collateral have also been used when determining loss given default to be applied to each of the positions. A single LGD rate is taken into consideration over time. If there are no credit improvements relating to guarantees or collateral, the minimum recovery rate has been set at 40%.

The use of derivative financial instruments is governed by the Enagás Group's risk management policies and the principles regarding their use are disclosed in Note 18.

Finally, the options recognised in the Consolidated balance sheet of the Enagás Group are recognised in accordance with the recognition and measurement requirements established in IAS 27, which involve the recognition of external partners in business combinations and the recognition of a financial liability against equity. The changes in fair value of the financial liability are accounted for in the consolidated income statement (see Notes 12 and 15).

j. Current/Non-current classification

Assets classified as current assets are all those related to the Company's normal operating cycle, generally one year, and other assets expected to mature, or to be sold or realised in the short term from the end of the reporting period; financial assets held for trading, with the exception of financial derivatives whose settlement term exceeds one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, with the exception of those financial derivatives whose settlement period exceeds one year and, in general, all obligations that mature or expire in the short term. All other liabilities are classified as non-current.

By virtue of the application of the new remuneration system approved by Law 18/2014, of October 15, non-current receivables from the CNMC (see Notes 4 and 8) have been recognised as non-current items.

k. Pension obligations

The Enagás Group makes contributions, in accordance with the approved pension plan adapted to the provisions of the Law on Pension Plans and Funds, to a defined contribution plan known as the "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and whose Custodian is Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Group's obligations with respect to serving employees. This plan recognises certain vested rights for past service and undertakes to make monthly contributions averaging 4.30% of eligible salaries (4.41% in 2015). It is a mixed plan covering retirement benefits, disability and death. As at December 2016, a total of 1,146 persons had joined the plan (1,094 at December 31, 2015) (see Note 20).

The contributions made by the Group each year in this connection are recognised under "Staff costs" in the consolidated income statement (see Note 23.1). At year-end 2016, there were no outstanding amounts to be contributed in this respect.

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

l. Severance indemnities

Under current regulations, Spanish consolidated companies and some foreign companies are required to pay severance to employees terminated without just cause. There are no redundancy plans in effect that require the recognition of a provision in this connection.

m. Provisions

On preparing the consolidated financial statements, the directors made a distinction between the following:

- **Provisions:** Balances payable covering obligations existing at the balance sheet date arising as a result of past events which could give rise to a loss for the companies which is specific in nature but uncertain in terms of its amount and/or timing.

- **Contingent liabilities:** Possible obligations arising from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more future events beyond the control of the consolidated entities.

The consolidated annual financial statements of the Group include all significant provisions for which it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the notes to the extent that they are not considered to be remote (see Note 14).

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

The compensation to be received from a third party when an obligation is settled is recognised as an asset so long as it is certain that the reimbursement will be received, unless the risk has been contractually externalised so that the Group is legally exempt from having to settle, in which case, the compensation is taken into consideration in estimating the amount of the provision, if any. The policy followed with respect to the recognition of provisions for contingencies and charges is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway and/or pending damages or other payments, such as sureties or equivalent guarantees. They are recognized upon emergence of the liability or obligation giving rise to the damages or payment.

At year-end 2016 and 2015 a number of legal proceedings and claims had been filed against business groups in the ordinary course of their operations. The Group's legal advisors and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the consolidated financial statements for the years in which they are resolved.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. It represents the amounts receivable for goods delivered and the services rendered as part of the Group's ordinary course of business, less discounts and amounts received on behalf of third parties, such as VAT.

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

The legislative environment that governs the regulated activity, which accrues the most representative income for the Enagás Group, is described in Note 4.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate, which is the rate that exactly matches estimated future cash flows over the expected life of the financial asset to that asset's carrying amount.

Dividend income is recognised when the Enagás Group companies have the right to receive such income.

Deferred revenue relates mainly to advance payments received for natural gas transport rights assigned to Gasoducto Al-Andalus, S.A. and to Gasoducto de Extremadura, S.A., which are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

This heading also includes the accrual of amounts received for making connections from the basic network infrastructure of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit or loss on the basis of the useful life of the assigned facilities.

o. Expense recognition

Expenses are recognised in the consolidated income statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that an expense is recognised simultaneously with the recognition of the increase in the liability or the reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the prerequisites for capitalisation as an asset are not met.

p. Income tax

Income tax is recognised in the consolidated income statement or in equity in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recognised.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, tax losses offset in prior years which are effectively applied in the current year, plus the change in deferred tax assets and liabilities.

Deferred tax expense or income reflects the recognition and settlement of deferred tax assets and deferred tax liabilities. Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Changes during the year in deferred tax assets or liabilities which do not arise from business combinations are recognised in the consolidated income statement or directly in equity in the consolidated balance sheet, as appropriate.

Deferred tax assets are recognised only when it is probable that future taxable profits will be available to recover the tax credits for temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that they arise from the initial recognition of goodwill.

Deductions arising from economic events in the year are deducted from the accrued income tax expense unless there are doubts as to whether they will be realised, in which case they are not recognised until they materialise, or they relate to specific tax incentives.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Similarly, at each reporting date, the Group reassesses unrecognised deferred tax assets, recognising a previously unrecognised deferred tax asset to the extent that it has become probable that taxable profit will be available against which the asset can be utilised.

It should be noted that effective January 1, 2013, Enagás S.A. is the parent company of the Consolidated Tax Group 493/12, and is taxed under the Tax Consolidation System governed by Title VIII, Chapter VI of the Corporation Tax Law 27/2014 of November 27, and the subsidiaries at December 31, 2016 are:

- 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.
- Enagas Emprende S.L.U.

The Enagás Group acquired control over and started consolidating its interest in Gascan in 2015, including it in the consolidated tax group from January 1, 2016.

As a consequence of the new Law 27/2014 of November 27, on corporate income tax, becoming effective from January 1, 2015, the tax rate was reduced from the 30% applicable until 2014 to 28% in 2015 and 25% in 2016 and subsequent years (see Note 21).

The legislative framework governing Enagás Transporte del Norte, S.L. and BBG has been defined in the Provincial Law, 11/2013 (5 December), on Corporation Tax of 28%.

The rest of the Group companies individually settle their income tax returns in accordance with the tax legislation applicable to them.

q. Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the parent company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of parent company shares held as treasury shares by Group companies. Basic earnings per share coincide with diluted earnings per share (see Note 13).

r. 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 consolidated 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 (see Note 23.1), with a credit to "Non-current provisions" in the accompanying consolidated balance sheet. The liability is subsequently remeasured to fair value at each balance sheet date, up to and including the settlement date, with changes in fair value recognized in the income statement.

s. Consolidated Cashflow Statement

The following terms are used to present the consolidated cash flow statements:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the Group's ordinary operating activities and any other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition or disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that are not operating activities.

4. Regulatory framework

a) Revenue from regasification, storage and transport.

The remuneration framework for these activities that was in force since 2002, based on the Oil and Gas Act 34/1998 (October 7) and subsequent published amendments, has largely been repealed after the entry into force of Royal Decree-Law 8/2014, of July 4, ratified by Parliament and subsequently enacted as a law and finally published as Law 18/2014, of October 15, which approves urgent measures for growth, competitiveness and efficiency.

The fundamentals of the new remuneration framework are as follows:

- The principle of economic and financial sustainability of the gas system is established, which will be a guiding principle for the actions taken by public authorities and other parties involved with the gas system. Any legislative measure relating to the industry that represents an increase in cost for the gas system or a reduction of revenue must include an equivalent reduction in other cost items or an equivalent increase in revenue that ensures the balance of the system. This will definitively rule out the possibility of accumulating a deficit.

This principle is reinforced by the establishment of restrictions on the appearance of temporary annual mismatches, establishing the corrective mechanism of mandatory automatic revisions of tolls and fees that will be applied if certain thresholds are exceeded. The thresholds introduced allow for deviations deriving from one-off circumstances or volatility affecting gas demand which, as such, may be reversed in the following period without the need to modify the tolls and fees, while guaranteeing that mismatch levels that could place the system's financial stability at risk cannot be reached.

Temporary mismatches that arise at or after the time this Royal Decree-Law enters into force will be financed by all of the members of the settlement system based on the collection rights that are generated, without exceeding the aforementioned thresholds.

This economic and financial sustainability principle for the system must be understood such that the revenues generated through the use of the facilities cover all system costs. The regulated remuneration methods in the natural gas sector take into consideration the costs necessary to carry out the activity by an efficient and well-managed company under the principle of performing the activity at the lowest cost for the system.

- Six-year regulatory periods are established to determine the remuneration for the regulated activities, thereby providing regulatory stability to those activities. The first regulatory period ends on December 31, 2020. Starting on January 1, 2021 the subsequent regulatory periods will consecutively enter into force and each one will last six years.

Every three years, adjustments may be made to the remuneration parameters within the system, including the unit reference values per customer and sales, operating and maintenance costs, productivity improvement factors, etc., in the event that there are significant variances in the revenue and cost items.

- The remuneration system for transportation, regasification and storage facilities is established under uniform principles, generally adapting to the net value of the asset as a basis for calculating the remuneration for the investment made. Variable remuneration based on transported, regasified or stored gas is included based on the type of asset, and any automatic revision procedure covering remuneration values and parameters based on price indexes is eliminated.
- Accumulated deficit at December 31, 2014. The amount relating to the accumulated deficit in the gas system at December 31, 2014 will be determined in the final settlement for 2014. The members of the settlement system will be entitled to recover the annual amounts relating to that accumulated deficit in the settlements in the subsequent 15 years, recognising an interest rate in accordance with market conditions (see Notes 8.1 and 10).

- The remuneration consists of a fixed rate for facility availability and a variable rate for supply continuity. The fixed facility availability rate includes the operating and maintenance costs for each year, depreciation and financial compensation calculated by applying the financial remuneration rate determined for each regulatory period to the annual net value of the investment.

Including the variable rate for supply continuity in facility remuneration allows system costs to be adjusted in the event of a change in demand, balancing the differences between revenues and system costs in addition to transferring part of the demand variance risk from the final consumer to the owner of the facilities.

This rate is based on the total change in domestic natural gas consumption in the calculation year compared with the preceding year in the case of transportation facilities, the change in demand for regasified gas at all plants in the system in the case of regasification facilities and the change in useful gas at storage facilities.

The supply continuity remuneration is distributed among all facilities based on the weighting of their replacement value compared to all of the facilities participating in the activity, and those values are calculated by applying the unitary investment values in force in each year.

Once the regulatory useful life of the facilities has ended, and in those cases in which the asset continues in operation, the fixed remuneration is calculated as operating and maintenance costs increased by a coefficient determined by the number of years by which a facility exceeds its regulatory useful life. No amount whatsoever accrues as remuneration for the investment made.

a.1) Accredited fixed cost for Availability Compensation (AC). This item is determined individually for each of the production assets. This parameter remunerates investment and operating costs relating to assets used in the gas system.

a.1.1. Remuneration for investment costs comprises:

- Value of recognised assets. The recognised values for the assets under the preceding remuneration framework are maintained. For facilities commissioned before 2002, the remuneration is calculated based on the carrying amount of the assets after the revaluation of 1996 (Royal Decree-Law 7/1996), less grants received to finance these assets. An annual update rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

For new facilities brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

Investments in underground storage are also measured at actual cost because there are no standard values.

Transport facilities brought into service since 2008 are valued at the average of the standard value and actual cost.

Regasification facilities brought into service since 2006 are valued at actual cost plus 50% of the difference between standard value and actual cost, up to the maximum standard value.

- Remuneration for depreciation of system assets. The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.

The new framework maintains the useful lives of the assets, except for the gas pipelines, for which the useless life remains at 40 years for all facilities, regardless of when they entered into operation.

- Financial remuneration for the value of the investment. The calculation applies a financial remuneration rate to the non-discounted net value of the assets. During the first regulatory period, the remuneration rate for transportation, regasification and basic storage assets entitled to remuneration from the gas system will be the average yield on 10-year government bonds in the secondary market applied among owners of non-segregated accounts in the 24 months before the entry into force of the legislation, plus a spread of 50 basis points. The financial remuneration rate remained fixed at 5.09% for the regulatory period (value ratified by Law 8/2015 of May 21).

- **Remuneration for fully depreciated assets.** Once the regulatory useful life of each asset ends, if the item continues in operation, the remuneration that will be accrued by that facility for the investment made, depreciation and financial remuneration will be zero.

By contrast, the remuneration for operating and maintaining asset “i” each year “n” will increase. The recognised value will therefore be the result, multiplied by a useful life extension coefficient μ_i .

This parameter will have the following values:

- During the first five years in excess of the regulatory useful life: 1.15.
- When the regulatory useful life has been exceeded by between 6 and 10 years, the useful life extension coefficient will be: $1.15+0.01(X-5)$.
- When the regulatory useful life has been exceeded by between 11 and 15 years, the useful life extension coefficient will be: $1.20+0.02(X-10)$.
- When the regulatory useful life has been exceeded by more than 15 years, the useful life extension coefficient will be: $1.30+0.03(X-15)$.

Where “X” is the number of years by which the asset has exceeded its regulatory useful life. The parameter μ_i cannot take a value exceeding 2.

a.1.2. In general terms, the calculation of the remuneration for the operating costs relating to transportation, regasification and underground storage assets is maintained. The only difference is the application of unit operating and maintenance costs to all of the transportation facilities, regardless of when they entered into operation.

a.2) Supply continuity remuneration (SCR). Supply continuity remuneration (SCR) is calculated jointly for each of the activities: transportation, regasification and underground storage.

The remuneration in this respect, in year “n”, is calculated in all cases based on the prior-year remuneration, “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 that are taken into consideration are as follows:

- The transportation pipeline network facilities will take into consideration the change in total national demand for gas, excluding supplies through satellite plants, with the following maximum and minimum demand limits: 410 TWh and 190 TWh.
- The change in total demand for gas from all regasification plants in the gas system is taken into account with respect to regasification plants, with the following maximum and minimum limits applied to gas outflows: 220 TWh and 50 TWh.
- The change in the useful gas stored at 1 November in the relevant year is taken into account for storage facilities, including the portion of cushion gas that is mechanically extractable, with the following maximum and minimum gas storage limits: 30 TWh and 22 TWh.

The supply continuity remuneration determined for each activity in year “n” is distributed among each of the facilities “i” that remain in operation based on a coefficient, α_i , that is the result of dividing the sum of the replacement cost for all facilities by the replacement cost of facility “i”. This replacement cost is calculated based on the unit investment costs in force, except for unique facilities and underground storage facilities, for which the investment value will be used.

a.3) Recognised variable cost for regasification and transfer of LNG to tankers

a.3.1. The recognised variable unit cost is calculated based on the number of kW/hr actually regasified and loaded in LNG tanks in each period and the variable unit regasification cost for the period in question. For 2016, this cost was set at 0.000162 euros per kWh regasified and 0.000194 euros/kWh loaded in tankers.

a.3.2. A cost identical to the variable tank loading cost is recognised for loading LNG onto tankers from regasification plants or for the pre-cooling of ships. For tanker-to-tanker transfers, the cost is 80% of this value.

b) Revenue from technical system operation (TSO)

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year, and is used to remunerate Enagás GTS, S.A.U. for its obligations as Technical System Manager, which include coordinating the development, operation and maintenance of the transport network, supervising the security of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2016, the amount earmarked for TSM remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and gas distribution facilities, as a percentage of invoicing for tolls and fees relating to third-party network access rights, was 0.778%. This amount is deposited by these companies within the deadlines and in the manner established in the settlement procedure into the deposit account held by the CNMC for these purposes.

The above-mentioned percentage of invoicing is calculated based on the figure obtained by applying maximum tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the facilities and their users.

In accordance with Order IET/2736/2015 of December 17, the provisional remuneration for the Technical System Operator for 2016 amounts to 23,966 thousand euros.

This revenue is taken to the consolidated income statement monthly on a straight-line basis.

c) Settlement of tolls relating to third-party access to gas installations.

Invoicing and collection of remuneration for regulated activities subject to settlement (third-party access to the network and Technical System Management) is carried out in compliance with the settlement procedure established in the Ministerial Order dated October 28, 2002.

d) Settlement system.

Ministerial Order ECO/2692/2002 (October 28) was published on November 1, 2002, regulating settlement procedures for remuneration of regulated activities and defining company disclosure requirements.

Additional provision number five of Order ITC/3993/2006 amends section I.5 of appendix II of this settlements order and states that the interest equivalent to applying the average one-year treasury bill yield during 60 days to the amounts to be paid to each transporter or distributor be added to the settlements.

e) Revenue corresponding to the minimum operating level and minimum linepack of gas pipelines

Article 16 of IET/3587/2011 Order provides that the minimum level for gas filling of the pipeline transport and regasification plants (gas check) shall be remunerated as a necessary investment for the transport activity, recognising a financial retribution.

After the entry into force of the new remuneration framework the compensation for this item continues, and the same financial remuneration rate is applied as that for the transportation, regasification and underground storage facilities. The acquisition cost will be the result of applying the auction price to the quantity purchased.

f) Revenue for gas purchases for internal consumption.

Until 2015, the gas was acquired by transporters and recognised 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 organised gas market. The acquisition cost for this gas is recognised at the auction price and is considered a reimbursable expense.

Upon the entry into force of the new remuneration framework gas purchases for internal consumption at regasification plants cease to be a recognised cost, although there is a transitional adaptation period.

During this period, the following percentages of gas purchases for regasification plant operations will be recognised.

	2014	2015	2016	2017
Recognised transitional gas for internal consumption.	100%	90%	50%	20%

g) Settlement of the accumulated deficit.

Royal Decree-Law 8/2014 (July 4) and Law 18/2014 (October 15) establish the economic and financial sustainability principle for the gas system. In accordance with this principle, revenues from the system will be used exclusively to sustain own remuneration of the regulated activities concerning the supply of gas and, furthermore, the revenues must be sufficient to satisfy all of the costs incurred by the gas system. To ensure financial sufficiency and avoid the appearance of new ex ante deficits, any legislative measure relating to the gas system that represents an increase in cost for the system or a reduction of revenue must include an equivalent reduction in other cost items or an equivalent increase in revenue that ensures the balance of the system.

The new remuneration framework also establishes a specific method for resolving temporary mismatches between the revenue and costs of the system which, together with the aforementioned measures, are intended to definitively end the deficit in the gas system.

This method establishes a multi-year period over which to recover these mismatches and also recognises finance costs for the financing of these mismatches for the regulated companies.

The method established in articles 61 and 66 of this Royal Decree-Law and this Law make a distinction between the accumulated deficit at December 31, 2014 and that which may be generated in subsequent years, such that:

- The amount relating to the accumulated deficit in the gas system at December 31, 2014 will be determined in the definitive settlement for 2014, and the members of the settlement system will be entitled to recover annual amounts relating to that accumulated deficit in the settlements in the subsequent 15 years, recognising an interest rate in accordance with market conditions.
- Definitive settlement in 2014 was approved by the regulatory oversight chamber of the CNMC in its session held on 24 November 2016, recognising 1,025,052 thousand euros for the accumulated deficit of the gas system at 31 December 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 (See Note 8.1).

In addition, with respect to the temporary mismatches 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 recognising 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, recognising 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, prioritising 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 revenues and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the

recognised annual amounts pending payment exceeds 15%, the access tolls and fees 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 prioritising 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, provisionally set out the forecast interest rates for the gas system to be applied to the deficit accumulated on December 31, 2014 and the time mismatch for 2015. The values are as follows:

- The forecast interest rate for any deficit accumulated at December 31, 2014 shall be 1.104%. The interest acknowledged at each deficit shall be accrued from the day following the approval of the definitive settlement for 2014.
- The forecast interest rate for any time mismatch between income and expenses for the gas system in 2015 shall be 0.836%. The interest acknowledged at each mismatch shall be accrued from the day following the approval of the definitive settlement for 2015.

h) Establishment of the Organised Gas Market.

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

In the article 65 "Organised Gas Market Operator", states that a trading company, whose shareholding may consist of any natural or legal person, shall act as the organised gas market operator, with the total direct shareholdings in the capital of this Technical Operators company for Spanish and Portuguese gas systems amounting 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 2.3.

i) Acknowledgement of the expenses associated with the dismantling of natural gas facilities.

Royal Decree 949/2001, of August 3 ("RD 949/2001"), which regulates the access of third parties to gas facilities and establishes an integrated economic system for the natural gas sector states that, in the event of closure of plants and storage facilities, regulated activities shall cease to be remunerated from the date of closure and, if such plants and facilities are dismantled, without prejudice to any net dismantling costs that are recognised.

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

The National Energy Commission (Comisión Nacional de Energía) – the current National Commission for Markets and Competition – at its meeting of April 11, 2013, ordered Enagás, S.A. (now succeeded for its transportation business by Enagás Transporte, S.A.U.), Galp Gas Natural, S.A. and Gasoducto Al-Ándalus, S.A. to adjust the agreements for gas transit to Portugal (drawn up in 1996 by Transgas, S.A. (now Galp Gas Natural, S.A.) to the new regulatory framework introduced by Directive 2009/73/EC and Regulation (EC) 715/2009, of July 13, 2009, of the European Parliament and of the Council.

With the aim of complying with the aforesaid order, Galp Gas natural, S.A. and Enagás Transporte, S.A.U., signed a Framework Agreement on February 27, 2014, for access to the transportation and distribution system of Enagás Transporte, S.A.U., through international gas pipeline connections with Europe. Subsequently, on November 18, 2014, both companies signed the corresponding long-term agreement for access to transport and distribution networks, and an addendum to the Framework Agreement, which entered into effect on January 1, 2015, thereby complying with the requirements of the National Commission for Markets and Competition.

The National Commission for Markets and Competition deems said access agreements for third parties to the transportation and distribution system to be compliant with the applicable standards.

k) Developments in the regulatory framework.

The main gas industry regulatory developments approved in 2016 include:

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 February 16, 2016 on a strategy of the EU for liquefied natural gas and gas storage

Commission Delegated Regulation (EU) 2016/89, of November 18, 2015, amending Regulation (EU) no. 347/2013 of the European Parliament and Council as regards the Union project list of common interest

Directive (EU) 2016/802 of the European Parliament and Council, of May 11, 2016, relating to a reduction in the sulphur content of certain liquid fuels.

Council Decision (EU) 2016/590, of April 11, 2016 on the signing, on behalf of the European Union, of the Paris Agreement adopted under the United Nations Framework Convention on Climate Change.

2. Regulación Española

BASIC REGULATION

Resolution of September 28, 2016, of the Secretary of State for Energy, correcting errors in the resolution of August 2, 2016 which approved the standards for managing guarantees in the gas system.

Resolution of August 2, 2016, of the Secretary of State for Energy, approving the framework contract for access to the installations of the Spanish gas system.

Resolution of June 6, 2016, of the Secretary of State for Energy, approving various provisions on the organised gas market.

CNMC Resolution of March 1, 2016, approving the procedure for authorising and deregistering users with a balance portfolio at the virtual balancing point and the framework contract.

REMUNERATION AND TOLLS

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

CNMC Circular 3/2016, of November 16, modifying Circular 1/2015, of July 22, on the regulatory information on costs relating to regulated transport, regasification, storage, and technical system management activities for natural gas, as well as transportation and operation of the electricity system.

Orden IET/274/2016 of February 29, correcting errors in Order IET/2736/2015, of December 17 which established the tolls and fees for third-party access to gas installations and remuneration for regulated activities in 2016.

TARIF OF LAST RESORT

Resolution of December 29, 2016, of the Directorate General for Energy Policy and Mining (hereinafter DGPEM), publishing the tariff of last resort for natural gas.

Resolution of September 26, 2016, of the DGPEM, publishing the tariff of last resort for natural gas.

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

Resolution of January 21, 2016, of the DGPEM, publishing the tariff of last resort for natural gas, which corrects errors of the December 23, 2015 one.

TECHNICAL MANAGEMENT RULES

Correction of errors in the Resolution of September 28, 2016 of the DGPEM, amending the technical system management standards NGTS-03 "Programmes" and NGTS-04 "Nominations", the detailed protocols PD-07 and PD-13, and repealing the detailed protocols PD-08 and PD-15.

Resolution of September 28, 2016 of the DGPEM, amending the technical system management standards NGTS-03 "Programmers" and NGTS-04 "Nominations", the detailed protocols PD-07 and PD-13, and repealing the detailed protocols PD-08 and PD-15.

Resolution of September 28, 2016 of the DGPEM, approving the detailed protocol PD-18 "Technical parameters which determine the normal operation of the transport network and the performance of balancing actions at the virtual balancing point (PVB) by the Technical System Manager".

Resolution of September 23, 2016 of the DGPEM, amending the technical system management standards NGTS-06 "Distributions" and NGTS-07 "Balance".

Resolution of May 4, 2016 of the DGPEM, amending the detailed protocols PD-06 "Operational regulation for the unloading activities of methane tankers" and PD-02 "Procedimiento de reparto en puntos de conexión transporte-distribución (PCTD) y en puntos de conexión distribución-distribución (PCDD)".

Resolution of February 15 of the DGPEM, approving the biannual work group action programme for updating, reviewing, and amending the technical system management standards for the period 2016 - 2017.

Resolution of May 12, 2016 of the CNMC, approving the calculation methodology for daily tariff imbalances, the settlement procedure for daily user imbalances, and balancing actions for the purchase-sale of normalised products by the Technical System Manager.

UNDERGROUND STORAGE

Resolution of March 15 of the DGPEM, which adjudicates the basic storage capacity for the period from April 1, 2016 to March 31, 2017.

Resolution of 29 February of the DGPEM, which establishes certain aspects related to the auction of basic storage capacity for the period from April 1, 2016 to March 31, 2017.

Resolution of January 29, 2016, of the DGPEM, which publishes the capacity allocated and available in basic underground storage of natural gas for the period from April 1, 2016 to March 31, 2017.

STRATEGIC RESERVES CORPORATION (CORES)

Order ETU/1989/2016, of December 28, approving the amounts required for contribution to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2017.

Order IET/1555/2016, of September 29, modifying the amounts required for contribution to CORES for 2016 as approved by Order IET/2839/2015 of December 23.

OTHER REGULATIONS

Royal Decree 515/2016 of November 18, appointing Mr. Daniel Navia Simón as Secretary of State for Energy.

Royal Decree 417/2016 of November 3, appointing government ministers. Mr. Álvaro María Nadal Belda was appointed as Minister for Energy, Tourism, and Digital Agendas.

Royal Decree 56/2016 of February 12, transposing Directive 2012/27/UE of the European Parliament and Council, of October 25, 2012 on energy efficiency, relating to energy audits, accreditation of providers of energy services and energy audits, and energy efficiency improvement measures.

Resolution of January 25, 2016 of the DGPEM, establishing the measurement of shrinkage balances for regasification plants for 2013.

Resolution of January 25, 2016 of the DGPEM, establishing the measurement of shrinkage balances for regasification plants for 2014.

Resolution of January 29, 2016, on the acquisition of interest by Enagás Transporte S.A.U in Bahía de Bizkai Gas, S.L. (BBG) and Iniciativas de Gas, S.L. (IdG), representing 10% and 60% of share capital, respectively.

Resolution of September 28, 2016 of the Secretary of State for Energy, correcting errors in the resolution of August 2, 2016 which approved the standards for managing guarantees in the gas system

Resolution of June 9, 2016, of the DGPEM, which modifies the one of July 25, 2006, which regulates the conditions of allocation and the procedure of application of the interruptibility in the gas system.

Resolution of May 3, 2016, of the Directorate General of Employment, filing and publishing the Enagas Group collective labor agreement.

Sentence of February 11, 2016, of the Third Chamber of the Supreme Court, nullifying various sections of Order IET/2445/2014, of December 19, which established tolls and fees for third-party access to gas installations and the remuneration for regulated activities, with respect to remuneration for the plaintiff Regasification plant of Sagunto, S.A.

5. Intangible assets

The breakdown and movements in intangible assets and accumulated amortisation in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Goodwill	25,812	-	-	-	25,812
Other intangible assets					
Development	6,640	778	-	-	7,418
Concessions	5,871	-	-	-	5,871
Computer software	181,618	16,391	-	-	198,009
Other intangible assets	7,835	2	-	-	7,837
Total cost	227,776	17,171	-	-	244,947
Depreciation	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Other intangible assets					
Development	(2,228)	(570)	-	-	(2,798)
Concessions	(3,862)	(50)	-	-	(3,912)
Computer software	(133,824)	(20,303)	-	-	(154,127)
Other intangible assets	(7,576)	(115)	-	-	(7,691)
Total depreciation	(147,490)	(21,038)	-	-	(168,528)
Carrying amount	Opening balance	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Total goodwill	25,812	-	-	-	25,812
Total other intangible assets	54,474	(3,867)	-	-	50,607
Total intangible assets	80,286	(3,867)	-	-	76,419

2015

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Goodwill ^(*)	17,521	8,291	-	-	-	25,812
Other intangible assets						
Development	5,511	-	1,129	-	-	6,640
Concessions	5,863	8	-	-	-	5,871
Computer software	164,047	172	16,192	1,207	-	181,618
Other intangible assets	8,935	-	108	(1,207)	(1)	7,835
Total cost	201,877	8,471	17,429	-	(1)	227,776

Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Other intangible assets						
Development	(1,799)	-	(429)	-	-	(2,228)
Concessions	(3,737)	-	(125)	-	-	(3,862)
Computer software	(111,118)	(172)	(22,534)	-	-	(133,824)
Other intangible assets	(7,454)	-	(122)	-	-	(7,576)
Total depreciation	(124,108)	(172)	(23,210)	-	-	(147,490)

Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Total goodwill	17,521	8,291	-	-	-	25,812
Total other intangible assets	60,248	8	(5,781)	-	(1)	54,474
Total intangible assets	77,769	8,299	(5,781)	-	(1)	80,286

(*) The increases for variation in the scope of goodwill include 2,568 thousand euros from the tax effect related with the allocation of goodwill.

Additions in the heading "Computer Software" in 2016 relate mainly to the following projects:

- Adaptation of computer applications and IT systems of the different Group companies to European legislation, amounting to 5,971 thousand euros.
- Investment in the upgrading, integration, and migration of systems, amounting to 2,416 thousand euros.
- Investment in the development of new systems and platforms, such as security software in systems for contracting capacity, amounting to 1,670 thousand euros.
- Projects for the development of upgradeable supporting software for the different departments of Group companies, such as General Management of Human Resources or General Management of Finances, amounting to 1,270 thousand euros.

The amounts recognised under "Goodwill", correspond to the ETN and Gascán acquisitions, totaling 17,521 thousand euros and 8,291 thousand euros, respectively. There were no significant movements under this heading in 2016.

At year-end 2016 and 2015, the Group was still using the following fully amortised intangible assets:

Ejercicio 2016

Item	Carrying amount (gross)
Development	720
Computer software	113,245
Other intangible assets	9,602
Total	123,567

Ejercicio 2015

Item	Carrying amount (gross)
Development	369
Computer software	93,561
Other intangible assets	9,362
Total	103,292

Assets classified within "Other intangible assets" are not mortgaged or subject to any other similar encumbrance.

6. Property, plant and equipment

The breakdown and movements in property, plant and equipment in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
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 fixtures, 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
Grants related to assets	(600,456)	(591)	-	660	(600,387)
Total cost	8,942,956	72,381	-	(2,680)	9,012,657

Depreciation	Opening balance	Provisions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(63,492)	(3,995)	(7)	-	(67,494)
Plant and machinery	(3,989,173)	(255,096)	-	-	(4,244,269)
Other fixtures, tools and furniture	(56,212)	(4,840)	7	-	(61,045)
Grants related to assets	381,398	13,453	-	-	394,851
Total depreciation	(3,727,479)	(250,478)	-	-	(3,977,957)

Impairment losses	Opening balance	Provisions	Increases or decreases through transfers	Reversals, disposals or derecognition	Closing balance
Plant and machinery	(32,077)	-	-	264	(31,813)
Other fixtures, tools and furniture	-	-	-	-	-
Grants related to assets	-	-	-	-	-
Total impairment	(32,077)	-	-	264	(31,813)

Carrying amount	Opening balance	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	102,183	(2,231)	51	(2,188)	97,815
Plant and machinery	4,703,735	(226,171)	48,087	(108)	4,525,543
Other fixtures, tools and furniture	26,173	(2,064)	1,964	(11)	26,062
Prepayments and work in progress	570,367	39,507	(50,102)	(769)	559,003
Grants related to assets	(219,058)	12,862	-	660	(205,536)
Total property, plant and equipment	5,183,400	(178,097)	-	(2,416)	5,002,887

2015

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	148,550	-	16,841	821	(537)	165,675
Plant and machinery	8,645,340	-	14,259	70,735	(5,349)	8,724,985
Other fixtures, tools and furniture	73,904	68	2,142	6,431	(160)	82,385
Prepayments and work in progress	558,631	15,205	77,450	(77,987)	(2,932)	570,367
Grants related to assets	(599,110)	-	(1,346)	-	-	(600,456)
Total cost	8,827,315	15,273	109,346	-	(8,978)	8,942,956

Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(59,626)	-	(3,892)	-	26	(63,492)
Plant and machinery	(3,722,028)	-	(272,490)	-	5,345	(3,989,173)
Other fixtures, tools and furniture	(52,465)	(59)	(3,804)	-	116	(56,212)
Grants related to assets	367,789	-	13,609	-	-	381,398
Total depreciation	(3,466,330)	(59)	(266,577)	-	5,487	(3,727,479)

Impairment losses	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Reversals, disposals or derecognition	Closing balance
Plant and machinery	(24,137)	-	(8,679)	-	739	(32,077)
Other fixtures, tools and furniture	-	-	-	-	-	-
Grants related to assets	-	-	-	-	-	-
Total impairment	(24,137)	-	(8,679)	-	739	(32,077)

Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	88,924	-	12,949	821	(511)	102,183
Plant and machinery	4,899,175	-	(266,910)	70,735	735	4,703,735
Other fixtures, tools and furniture	21,439	9	(1,662)	6,431	(44)	26,173
Prepayments and work in progress	558,631	15,205	77,450	(77,987)	(2,932)	570,367
Grants related to assets	(231,321)	-	12,263	-	-	(219,058)
Total property, plant and equipment	5,336,848	15,214	(165,910)	-	(2,752)	5,183,400

At December 31, 2016 additions to the heading "Land and buildings" amounting to 1,764 thousand euros, mainly relating to intervention in Bermeo's Plant for 694 thousand euros, and the adaptation and work on the head offices (plan Move) 441 thousand euros.

Under the heading "Plant and machinery", the main movement relates to the incorporation of facilities entering into operation in 2016 with the acquisitions of cushion gas to Gas Pipeline, amounting to 11,725 thousand euros, and incorporation of installations into operation in 2016 (3,396 thousand euros)

"Other fixtures, tools and furniture" increased by 2,776 thousand euros and 1,155 thousand euros correspond to Plan Move.

In 2016 and 2015, no provisions have been made for decommissioning.

Additions to "Prepayments and work in progress" in 2016 relate mainly to the following facilities:

- Yela underground storage cushion gas in the amount of 21,626 thousand euros.
- Emission below the technical minimum at the Cartagena Plant, in the amount of 3,351 thousand euros.
- Reduced internal consumption at the Huelva plant, in the amount of 3,032 thousand euros.
- Investment in different Gas Pipeline as Martorell-Figueras or Villapresente-Burgos, amounting to 3,298 thousand de euros.
- Several improvements AASS as Serrablo, amounting 775 thousand euros or in regasification plants and compression station, amounting 1,390 thousand euros.
- Plan Move in the amount of 2,987 thousand euros.

"Transfers" comprises the movements in work in progress to property, plant and equipment as projects are brought into operation in the year. Specifically, transfers to "Plant and machinery" at December 31, 2016 relate mainly to the start-up of the following facilities:

- Cushion gas for the Yela underground storage facility in the amount of 21,626 thousand euros.
- Minimum technical reduction of production through improvement of boil-off at the Cartagena's Plant and Huelva's Plant, amounting 17,877 thousand euros.
- Fire protection performance AASS Serrablo, amounting 846 thousand euros.

Disposals of "Land and buildings" corresponds to the reestimation of the account to be paid for the expropriations to the lands of E. C. De Denia.

Disposals of "Prepayments and work in progress" in 2016 relate mainly to the sale of material coming from warehouse investments.

The revaluation in accordance with the provisions of Royal Decree-Law 7/1996 of June 7, on balance sheet restatements, increased the 2016 depreciation charge for property, plant and equipment by 3,613 thousand euros and had an effect totalling 3,729 thousand euros in 2015.

Capitalised borrowing costs accrued during construction of infrastructure projects in 2016 amounted to 2,876 thousand euros (4,177 thousand euros in 2015) (see Note 24).

"Work on non-current assets" increased the investment by 6,782 thousand euros in 2016 and by 7,447 thousand euros in 2015 (see Note 23.1).

Property, plant and equipment is not pledged to any mortgages or any other similar encumbrances.

The Group insures its assets so no significant losses occur, on the basis of best market practice and according to the nature and characteristics of the items of property, plant and equipment.

The Group also has insurance policies against third-party civil liability.

At year-end 2016 and 2015, the Enagás Group was still using the following fully depreciated items of property, plant and equipment:

2016

Item	Carrying amount (gross)
Buildings	18,077
Plant and machinery	944,449
Other fixtures, tools and furniture	49,320
Total	1,011,846

2015

Item	Carrying amount (gross)
Buildings	17,118
Plant and machinery	741,472
Other fixtures, tools and furniture	46,697
Total	805,287

Accumulated grants related to assets received at year-end 2016 and 2015 that relate to investments in gas infrastructures are as follows:

2016

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
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
Total	600,387	(394,851)	205,536

2015

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
Regasification plants	79,916	(69,981)	9,935
Gas transportation infrastructure	503,031	(298,006)	205,025
Underground storage	17,509	(13,411)	4,098
Total	600,456	(381,398)	219,058

Details of these grants, by the bodies that granted them, at year-end 2016 and 2015 are as follows:

2016

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
EU structural funds	434,634	(266,697)	167,937
Spanish regional authorities	51,905	(29,790)	22,115
Spanish Government	113,848	(98,364)	15,484
Total	600,387	(394,851)	205,536

2015

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
EU structural funds	434,704	(255,586)	179,118
Spanish regional authorities	51,905	(28,680)	23,225
Spanish Government	113,847	(97,132)	16,715
Total	600,456	(381,398)	219,058

Government grants to be taken to the income statement in 2017 amount to approximately 13,210 thousand euros. The detail of the temporary allocation of the outstanding balance at December 31, 2016 is as follows:

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Spanish state	940	3,760	10,784
Spanish regional authorities	1,111	4,417	16,586
ERDF grants	11,159	34,705	122,074
Total grants	13,210	42,882	149,444

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 29 February 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 authorisation for construction of the regasification plant for liquefied natural gas in El Musel (Gijón), thereby nullifying said administrative authorisation.

The Enagás Group 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 recognised and received by Enagás is justified on the basis of said Royal Decree and not the nullified authorisation.

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”.

At December 31, 2016 the carrying amount of said investment totalled 378,814 thousand euros. Further, during 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 Group to maintain the plant ready for service. Both of the aforementioned sources of remuneration have been recognised annually by the successive Ministerial Orders regarding remuneration and tolls.

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

Regasification Plant – Granadilla (Tenerife).

It is worth noting that, with respect to the current situation of the regasification plant construction project in the port of Granadilla, no significant changes have arisen relating to those described in Note 6 to the consolidated financial statements of 2015. On March 16, 2015 the Administrative Appeal Court of the Madrid High Court of Justice issued a ruling nullifying the Resolution of the Directorate General for Energy and Mining Policy of May 4, 2012 that granted Compañía Transportista de Gas Canarias, S.A. (Gascan) prior administrative authorisation to build the reception, storage and regasification plant for liquefied natural gas at Granadilla (Tenerife), as well as the Environmental Impact Statement for said project, declared favourable by Resolution of June 8, 2007 of the General Secretary for the Prevention of Contamination and Climate Change.

In this respect, Compañía Transportista de Gas Canarias, S.A., as the State Attorney, filed an appeal against the sentence, which is now pending scheduling of the vote and decision.

It is also worth noting that, in any case, in accordance with article 57.1 of Law 30/1992 of 26 November, on the Legal System for Public Administrations and the Common Administrative Procedure, actions taken by Public Administrations subject to Administrative Law are presumed to be valid and are effective as from the date on which they are issued. Since no competent administrative or jurisdictional body had decided to suspend the execution of the challenged administrative action, there are no legal reasons to understand that the Resolution of the Directorate General of Energy and Mining Policy of December 29, 2008 granting Enagás prior administrative authorisation to build a plant to receive, store and regasify liquefied natural gas at Granadilla (Tenerife), nor the Resolution of June 8, 2007 of the General Secretary for the Prevention of Contamination and Climate Change, who formulated the favourable environmental impact statement on the construction project for said plant, has ceased to be valid. To the contrary, it continues to be fully valid and effective especially considering that the filing of the appeal for reversal against the ruling issued by the Madrid High Court of Justice is incompatible with a final ruling, in accordance with Article 91.1 of Law 29/1998 of July 13, on Administrative Appeal Jurisdiction.

Accordingly, even in the event that the ruling from the Madrid High Court of Justice becomes final due to the appeal being rejected, this would not impede the subsequent processing and granting, respectively, a new environmental impact statement and a prior administrative authorisation for the liquefied natural gas regasification plant at Granadilla (Tenerife). Thus, at present, a new favorable environmental impact statement was issued on July 15, 2016 (Official State Gazette no.176 of July 22), a step required together with the CNMC report for obtaining administrative authorisation.

Therefore, the Directors of the Enagás Group, based on the legal opinions of internal advisors, believe that no provision whatsoever is necessary and that the definition of a contingent liability is not met.

7. Investment Properties

The breakdown and movements in investment properties in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Closing balance
Land	47,211	-	47,211
Total Cost	47,211	-	47,211

Impairment losses	Opening balance	Additions	Closing balance
Land	(22,241)	(70)	(22,311)
Total impairment	(22,241)	(70)	(22,311)

Total investment property	Opening balance	Additions	Closing balance
Cost	47,211	-	47,211
Impairment losses	(22,241)	(70)	(22,311)
Total impairment	24,970	(70)	24,900

2015

Cost	Opening balance	Additions	Closing balance
Land	47,211	-	47,211
Total Cost	47,211	-	47,211

Impairment losses	Opening balance	Additions	Closing balance
Land	(22,131)	(110)	(22,241)
Total impairment	(22,241)	(110)	(22,241)

Total investment property	Opening balance	Additions	Closing balance
Cost	47,211	-	47,211
Impairment losses	(22,131)	(110)	(22,241)
Total investment property	25,080	(110)	24,970

The amounts recognised under "Investment properties" in the accompanying consolidated balance sheet at December 31, 2016 and December 31, 2015, fully correspond to a plot located at km. 18 of the A-6 in Las Rozas (Madrid), a property owned by Enagás, S.A.

As indicated in Note 3.e, said plot of land was measured in accordance with the cost model. However, as indicated above, since the directors of the Group do not at present have any specific use for the land, the recoverable amount is calculated as the fair value less necessary sales costs.

At December 31, 2016, Jones Lang LaSalle España, S.A. issued a valuation report dated January 19, 2017, in which the recoverable amount of the land at the date amounted to 24,900 thousand euros (24,970 thousand euros at December 31, 2015), which meant the recognition of an additional impairment of 70 thousand euros (110 thousand euros at December 31, 2015) under "Impairment losses and gains (losses) on disposal of assets" in the consolidated income statement.

The aforementioned report from the independent expert did not include any limitation to the scope of the conclusions reached.

The market appraisal was performed by the independent expert in accordance with the Governing Rules of the Royal Institution of Chartered Surveyors (RICS), set out in the so-called "Red Book" - RICS Valuation - Professional Standards, January 2014. These market appraisals defined by RICS are internationally recognised by advisors and accountants for investors and corporations owning real estate assets, and by the European Group of Valuers (TEGoVA) and the International Valuation Standards Committee (IVSC).

This property is not mortgaged or subject to any other similar encumbrance. The Group also has insurance policies against third-party civil liability.

8. Financial assets

8.1. Composition and breakdown

The Group's financial assets at December 31, 2016 and December 31, 2015, broken down by class and category for measurement purposes, were as follows:

Category	Class	Non-current financial assets							
		Equity instruments		Debt securities		Loans, derivatives and other		Total	
		2016	2015	2016	2015	2016	2015	2016	2015
Investments accounted for using the equity method (Note 32)		1,870,973	1,191,105	-	-	-	-	1,870,973	1,191,105
Other non-current financial assets		813	2,364	-	-	898,742	507,787	899,555	510,151
Credits		-	-	-	-	289,142	161,352	289,142	161,352
Trade and other receivables		-	-	-	-	397,351	342,282	397,351	342,282
Other non-current financial assets		813	2,364	-	-	212,249	4,153	213,062	6,517
Derivatives		-	-	-	-	16,670	8,686	16,670	8,686
Total		1,871,786	1,193,469	-	-	915,412	516,473	2,787,198	1,709,942

Category	Class	Current financial assets							
		Equity instruments		Debt securities		Loans, derivatives and other		Total	
		2016	2015	2016	2015	2016	2015	2016	2015
Other current financial assets		-	-	-	-	479,065	433,925	479,065	433,925
Credits		-	-	-	-	4,808	7,521	4,808	7,521
Trade and other receivables (Note 10)		-	-	-	-	474,257	426,404	474,257	426,404
Derivatives		-	-	-	-	-	-	-	-
Total		-	-	-	-	479,065	433,925	479,065	433,925

Equity Instruments

Movements in Investments carried under the equity method in 2016 and 2015 are as follows:

2016

	Opening balance	New acquisitions	Changes in the consolidation method	Dividends	Shareholds's equity	Valuation adjustments		Other adjustments	Closing balance
					Profit for the year	Translation differences	Hadging Transactions		
Equity-accounted investments	1,191,105	678,511	-	(86,262)	41,205	50,940	(2,753)	(1,773)	1,870,973

2016

	Opening balance	New acquisitions	Changes in the consolidation method	Dividends	Shareholds's equity	Valuation adjustments		Other adjustments	Closing balance
					Profit for the year	Translation differences	Hadging Transactions		
Equity-accounted investments	740,636	369,465	(2,662)	(46,568)	46,235	78,842	(337)	5,494	1,191,105

(*) Changes in consolidation method due to the 100% acquisition of Gascan shares (See Notes 2.3).

The main changes in the heading "Investments carried under the equity method" are due to the new entries of companies consolidated using this method in the scope of consolidation (see Notes 2.3 and 32), notably:

- 85% Infraestructuras del Gas, S.A. acquisition and indirectly 42.5% additional acquisition of Saggas amounting 92,218 thousand euros.
- 4.6% additional acquisition of Transportadora de Gas del Perú, S.A. participation amounting 87,113 thousand of euros.
- 40% additional acquisition of the GNL Quintero, S.A. participation amounting 354,287 thousand euros.
- 13.34% acquisition of the MIBGAS participation amounting 404 thousand euros.
- Also, in 2016, the Group Enagás has made capital contributions to GSP, TAP and Tecgas amounting 124,867 thousand euros, 28,036 thousand euros and 1,120 thousand euros, respectively.
- Expense capitalization arising from acquisition operations of Saggas, TgP, Quintero and MIBGAS amounting 3,601 thousands of euros.

Additionally, during 2016, there was a collection of dividends distributed by BBG (in the amounts of 4,000 thousand of euros), Altamira Group (in the amounts of 16,195 thousand of euros), Morelos EPC, S.A.P.I. de C.V. (in the amounts 2,504 thousand of euros), GNL Quintero (in the amounts of 9,827 thousand of euros), TgP (in the amounts of 42,355 thousand of euros), COGA (in the amounts of 853 thousand of euros) y Swedegas (in the amounts of 10,528 thousand of euros).

Finally, as stated in Note 33, in January 2017 the concession held by the investee Gasoducto Sur Peruano, S.A. (hereinafter GSP) was declared terminated. This event initiated a procedure, established in the concession agreement and Peruvian legislation, by virtue of which the concession assets are transferred to a new concessionaire in exchange for an amount with which to settle GSP payment obligations to third parties and shareholders. To determine the new concessionaire and said amount, up to three public tenders will be held. Should the public tenders not result in the concession being awarded; not be held within the stipulated deadline; or if a specified amount payable is not agreed upon, the Peruvian government would guarantee a minimum corresponding to 72.25% of the net carrying amount of the concession assets.

Based on this quantity, and by virtue of the subordination contracts and the loans granted amongst shareholders, the Group considers it will recover the amount invested in GSP as well as the receivable balance (broken down in this note in the section on "Other") which arises from execution of guarantees granted by Enagás S.A. in favor of said company, within a maximum of three years.

With a view to reflecting the discounted recoverable amount of the investment accounted for with the equity method, at 2016 year end an amount corresponding to the impact of termination was recognised, totalling 31,431 thousand euros of expenses.

In addition, GSP management, based on available information and the opinion of external and internal legal advisors, considers that the circumstances of said company's main shareholder, Odebretch, described below, will not have any legal or financial effects on GSP.

The directors of Enagás, in accordance with the opinion of its external and internal legal advisors, consider that these circumstances will not modify the estimated recoverable amount of the investment in GSP and the aforementioned receivable balance.

On December 21, 2016, the U.S. Department of Justice and New York Attorney General announced the signing of a plea agreement with Odebrecht by virtue of which the latter acknowledges its culpability before U.S., Swiss, and Brazilian authorities in connection with corrupt practices prohibited by the Foreign Corrupt Practices Act ("FCPA"). Analysis of the agreement (the plea agreement is a public document) by the external legal advisors of GSP for U.S. and Peruvian legislation, shows that the illicit actions detected in Peru are prior to the Gasoducto Sur del Perú project, which does not appear amongst the acknowledged illicit actions in Peru.

On January 5, 2017 the Attorney General of Peru announced it had reached a preliminary collaboration agreement with Odebrecht by virtue of which the latter commits to collaborating with the Peruvian Attorney General in the investigation of its activities in Peru. To date this agreement has not given rise to actions that may affect GSP.

Various departments of the Peruvian Attorney General are carrying out investigations, the results of which cannot be anticipated at present, concerning alleged offenses that may somehow relate to the project for "Improvements to the energy security of the country and development of the Gasoducto del Sur Peruano". In accordance with the opinion of GSP's legal advisors for Peruvian legislation, GSP will not be affected by any economic liabilities arising from the alleged offenses committed prior to being awarded the concession in July 2014, given that at that date GSP had not been incorporated. Subsequent to the incorporation of GSP and the awarding of the concession, and in light of the information available to the company to date, there was no interaction with Proinversión or the granting entity or any other authorities which may have illicitly favored GSP.

Credits

The heading "Credits" both current and non-current mainly records the loans granted by Enagás S.A., Enagás Internacional, S.L.U., Enagás Transporte S.A.U., and Infraestructuras del Gas, S.A. to the companies in the group consolidated by the equity method and therefore not eliminated in the consolidation process (see Note 2.4), amounting to a total of 293,929 thousand euros (168,090 thousand euros at December 31, 2015) (see Note 28). This amount is broken down into 289,121 thousand euros for long-term loans and 4,808 thousand euros for short-term loans and accrued interest. In addition, in 2016 this heading includes other items amounting to 21 thousand euros (783 thousand euros at December 31, 2015).

The increase compared to 2015 relates mainly to the provisions made by TAP for the loan granted by Enagás Internacional, S.L.U. in the total amount of 106,400 thousand euros, the capitalisation of interest relating to said loan amounting to 962 thousand euros, and the subrogation of the loan that Infraestructuras del Gas, S.A. held with Saggas amounting to 14,442 thousand euros.

The breakdown of the loans granted to these companies carried under the equity method is as follows:

Thousand of euros

	Interest rate	Maturity	12/31/2016	12/31/2015
Non-current loans to related companies (Note 28)			289,121	160,569
Trans Adriatic Pipeline AG	FTA+ Spread	Jul.-2043	168,593	61,231
Estacion de Compresión Soto La Marina S.A.P.I. de C.V.	5.9%	Dec.-2032	62,471	63,301
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	Sep.-2033	31,292	27,308
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	Jun.-2025	26,765	8,729
Current loans to related companies (Note 28)			4,808	7,521
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	Sep.-2033	-	138
Gasoducto del Sur Peruano, S.A.	6%	Aug-2048	-	70
Gasoducto de Morelos, S.A.P.I. de C.V.	TII E28d + Spread	Dec.-2016	-	1,066
Estacion de Compresión Soto La Marina S.A.P.I. de C.V.	5.9%	Dec.-2032	2,672	4,065
Trans Adriatic Pipeline AG	FTA+ Spread	Jul.-2043	2,128	963
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	Jun.-2025	8	1,219
Total			293,929	168,090

Trade and other receivables

In addition, "Trade and other receivables", under non-current financial assets, relates mainly to the deficit accumulated from the corresponding regulated activities up to 2015, pursuant to Royal Decree Law 8/2014 of 4 July and Law 18/2014 of October 15, as well as the outstanding amount pending recognition in connection with the installations for the years 2014 y 2015, for the total amount of 373,464 thousand of euros at December 31, 2016 (321,857 thousand euros at December 31, 2015), of which 364,775 thousand euros (316,351 thousand euros at December 31, 2015), correspond to Enagás Transporte, S.A.U., 8,627 thousand euros (5,506 thousand euros at December 31, 2015) correspond to Enagás Transporte del Norte, S.L. and 62 thousand euros correspond to Enagás, S.A. (see Note 4.g).

The change in the amount is mainly due to the publication in 2016 of the resolutions approving the definitive settlement number 15 for 2014 and number 15 for 2015 of the regulated activities of the gas sector.

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 21,293 thousand euros (16,534 thousand euros in 2015).

The breakdown of the items recognised in the heading "Trade and other receivables" under current financial assets has been described in detail in Note 10, which reflects the accounts receivable from the tax authorities.

In addition, with regard to the underground storage of Castor natural gas, no changes occurred with regard to the closure of the 2015 financial year relating to the agreement dated October 4, 2014 between Enagás Transporte, S.A.U. and various financial entities, by virtue of Royal Decree Law 13/2014 of October 3 and which is detailed in the consolidated financial statement at December 31, 2014.

There are no financial assets at the Enagás Group at 31 December 2016 that are in a default situation.

Derivative financial instruments

The breakdown of the financial assets carried in the accompanying financial statements at fair value, in accordance with the fair value calculation methodology, is as follows:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	16,670	-	16,670
Total	-	16,670	-	16,670

Level 1: On the basis of quoted prices in active markets for identical assets.

Level 2: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3: On the basis of inputs other than directly observable market data.

The information relating to derivative financial instruments under financial liabilities is set out in Note 18.

Other

"Other non-current financial assets" includes, in Equity Instruments, the amount of 714 thousand euros (2,160 thousand of euros at December 31, 2015), the investment held by the Group in Economic Interest Groups (EIG) whose business is the leasing of assets managed by an unrelated third party, which retains the majority of the profits and the business risks, with the Group only availing itself of tax incentives provided in Spanish legislation. The Company enters the tax losses generated by these EIGs against equity and offset by the debt registered with the payable tax, the corresponding revenue. The change with respect to 2015 corresponds to the capitalisation of tax loss carryforwards during the period.

Further, as indicated under "Equity instruments", in January 2017 GSP did not manage to reach the financial closing by the stipulated date, thus giving rise to cause for terminating the concession agreement. Based on this circumstance, at 2016 year end the provision for executing the guarantees granted by the Enagás Group was recognised. As these guarantees are expected to be recovered via the procedure for net carrying amounts described in the previous heading, at December 31, 2016 a balance receivable from GSP was recognised under non-current assets, amounting to 207,865 thousand euros, corresponding both to the corporate guarantee granted in connection with GSP debt as well as the guarantee for full compliance with the concession agreement, financially discounted with an approximate three-year recovery period. The recognition of this amount represented a finance expense recognised in the consolidated income statement for the discounting effect, totalling 13,285 thousand euros (see Note 24).

With a view to reflecting the discounted recoverable amount of the investment accounted for under the equity method, at 2016 year end an amount corresponding to the impact of termination was recognised, totalling 31,431 thousand euros of expenses.

8.2 Impairment losses

In 2016 there were no changes in provisions for impairment losses on the Group's financial assets.

With respect to the termination of the GSP concession agreement, the best estimate of the directors based on the contracts and agreements signed by GSP shareholders, and based on the opinions of internal and external legal advisors as well as the determination of the net carrying amount of the concession assets, the recovery of the financial investment made and the guarantees granted by Enagás, S.A. has been certified by an independent expert in a report dated February 8, 2017 without the need to recognise any additional impairment to that disclosed in Note 8.1.

9. Inventories

As established in Order IET/2736/2015 of December 17: "From October 1, 2016, the quantity of working gas is zero." It should be noted that at December 31, 2015, the Enagás Group, as technical system operator, had approximately 755 GWh of working gas reserves necessary to ensure operation of the gas system, as stipulated in additional provision five of Order ITC/3863/2007, of December 28. This gas is not recognized as inventory in the financial statements since it belongs to the entire gas system and is not the property of the Enagás Group.

As at December 31, 2016 the Group also has 18,217 thousand euros (16,881 thousand euros in 2015) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

10. Trade and other receivables

The breakdown of "Trade and other receivables" in the consolidated balance sheet at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Trade receivables	42,259	22,284
Receivables from Group companies	16,321	6,744
Other receivables	391,069	367,799
Current tax assets and other receivables from public administrations	24,608	29,577
Total	474,257	426,404

The balance in "Receivable from Group companies" relate mainly to:

- The services provided by Enagás Transporte, S.A.U. to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., amounting to 5,183 thousand euros and 2,954 thousand euros, respectively, corresponding to the percentage of the shareholding of Galp Gas Natural, S.A. in both companies.
- The sale of operating gas and imbalances billed by Enagás GTS to Mibgas amounting to 2,040 thousand euros.
- Disposal of assets to Gasoducto de Morelos, S.A.P.I. de C.V. and to E.C. Soto La Marina EPC, S.A.P.I de C.V by Enagás S.A. for the amount of 2,959 thousand euros and 632 thousand euros respectively.
- The services provided by Enagás Internacional, S.L.U. to Gasoducto del Sur Peruano, S.A., and to the Swedegas Group for the amount of 1,326 thousand euros and 185 thousand euros respectively.

Under "Other receivables", the Enagás Group includes the unsettled balance relating to remuneration for regulated regasification, transport and storage activities as haulier in 2016 for 368,557 thousand euros, and the outstanding balance on the remuneration for the Technical Manager activities amounting to 6,915 thousand euros, leaving a total outstanding balance of 375,472 thousand euros. Trade receivables relating to regulated business adhere to the settlement system set out in order ECO/2692/2002 of October 28, governing the settlement procedures for the remuneration of regulated activities in the natural gas sector and amounts with specific recipients.

Additionally, within the heading "Other receivables", Enagás Transporte, S.A.U. recognised amounts receivable from gas marketers for the product fee regulated by the article 211 Royal Decree 2/2011 of September 5, which approves the Revised Text of Spain's Port Act, amounting to 458 thousand euros (601 thousand euros at 31 December 2015). This fee is levied on the natural gas products that the agents have unloaded at the regasification plants, among others, owned by Enagás Transporte, S.A.U. since 2012 at the ports of Barcelona, Cartagena and Huelva.

The Supreme Court issued rulings regarding the situation with the shippers regarding the payment of this fee on November 27, 2014 and on December 10, 2014, and definitively confirmed the situation regarding the option right and the settlements of the Port Authority of Barcelona and Huelva deriving from that right, recognising that Enagás Transporte, S.A.U. is entitled to collect those amounts from the shippers. The dispute regarding the option right exercised with respect to the Port Authority of Cartagena is currently still pending settlement before the Central Economic-Administrative Tribunal. Notwithstanding this, the doctrine established by the Supreme Court decisions allows us to foresee the outcome of the dispute. In this respect, the High Court of Murcia is finding in favour of Enagás S.A.U. and the State Attorney has accepted the demands presented by the Enagás Group in ongoing legal proceedings before said court (for all, decision of January 26, 2016, High Court of Murcia). In addition, it is worth taking note that on November 21 and 30, 2016, the Catalan High Court of Justice handed down sentences upholding the two appeals filed by Enagás Transporte S.A.U. in 2013 against the Port Authority of Barcelona settlements, archived under procedure numbers 174/2013 and 175/2013. Thus, the Company considers the risk of not recovering these receivables as remote at December 31, 2016.

The heading "Current tax assets" at December 31, 2016 basically includes VAT receivable by the Group, as VAT borne is higher than VAT accrued, partly because Enagás Transporte, S.A. acts as a tax warehouse (see Note 21).

The Group does not have a significant concentration of credit risk as it operates in a regulated environment under planned scenarios, as indicated in Note 17.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

11. Cash and cash equivalents

The breakdown of "Cash and cash equivalents" at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Cash at banks and in hand	765,453	224,628
Cash equivalents	20,001	-
Total	785,454	224,628

"Cash equivalents" includes those deposits which mature in the short term and accrue interest at the going market rates.

The Enagás Group has loans and lines of credit not drawn down in order to guarantee liquidity, as is indicated in Note 15. In this regard, the Enagás Group has the following funds available at December 31, 2016:

Funds available	12/31/2016	12/31/2015
Cash and cash equivalents	785,454	224,628
Other funds available (Note 15)	1,623,755	2,042,915
Total funds available	2,409,209	2,267,543

As a general rule, cash at banks earns interest at a rate similar to the market rate for daily deposits. Current deposits are highly liquid and earn interest at market rates for this kind of product. There are no significant restrictions on the availability of cash balances.

12. Equity

12.1 Share capital

The share capital of Enagás S.A. amounted to 358,101 thousand euros at year-end 2016 and 2015, and was represented by 238,734,260 shares, each with a par value of 1.5 euros, all of the same class. The shares have been fully subscribed and paid and are admitted for trading on the Spanish Stock Exchange, including the Spanish computerised trading system (the continuous market).

All the shares of the parent company, Enagás, S.A., are listed on the four Spanish stock exchanges and are traded on the Spanish computerised trading system. On December 31, 2016 Enagás, S.A.'s share price closed at 24.125 euros, having marked a high for the year of 27.7euros per share on June 8.

It should be noted that after the publication of Additional Provision Thirty-One of Law 34/1998, on the Hydrocarbon Sector, in force since Law 12/2011 was enacted on May 27, it is stipulated that "no individual or legal entity may directly or indirectly hold more than 5% of Enagás, S.A.'s shares or exercise more than 3% of the voting rights at this parent. Under no circumstances may such shareholdings be syndicated". It also states that "those parties that operate within the gas sector, including those individuals or bodies corporate that directly or indirectly hold over 5% of the share capital of these companies may not exercise more than 1% of the voting rights in such company. These restrictions do not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated".

The most significant shareholdings in Enagás, S.A. at December 31, 2016 and 2015 are as follows (source: National Securities Market Commission (CNMV) website: www.cnmv.es):

Company	Shareholding %	
	2016	2015
Sociedad Estatal de Participaciones Industriales	5.000	5,000
Bank of America Corporation	3.614	3,614
Retail Oeics Aggregate	1.010	1,010

At December 31, 2016, the Enagás, S.A. shareholding structure had not experienced any significant changes.

12.2 Treasury shares

On May 25, 2016, Enagás, S.A. finalised the acquisition process for 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 plan in place and based on the terms stipulated in the long-term bonus plan and the remuneration policy for the period 2016-2018 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 CE 2273/2003 and was subject to the terms authorised by the shareholders in general meeting on 18 March 2016. Management of the temporary treasury share repurchase programme 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 (see Note 29).

The Company held no treasury shares at 2015 year end.

12.3 Reserves

Under the Spanish Limited Liability Companies Law, an amount equal to 10% of the profit for the year must be earmarked for the legal reserve until such reserve represents at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At the end of 2016 and 2015 this reserve was fully funded in the amount of 71,620 thousand euros (included under the heading "Reserves" in the accompanying consolidated balance sheet), as it had reached the percentage required by the Spanish Limited Liability Companies Law with the proposed distribution of 2003 profits.

At December 31, 2016, "Reserves" included recognition of 39,059 thousand euros corresponding to the present value of the purchase-sale options relating to GNL Quintero, S.A. and described in Note 15.

12.4 Profit distribution proposal from the parent company

The distribution of net profit for 2016 for the parent company Enagás, S.A. that was prepared by the Board of Directors and will be submitted for the approval of shareholders at the Annual General Meeting is as follows (in thousands of euros):

	2016
To dividends	331,670
To voluntary reserves	10,636
Total	342,306

At its meeting on November 21, 2016, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2016 profit of 132,565 thousand euros (0.556 euros per share). The company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of Spain's Limited Liability Company Law.

In accordance with legal requirements, the provisional financial statements prepared by the Group's Parent, indicating the existence of sufficient resources to pay the interim dividend against 2016 profit, are set forth below:

Thousands of euros

	Provisional accounting statement at 31 October 2016
Accounting profit	(15,152)
10% allocation to legal reserve	
Interim dividend from Group companies	370,000
Income available for distribution	354,848
Forecast payments on account	(132,565)
Forecast cash at banks and in hand between 31 October and 31 December:	
Cash at banks and on hand	198,641
Collections forecast for the period under consideration	443,133
Credit facilities and loans granted by financial entities	1,500,000
Projected payments during the period under consideration (including payments on account)	(495,210)
Forecast cash balance at banks and on hand	1,646,564

The aforementioned interim dividend was paid on December 22, 2016.

The proposed final gross dividend (0.834 euros per share) is subject to shareholder approval at the Annual General Meeting and is not recognized as a liability in these financial statements. If approved, this gross final dividend would amount to 199,105 thousand euros.

12.5 Total dividends paid

In addition to the interim dividend of 2016 (mentioned in Note 12.4 above), Enagás, S.A. distributed the 2016 gross final dividend in 2015.

This dividend amounted to 188,834 thousand euros (0.792 euros per share) and was paid on July 5, 2016.

12.6 Adjustments due to changes in value

The value adjustments recognized by the Group at December 31, 2016 and 2015 break down as follows:

	12/31/2016	12/31/2015
Translation differences	67,447	64,581
Cash flow hedge	7,112	(6,355)
Total adjustments due to changes in value	74,559	58,226

Hedging transactions

This heading refers to derivatives arranged by the Company and designated as cash flow hedges (see Note 18).

The movements associated with these transactions in 2016 and 2015 were as follows:

2016

Thousands of euros

	01/01/2016	Change in fair value	Recognised in profit or loss	12/31/2016
Cash flow hedge	(9,607)	(9,499)	27,733	8,627
Taxes recognised in equity	3,252	2,148	(6,915)	(1,515)
Total	(6,355)	(7,351)	20,818	7,112

2015

Thousands of euros

	01/01/2015	Change in fair value	Recognised in profit or loss	12/31/2015
Cash flow hedge	(4,053)	(18,218)	12,664	(9,607)
Taxes recognised in equity	2,385	4,581	(3,714)	3,252
Total	(1,668)	(13,637)	8,950	(6,355)

Movements in 2016 and 2015 with respect to the consolidation method applied to companies were as follows:

	Fully-consolidated companies	Companies carried using the equity method	Total
Equity at 12/31/2014	(680)	(988)	(1,668)
Measurement of financial instruments	(15,656)	(2,562)	(18,218)
Tax effect	3,914	667	4,581
Transfers to profit and loss	10,326	2,338	12,664
Tax effect	(2,891)	(823)	(3,714)
Equity at 12/31/2015	(4,987)	(1,368)	(6,355)
Measurement of financial instruments	2,604	(12,103)	(9,499)
Tax effect	(651)	2,799	2,148
Transfers to profit and loss	19,023	8,710	27,733
Tax effect	(4,756)	(2,159)	(6,915)
Equity at 12/31/2016	11,233	(4,121)	7,112

The tax effect of the adjustments recognized under equity due to cash flow hedges has been calculated, as is indicated by IAS 12 "Income taxes", in accordance with the tax rate applicable to the country concerned at year-end for each of the Group companies that have contracted derivatives.

The companies consolidated using the full consolidation method applied the tax rate in Spain (25% from January 1, 2016 and 28% in 2015), except for ETN which applies a 28% rate.

Regarding the Companies consolidated using the equity method apply the tax rates in force in their country: Spain (25%), País Vasco (28%), Chile (24%), Mexico (30%), Sweden (22%), Peru (28%) and for TAP the nominal rate applied was (15%).

In 2014, an income tax reform was implemented in Chile that became applicable starting on January 1 2014, which gave rise to a progressive increase in the tax rates in tranches from 20% to 27% (from 2018). In addition, last December 10, various standards were published modifying corporate income tax law in Peru, increasing the general tax rate from 28% to 29.5%, effective from January 1, 2017. This measure will apply to all Peruvian entities of the Enagás Group that have not signed a Legal Stability Agreement for purposes of stabilising corporate tax rates.

12.7 Non-controlling interests

Movements in the heading non-controlling interests recognized under equity in the consolidated balance sheet for 2016 and 2015 are as follows:

2016

	Balance at 12/31/2015	Changes in the Scope of Consolidation	Dividends paid	Allocation of results	Balance at 31/12/2016
Ente Vasco de la Energía	14,435	-	(765)	948	14,618
Omán Oil Company, S.A.C.	-	80	-	(2)	78
Total	14,435	80	(765)	946	14,696

2015

	Balance at 12/31/2014	Changes in the Scope of Consolidation	Dividends paid	Allocation of results	Balance at 12/31/2015
Ente Vasco de la Energía	14,247	-	(831)	1,019	14,435
Total	14,247	-	(831)	1,019	14,435

The 14,696 thousand euros recognized as non-controlling interests relate to the 10% stake that Ente Vasco de la Energía holds in Enagás Transporte del Norte, S.L., as well as the 15% interest in Infraestructuras del Gas, S.A. held by Omán Oil Company, S.A.O.C. (See Note 2.3).

13. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the Group by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2016	2015	Change
Profit for the year attributable to equity owners of the parent (thousands of euros)	417,222	412,662	1.1%
Weighted average number of shares outstanding ^(*) (thousand shares)	238,426	238,734	-0.13%
Basic earnings per share in euros		1,7285	1.2%

(*) The number of outstanding shares has decreased as a result of the acquisition of own shares (Note 29).

Diluted earnings per share is calculated by dividing profit for the period attributable to equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at December 31, 2016 and December 31, 2015, basic and diluted earnings per share coincide.

14. Provisions and contingent liabilities

The directors consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover the Group's exposure to the lawsuits, arbitration and other proceedings described in this Note, and therefore do not expect these proceedings to give rise to additional liabilities. Given the nature of the risks covered by these provisions, it is not possible to make a reasonable estimate as to the timing of any payments which may arise.

14.1 Non-current provisions

The changes in the "Non-current provisions" heading in 2016 were as follows

Non-current provisions	Opening balance	Provisions	Discounting/ Reestimation	Amounts used	Closing balance
Employee remuneration	-	7,421	-	-	7,421
Other liabilities	11,740	231	-	(1,648)	10,323
Dismantling costs	155,284	-	11,339	-	166,623
Total non-current provisions	167,024	7,652	11,339	(1,648)	184,367

This heading reflects the provisions for dismantling 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 (see Note 4). The movements in 2016 mainly resulted from discounting said provision to present value, the restatement on December 31, 2016 of the possible changes in the time schedule and amount of estimated cash flows to settle the obligation associated with the dismantling of said assets, and the discount rate used to determine the present value of the provision.

"Employee remuneration" includes a total of 800 thousand euros corresponding to the portion accrued by the long-term bonus plan payable in cash (see Note 29) as well as the bonus payable every three years for contribution to results for the remaining staff of the Group.

The financial updates to the provisions for dismantling are mainly recorded under the heading "Finance and similar costs" in the accompanying consolidated income statement, and correspond to the updates to the dismantling costs for underground storage facilities and regasification plants.

In addition, a provision totalling 1,374 thousand euros was applied in connection with the recognition, in accordance with IAS 28, by Enagás Internacional, S.L.U. of a liability arising from the losses of certain investee companies exceeding the shareholding, due to an improvement in the results of the affected companies.

14.2 Contingent liabilities

At December 31, 2016, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

With respect to what was stated in the financial statements for 2015 regarding the dispute raised by Sociedad Compañía Transportista de Gas Canarias, S.A. with the European Regional Development Fund (ERDF), it is worth noting that in January 2016 the Madrid High Court confirmed the resolution of the Directorate General for Community Funds which ruled that the subsidy received from the ERDF for the liquefied natural gas plant in Granadilla (Tenerife) be returned. Thus, at December 31, 2016 there were no outstanding legal proceedings relating to this matter.

Further, as indicated in Note 15, with respect to the guarantees provided to GSP by Enagas, said guarantees have been recognised as current financial liabilities, the payment having been executed in January 2017. There are no additional guarantees or contingent liabilities relating to GSP.

15. Financial Liabilities

The breakdown of current and non-current financial liabilities at year-end 2016 and 2015 was as follows:

Category \ Class	Non-current financial instruments							
	Bank borrowings and financial leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Non-current financial liabilities	1,657,307	1,758,319	3,106,757	2,323,400	21,613	19,482	4,785,677	4,101,201
Trade payables	-	-	-	-	103	93	103	93
Derivatives (Note 18)	-	-	-	-	102,969	91,458	102,969	91,458
Total	1,657,307	1,758,319	3,106,757	2,323,400	124,685	111,033	4,888,749	4,192,752

Category \ Class	Current financial instruments							
	Bank borrowings and financial leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current financial liabilities	399,439	125,790	504,985	259,402	272,535	4,159	1,176,959	389,351
Trade payables (*) (Nota 19)	-	-	-	-	173,997	241,201	173,997	241,201
Derivatives (Nota 18)	-	-	-	-	17,280	13,403	17,280	13,403
Total	399,439	125,790	504,985	259,402	463,812	258,763	1,368,236	643,955

(*) The caption, "trade payables" includes payable to the Treasury amounting 41,823 thousand euros at December 31, 2016 (37,005 thousand euros at December 31, 2015)

Below is a breakdown, by maturity, of financial liabilities at amortized cost and derivatives:

2016

	2017	2018	2019	2020	2021 and beyond	Total
Bonds and other marketable securities	504,985	-	-	-	3,106,757	3,611,742
Bank borrowings	399,439	525,299	141,742	121,742	868,524	2,056,746
Derivatives (Note 18)	17,280	11,612	11,637	10,352	69,368	120,249
Trade and other payables	446,532	17,873	483	438	2,922	468,248
Total	1,368,236	554,784	153,862	132,532	4,047,571	6,256,985

2015

	2016	2017	2018	2019	2021 and beyond	Total
Bonds and other marketable securities	259,402	468,465	-	-	1,854,935	2,582,802
Bank borrowings	125,790	288,890	151,742	141,742	1,175,945	1,884,109
Derivatives (Note 18)	13,403	10,545	10,259	10,275	60,379	104,861
Trade and other payables	245,360	923	17,268	476	908	264,935
Total	643,955	768,823	179,269	152,493	3,092,167	4,836,707

The Group had been granted lines of credit totaling 2,067,816 thousand euros at December 31, 2016 (2,180,054 thousand euros in 2015), and the amount not drawn down totaled 1,623,755 thousand euros (2,042,915 thousand euros in 2015) (see Note 11).

In the opinion of the Company's directors, this situation represents sufficient coverage for possible short-term liquidity needs in accordance with commitments existing at that date.

The average annual interest rate for 2016 for the net borrowings of the Group was 2.4% (2.7% in 2015). The percentage of fixed-rate net borrowings at December 31 amounted to more than 80%, with an average maturity period of 6.3 years at December 31, 2016.

The directors believe that the fair value of bank borrowings and other obligations at December 31, 2016 does not significantly differ from their carrying amount. The sensitivity of the aforementioned fair value to fluctuations in interest rates is as follows:

(Thousands of euros)

	Change in interest rates			
	2016		2015	
	25 pbs	-10 pbs	25 pbs	-10 pbs
Change in fair value of borrowings	15,702	(6,281)	10,914	(4,366)

The financial liabilities carried at fair value in the accompanying financial statements break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	120,249	-	120,249
Total	-	120,249	-	120,249

Level 1: On the basis of quoted prices in active markets for identical assets.

Level 2: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3: On the basis of inputs other than directly observable market data.

The information relating to derivative financial instruments under financial liabilities is set out in Note 18.

Bank borrowings

Movements in this heading in 2016 and 2015 were as follows:

2016

	Balance at 12/31/2015	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2016
Bank borrowings	1,884,109	1,690,646	(1,529,050)	11,041	2,056,746
Total	1,884,109	1,690,646	(1,529,050)	11,041	2,056,746

2015

	Balance at 12/31/2014	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2015
Bank borrowings	1,737,563	345,020	(110,000)	(88,474)	1,884,109
Total	1,737,563	345,020	(110,000)	(88,474)	1,884,109

Financing highlights in 2016 include:

- The formalisation by Enagás Internacional, S.L.U. of a credit line with the related party, Banco Santander, amounting to a maximum of 400,000 thousand US dollars secured by Enagás S.A. with a maturity of 2018. At December 31, 2016, the available balance amounted to 373,557 thousand euros (see Note 28).
- The line of multi-currency financing obtained in 2013 under the Club Deal arrangement was renewed in 2014, with an agreed increase of the amount to 1,500,000 thousand euros and an extension of the term to December 2019. Enagás, S.A. has the option to request an extension for an additional one or two years, subject to approval by the lenders. In 2015, the Company, executed the first extension provided for in the contract until 2020 for an amount of 1,450,000 thousand euros. No drawdowns had been made on this financing 2015. In 2016 an extension of the final maturity of the credit line to December 2021 was formalised. Furthermore, Enagás, S.A. can request a further extension of one or two additional years subject to approval by the lenders. No drawdowns had been made on this financing 2016.
- The US dollar credit line was drawdown in the amount of 1,317,089 thousand euros and 1,396,945 thousand euros were amortised, resulting in a total drawdown of 70,504 thousand euros at 31 December 2016.

Bonds and other marketable securities

Movements in this heading in 2016 and 2015 were as follows:

2016

	Balance at 12/31/2015	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2016
Bonds and other marketable securities	2,582,802	2,506,500	(1,486,500)	8,940	3,611,742
Total	2,582,802	2,506,500	(1,486,500)	8,940	3,611,742

2015

	Balance at 12/31/2014	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2015
Bonds and other marketable securities	2,854,856	1,624,000	(1,856,300)	(39,754)	2,582,802
Total	2,854,856	1,624,000	(1,856,300)	(39,754)	2,582,802

Financing highlights in 2016 include:

- On April 26, 2016, Enagás Financiaciones, S.A.U. issued 12-year bonds amounting 750,000 thousand euros with an annual coupon of 1.375%, secured by Enagás, S.A. The funds corresponding to this issue were paid on May 5, 2016.
- On May 11, 2016, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) program amounting 4,000,000 thousand euros, which was registered in the Luxembourg Stock Exchange in 2012, with Enagás, S.A. as guarantor.
- On May 12, 2016 Enagás S.A has renovated the Euro Commercial Paper (ECP) programme for a maximum amount of 1,000 million euros and was inscribed in the Irish Stock Exchange during 2011. Santander Bank is the arranger (coordinator of the operation) of the programme, entity which with others 9 banks, act as dealers (intermediary) designated. On December 31, 2016 there is no balance provision by the programme (230,000 thousand euros on December 31, 2015), having produced emissions during 2015 for a nominal amount of 1,256,500 thousand euros and amortizations for amount of 1,486,500 thousand euros.
- On October 19, 2016 Enagás Financiaciones, S.A.U. carried out a 10 years bond emission for an amount of 500,000 thousand euros with an annual coupon of 0.75%, guarantee by Enagás, S.A. the corresponding funds to this emission were disbursed on October 27, 2016.

Derivatives and Other

- Under "Debits and payables" in Derivatives and other, loans granted by the General Secretariat of Energy are included:
 - A loan which forms part of the subsidies foreseen in the National Energy Programme granted by the Ministry of Industry, Tourism, and Trade within the National Research Plan This loan is associated with the "Project for the electricity generation system at the Almendralejo compression station" being carried out by Enagás Transporte, S.A.U. The total amount of the loan granted is 3,264 thousand euros, of which 169 thousand euros was repaid in 2010, 466 thousand euros in each of the years 2011, 2012, 2013, 2014 and 2015. As at December 31, 2016, 299 thousand euros were classified as current.
 - In the Plan before mentioned, the loan associated with the "Project for design and development of a high pressure gas meter calibration facility" being carried out by Enagás Transporte, S.A.U. The total initial loan grant was 1,100 thousand euros. The Group repaid 204 thousand euros in 2009, at the request of the General Industry Secretariat, in order to adjust the size of the loan to the amount actually invested. In 2011, 57 thousand euros were paid off, and between the years 2012-2016 saw 128 thousand euros paid off. At December 31 2016, 71 thousand euros was classified as non-current and 128 thousand euros was recognised as current.

- Finally, also in the same mention Plan, the loan associated to the “Project of the Electric Generation Plant of Huelva” which is being carried out by Enagás Transporte, S.A.U. The total amount of the loan granted is 3,598 thousand euros. In 2009, 108 thousand euros were reimbursed, following the request of the General Secretary of Industry, to adjust the assistance received with the amount actually invested and in 2012, 13 thousand euros were reimbursed under the same concept. In 2012, 22 thousand euros were amortized, 64 thousand euros were amortized in 2013, 164 thousand euros were amortized in 2014 and 497 thousand euros were amortized in 2015 and 2016. At December 31 2016, 1,736 thousand euros are recorded in the long term and 497 thousand euros are recorded in the short term.
- As indicated in Note 8, as well as Note 33, the amount of the guarantee corresponding to the GSP project is included as its execution is considered probable at 2016 year end based on the termination resulting from failing to achieve the financial closing stipulated in the concession agreement. At December 31, 2016, a liability of 221,150 thousand euros was recognised, of which 154,093 thousand euros correspond to the corporate guarantee granted in connection with the company debt and 67,057 thousand euros to the guarantee for full compliance with the concession agreement. Both guarantees were executed in January 2017.
- In addition, and in relation to the shareholding that the Group has in Enagás Transporte del Norte, S.L., in the partnership agreement signed between Enagás Transporte, S.A.U. and EVE, the heading “Other non-current financial liabilities” includes the put option for the 10% shareholding in EVE, executable in July 2018. At the close of the 2014 financial year, the date for exercising the option was July 2016, but on 15 November 2015, EVE, in accordance with clause six of the aforesaid partnership agreement, gave notice of the extension of the duration of the agreement, thus extending its applicability to 20 July 2018. As at 31 December 2016, the fair value for this option amounts to 17,200 thousand euros (16,700 thousand euros at 31 December 2015).
- Finally, as indicated above in Note 2.3, during the current period Enagás Chile Spa. acquired 40% of direct interest in GNL Quintero, a company in which it already held 20.4% indirect interest via the interest held in Terminal de Valparaíso. Within the framework of said transactions, two options were granted relating to different interest percentages held, either directly or indirectly, in GNL Quintero. The details of these options are given below:
 - 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 Aproveionadora Global de Energía S.A. (“AGESA”), in exchange for receiving a call option on 15% of GNL Quintero shares.
 - Said option is of a two-year duration from the moment the second of the aforementioned acquisitions became effective (see Note 2.3), with its strike price equal to the share price at which Enagás Chile Spa. carried out the transactions.
 - Sales option (“put option”) for Sumhuran Energy Chile II Limitada (“OCC”): Enagás Chile granted OCC a put option on the totality of the interest held by the latter in Terminal de Valparaíso, amounting to 49% and representing 19.6% of indirect interest in GNL Quintero.

Its strike price was fixed at the same share price that was paid for the acquisition of Endesa Chile and AGESA shares described above, adjusted by the dividends distributed from the date of signing. Further, the 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.

Since there is no plan and no decision has been adopted to directly or indirectly dispose of the interest held in GNL Quintero, and as the intention is to maintain the investment on a permanent basis, the directors considered that both options are implicitly interrelated to the extent that the Enagás Group would never disburse funds for this transaction in excess of the difference between the amount receivable should ENAP exercise the call option and the amount payable should OCC exercise the put option. For the reasons given above, the two transactions have been treated as one, thus recognising a liability amounting to 39,059 thousand euros at 31 December 2016.

Given this context, said transaction was initially recognised under “Reserves” in equity of the consolidated balance sheet at the present value of the debt at the payment date, amounting to 43,418 thousand US dollars (39,059 thousand euros), as well as a financial liability at the payment date. Subsequently, any change in the present value of the previous debt is recognised in the consolidated income statement. Thus, at December 31, 2016, the present value of this option amounts to 41,345 thousand US dollars (39,127 thousand euros), having recognised 2,073 thousand US dollars (1.873 thousand US dollars) of finance income in the consolidated income statement for 2016.

16. Other non-current liabilities

The changes in 2016 and 2015 in this caption of the accompanying consolidated balance sheet were as follows:

(Thousands of euros)

	Canon Gasoducto de Extremadura, S.A.	Canon Gasoducto Al-Andalus, S.A.	Connections to the basic grid	Total
Balance at December 31 2014	5,702	12,931	37,418	56,051
Derecognition	-	-	(1,466)	(1,466)
Recognised in profit or loss	(951)	(2,154)	(941)	(4,046)
Balance at December 31 2015	4,751	10,777	35,011	50,539
Recognised in profit or loss	(950)	(2,156)	(1,225)	(4,331)
Balance at December 31 2016	3,801	8,621	33,786	46,208

Amounts related to the royalties payable by group subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. correspond to balances pending application in respect of “gas transport rights” contracts signed with these subsidiaries. These balances are consolidated proportionally in accordance with the percentage shareholding of Enagás Transporte, S.A.U. in these companies.

Enagás Transporte, S.A.U. recognises and records this revenue on a straight-line basis as accrued until 2020, which is when the transport contract expires (see Note 3.n).

17. Risk and capital management policy

17.1 Qualitative information

The Enagás Group is exposed to certain risks which it manages using a risk management and control model, based on the principle of due diligence, 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 aggregate risk profile. Based on 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 materialise more quickly and the danger of contagion is evident.

The model is based on the following:

- 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 Company carries out its activities.
- The consideration of some standard types of risk that the company is exposed to.
- The existence of certain governing bodies with responsibilities in terms of risk.
- The segregation and independence of the risk management and control functions on three levels of defense.
- 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. Enagás has drawn up a regulatory framework that has been established through the "Risk Management and Control Policy and General Rules", which defines the basic principles that govern the risk function and identifies the responsibilities of the different bodies of the company.

The risk management and control function is laid out along three lines of defence, which present differing roles and responsibilities:

- 1st line of defence: made up from the organisational units which assume the risks in the ordinary course of their activities. They are the owners of the risks and responsible for their identification and measurement.
- 2nd line of defence: made up by the Risk Management team, responsible for ensuring the proper functioning of the risk management and control system, define the regulatory and methodological framework and carry out the periodic monitoring and overall control of the risks of the Company.
- 3rd line of defence: made up of the Internal Auditing Management team, responsible for supervising the efficiency of the established risk controls.

The governing bodies involved in risk management and control are:

- 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: whose main functions are to supervise the efficiency of the risk systems and evaluate the risks to the company (identification, measurement and establishment of measures for their management);
- Risks Committee: whose main functions are to establish the overall strategy for risks, establish the limits of global risk for the company, review the level of exposure to risk and the corrective actions should there be any non-compliance.

The main financial and fiscal risks to which the Group is exposed are as follows:

Credit Risk

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 risk relating to receivables from its business activity is historically limited since the Group operates in a regulated environment with planned scenarios (see Note 18 and 8). 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 Enagás Group is also exposed to the risk of possible failures of its counterparties to comply with transactions involving financial derivatives and the placement of cash surpluses. To mitigate this risk, cash is placed and derivatives are arranged in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates, and the future flows from assets and liabilities linked to floating interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over the long term and mitigates volatility in the consolidated income statement.

Depending on its estimates and debt structure targets, the Enagás Group writes derivatives to mitigate those risks (see Notes 3.i, 15 and 18).

Exchange rate risk

Foreign currency risk arises in the Enagás Group through debt transactions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of translating the financial statements of those companies whose currency is not the euro during the consolidation process. To mitigate that risk, the Group has financing in US dollars and Swedish krona and it contracts derivative financial instruments that are subsequently designated as hedge instruments (see Notes 3.i, 15 and 18). In addition, the Enagás Group pursues a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the companies.

Liquidity Risk

Liquidity risk arises as a result of differences in the amounts, or the collection and payment dates, of the Group companies' various assets and liabilities.

The liquidity policy followed by the Enagás Group is oriented towards ensuring compliance with short-term payment commitments acquired without having to obtain funds under onerous conditions over the short-term. Various management measures are used in this respect, such as maintaining committed credit facilities in a sufficient amount, and appropriate terms and flexibility, the diversification of hedging of financial needs through access to various markets and geographic areas, and the diversification of issue debt maturity dates.

The Group's financial debt at 31 December 2016 has an average maturity term of 6.3 year (see Note 15).

Fiscal risk

The Enagás Group is exposed to possible changes in fiscal regulatory frameworks and uncertainties due to possible interpretative differences in the current tax legislation, with possible negative impacts on its results.

Other risk

Given and dynamic nature of business and its risks, and despite having a risk monitoring and management system which meets the best international recommendations and practices, it is not possible to claim that all risks will be identified in the Enagás Group risk system.

In addition, the internationalisation 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.

17.2 Quantitative Information

a) Interest rate risk:

The percentage of net debt at fixed rates at December 31, 2016 and December 31, 2015 was more than 80%.

Based on the above levels of fixed-rate net borrowings and after carrying out an analysis of the Group's sensitivity to a one percentage point variation in market interest rates, the Group estimates that the impact on its income statement of such a variation in the cost of servicing its floating-rate debt may vary as follows:

(Thousands of euros)

	Change in interest rates			
	2016		2015	
	25 pbs	-10 pbs	25 pbs	-10 pbs
Change in finance cost	2,691	(1,077)	2,599	(1,040)

Given the aforementioned changes, the impact on equity of the contracted derivatives would not be significant.

b) Exchange rate risk

The Enagás Group obtains financing fundamentally in euros, although it maintains certain financing in US dollars, Japanese yen and SEK. The currency that generates the highest exposure to exchange rate changes is the US dollar, given that the financing in yen is hedged through exchange rate derivatives (see Note 18).

The Group's exposure to changes in the US dollars/euro exchange rate is fundamentally determined by the translation of company financial statements denominated in foreign currency, as is indicated in Note 2.4: Enagás Internacional, S.LU., Enagás U.S.A., L.L.C., Terminal de LNG de Altamira, S. de R.L. de C.V., Morelos O&M, S.A.P.I. de C.V., Gasoducto de Morelos, S.A.P.I. de C.V., Morelos EPC, S.A.P.I. de C.V., Estación de Compresión Soto La Marina, S.A.P.I. de C.V., GSP, TgP, Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V., Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V., Enagás Perú, S.A.C., Enagás México, S.A. de C.V., Tecgas, Inc. Gasoducto Villa de Reyes, S.A.P.I. de C.V., Gasoducto Tuxpan, S.A.P.I. de C.V., GNL Quintero, S.A. and Enagás Chile, Spa., whose functional currency is the US dollar. In addition, COGA uses the Peruvian Nuevo Sol as its functional currency and Knubbsäl Topholding AB, parent company of the consolidated subgroup of the Swedegas Group, uses the Swedish krona (SEK).

The Group also has loans in US dollars granted by Enagás, S.A. to Group companies in which it does not have a majority stake.

The sensitivity of profit for the year and equity, as a result of the effect of the financial instruments held by the Enagás Group at December 31, 2016, to the main increases or decreases in the exchange rate is set out below:

(Thousands of euros)

	Appreciation/(depreciation) of the euro against the dollar			
	2016		2015	
	5.00%	-5.00%	5.00%	-5.00%
Effect on profit after tax	1,166	(1,166)	971	(971)
Effect on equity	(44,409)	49,084	33,969	(30,734)

17.3 Capital Management

The Enagás Group carries out capital management at corporate level and its objectives are to ensure financial stability and to obtain adequate financing for investments, optimising the cost of capital in order to maximise the creation of value for shareholders and maintaining its solvency commitment.

The Company uses the level of consolidated leveraging as an indicator for monitoring its financial position and managing capital. This indicator is defined as the quotient resulting from dividing net consolidated assets (understood to be the sum of net financial debt and consolidated equity) by net consolidated financial debt.

Financial leveraging at December 31, 2016 and 2015 is as follows:

	2016	2015
Current bank borrowings (Note 15)	2,056,746	1,884,109
Bonds and other marketable securities (*)	3,590,925	2,573,658
Other financial liabilities (**)	226,486	3,887
Cash and cash equivalents (Note 11)	(785,454)	(224,628)
Net financial debt	5,088,703	4,237,026
Shareholders' equity	2,373,681	2,318,911
Leverage ratio	68.2%	64.6%

(*) The value of the obligations is included at amortised cost

(**) The amount of the guarantees related to the GSP project (221,150 thousand euros) and the loans from the General Secretariat of Industry, General Secretariat of Energy, and Oman Oil Company, S.A.O.C (5,036 thousand euros).

Also, the credit rating agency Standard & Poor's has maintained the long-term rating of Enagás, S.A., to "A-" with a stable outlook at December 31, 2016. Likewise, the rating for Enagás, S.A., by Fitch Ratings at December 31, 2016 continues being "A-" with a stable outlook.

18. Derivative financial instruments

The Enagás Group uses derivatives to hedge its exposure to business, operating and cash flow risks.

The Group has fulfilled the requirements set forth in Note 3.i regarding the measurement bases for classifying financial instruments as hedges. Specifically, they have been formally designated as such, and they have been tested for effectiveness.

These instruments are offset and settled based on differences, and therefore the actual risk faced by the Enagás Group derives from the net position and not the amount contracted.

The fair value of these hedges at December 31, 2016 and 2015 is as follows:

Company	Classification	Rate	Amount arranged	Currency	Maturity	Fair value (thousands of euros)			
						12/31/2016		12/31/2015	
						Asset	Liability	Asset	Liability
Interest rate swap	Cash flow hedge	Floating to fixed	475,000	Euros	January-2017	-	(681)	-	(3,023)
Interest rate swap	Cash flow hedge	Floating to fixed	100,000	Euros	May-2017	-	(217)	-	(413)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December-2019	-	(1,992)	-	(1,208)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	January-2020	-	(1,270)	-	(863)
Interest rate swap	Cash flow hedge	Floating to fixed	65,000	Euros	March-2020	-	(986)	-	(542)
Cross Currency Swap	Net investment hedge	Fixed to fixed	400,291	Euros	April-2022	-	(102,684)	-	(98,812)
Cross Currency Swap	Net investment hedge	Fixed to fixed	237,499	Euros	May-2028	-	(12,419)	-	-
Cross Currency Swap	Fair value hedges	Fixed to floating	147,514	Euros	September-2039	16,670	-	8,686	-
Total			1,725,304			16,670	(120,249)	8,686	(104,861)

The change in the fair value of hedge instruments for fully consolidated companies in 2016 was as follows:

Company	Classification	Rate	Amount arranged	Currency	Maturity	12/31/2015	Income and expense recognised in equity		Transfers to income statement		Other variations*	12/31/2016
							Hedging transactions	Translation differences	Changes in gain (loss)	Counterparty risk		
			475,000	Euros	January-2017	(3,023)	(278)	-	2,723	-	(103)	(681)
			100,000	Euros	May-2017	(413)	(124)	-	356	-	(36)	(217)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December-2019	(1,208)	(1,557)	-	1,376	(599)	(4)	(1,992)
			150,000	Euros	March-2020	(542)	(917)	-	567	-	(94)	(986)
			65,000	Euros	January-2020	(863)	(743)	-	342	-	(6)	(1,270)
Cross Currency Swap	Fair value hedges	Fixed to floating	147,514	Euros	September-2039	8,686	-	-	-	(3,690)	11,674	16,670
Cross Currency Swap	Net investment hedge	Fixed to fixed	400,291	Euros	April-2022	(98,812)	11,643	(24,908)	10,748	(1,355)	-	(102,684)
Cross Currency Swap	Net investment hedge	Fixed to fixed	237,499	Euros	May-2028	-	(5,420)	(9,910)	2,911	-	-	(12,419)
Total			1,725,304			(96,175)	2,604	(34,818)	19,023	(5,644)	11,431	(103,579)

(*) In this change the accrued unpaid interest and other fees are recorded for these derivative financial instruments, as well as the variation in fair value of the hedging derivative.

Cash flow hedge

At the end of 2016, the amount recognised in the consolidated income statement for the cash flow hedge instruments described above (interest rate swap) totalled 4,765 thousand euros.

In respect of cash flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Amount arranged (thousand of euros)	Currency	Maturity	Total	2017	2018	2019 and beyond
475,000	Euros	January-2017	(681)	(681)	-	-
100,000	Euros	May-2017	(217)	(217)	-	-
150,000	Euros	December-2019	(1,992)	(656)	(656)	(680)
65,000	Euros	March-2020	(986)	(301)	(301)	(384)
150,000	Euros	January-2020	(1,270)	(414)	(414)	(442)
940,000			(5,146)	(2,269)	(1,371)	(1,506)

Fair value hedge

In 2009, the Enagás Group obtained a cross currency swap (CCS) to hedge against the change in the fair value of the bond denominated in Japanese yen, the euro/yen exchange rate risk and the Japanese yen interest rate. The fixed Japanese Yen component in these CCS neutralizes the changes in the value of the bond with respect to the specified risks. This bond is recognised in the heading "Non-current liabilities" in the consolidated balance sheet.

At the date the CCS started, the principal amounts were exchanged such that Enagás received 147,514 thousand euros and paid 20,000 million Japanese Yen, which is recognised at fair value through changes in consolidated profit and loss. Enagás will receive fixed rate interest in Japanese yen and will pay 6m Euribor up until maturity. At the maturity of the contract, Enagás will receive the principal in Japanese Yen and will re-pay the initially established principal in euros.

The Group has documented the hedging of this instrument as a fair value hedge, given that it hedges exposure to changes in the fair value of the recognised liability to which a particular risk is attributed and which affects the consolidated income statement.

Changes in the fair value of the hedge instrument have been offset by the changes in the value of the hedged instrument, as is shown in the following table

Thousand of euros	Fair value at 12/31/2015	Fair value at 12/31/2016	Change (income statement)
Measurement of the derivative (+asset/-liability)	8,686	16,670	7,984
Measurement of the hedged instrument (liability)	(156,658)	(168,332)	(11,674)
Total net amount recognised in profit and loss (expense)			(3,690)

Hedges of a net investment in a foreign operation

In April 2014, Enagás Internacional, S.L.U. obtained a cross currency swap (CCS). In addition, on May 10, 2016 Enagás Internacional contracted a new cross currency swap (CCS), effective from May 12, 2016 to its maturity date on May 5, 2028. This derivative has been designated at consolidated level as a hedge of a net investment in order to cover the Group's exposure to changes in the exchange rate relating to the stake in the net assets of certain foreign investments.

The main characteristics of these two financial instruments are as follows:

Company	Date	Amount arranged euros	Amount arranged USD	Rate	Start date	Maturity
Cross Currency Swap	April-2014	400,291	550,000	Fixed to fixed	April-2014	April-2022
Cross Currency Swap	May-2016	237,499	270,000	Fixed to fixed	May-2016	May-2028
Total		637,790	820,000			

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

Project	Hedge investment USD
GNL Quintero, S.A	179,989
Subgrupo Altamira LNG, C.V	52,423
TgP	572,793
GSP	14,795
Total	820,000

As is indicated in Note 3.i., hedges of net investments in foreign operations are recorded in a manner similar to cash flow hedges, although changes in the measurement of these transactions are recognised as exchange differences in the heading "Adjustments due to changes in value" in the accompanying consolidated balance sheet.

These translation differences will be transferred to the consolidated income statement when the foreign transaction being hedged is sold or otherwise disposed of.

The measurement of counterparty risk in accordance with IFRS 13 (see the calculation method in Note 3.i) has represented income totalling 1,355 thousand euros in the consolidated income statement.

The fair value of this instrument at December 2016 is 115,103 thousand euros (98,812 thousand euros in 2015), of which 15,013 thousand euros (9,624 thousand euros at 31 December 2015) is recorded at short term in the derivatives account included under the heading "Current financial liabilities".

19. Trade and other payables

Trade and other payables

The breakdown of "Trade and other payables" at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Payables to related parties (Note 28)	2,736	2,439
Payable to suppliers	127,067	181,156
Other payables	2,371	20,600
Current tax liabilities (Note 21)	41,823	37,006
Total	173,997	241,201

The balance under "Payables to related parties" relates mainly to a pending payment of 2,333 thousand euros at that date for gas transportation services rendered by the subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. to Enagás Transporte, S.A.U., both of the former companies consolidated using the proportionate consolidation method, as well as the Enagás GTS acquisition of operating gas from Mibgas in the amount of 403 thousand euros.

The balance under "Suppliers" corresponds to amounts owed for the purchase of materials and services received, which are registered primarily in "Other operating costs" and "Non-current assets", respectively.

Information on the average payment period. Additional provision three. "Disc los ure requirement" set out in Law 15/2010, of 5 July

Below follows the information required by the Additional provision three of Law 15/2010 of July 5 (amended by Final provision two of Law 31/2014 of December 3) prepared in accordance with the Resolution of the ICAC of January 29 2016 regarding information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial operations.

The disclosures required under additional provision three of Spanish Law 15/2010, of July 5, are as follows:

	2016 Days	2015 Days
Ratio of operations paid	38	38
Ratio of operations pending payment	39	50
The average payment period to suppliers (PMPP)	38	39

	Amount (Thousand of euros)	Amount (Thousand of euros)
Total payments made	483,326	523,906
Total pending payment	26,037	39,688

In accordance with the Resolution of the ICAC, the calculation of the average payment period considers the commercial operations corresponding to the delivery of goods or rendering of services accrued since the date of the entry into force of Law 31/2014 of December 3.

Suppliers, for the exclusive purposes of providing the information set forth in this Resolution, are considered to be trade payables owed to suppliers of goods and services included in the items "Payable to suppliers", "Payable to suppliers - Group companies and associates" and "Other payables" under current liabilities in the balance sheet.

"Average payment period to suppliers" is understood to be the time that passes between the delivery of the goods or rendering of the service by the supplier and the material payment for the operation.

The maximum payment term applicable to the Company in 2016 under Spanish Law 3/2004 of December 29 establishing measures to combat late payments in business transactions is approximately 60 days (60 days in 2015). In order to obtain the foregoing information, payment obligations that have been the object of withholdings as a result of embargoes, writs of execution, administrative enforcement proceedings, or other similar acts handed down by legal or administrative bodies were excluded.

20. Defined contribution plans

The Group operates defined contribution pension plans covering the commitments acquired with respect to qualifying serving employees. The plan assets are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

The contributions made by the Group to the pension plan in this connection amounted to 2,348 thousand euros in 2016 (2,304 thousand euros in 2015), recognised under "Staff costs" in the accompanying consolidated income statement.

21. Tax matters.

21.1 Tax Reform

With the entry into force of the new Corporation Tax Law (Law 27/2014 of 27 November) on January 1 2015, there has been a reduction in the rate of Corporation Tax from 30% to 28% for 2015 and 25% for 2016.

21.2 Tax return

As of January 1 2013, Enagás S.A. has been the dominant company in the Consolidated Tax Group 493/12 (see Note 3.p), and files consolidated tax returns in accordance with Chapter VI of Title VII of the consolidated Spanish Corporation Tax Law, Law 27/2014, of November 27:

- 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.
- Enagas Emprende S.L.U.

The rest of the Group companies individually settle their income tax returns in accordance with the tax legislation applicable to them.

21.3 Tax receivables and payables

The balances receivable from and payable to the public authorities at December 31 2016 are as follows:

(Thousands of euros)

	2016	2015
Tax receivables:		
Value added tax	24,160	29,415
Income tax	448	162
TOTAL	24,608	29,577
Tax payables:		
Income tax	10,118	6,293
Value added tax	-	285
Taxation authorities, withholding tax and others	31,705	30,428
Total	41,823	37,006

In 2016, 110,979 thousand euros (142,190 thousand euros in 2015) was paid on account of the amount to be finally paid for income tax 2016, which was 105,500 thousand euros for the consolidated tax group (136,462 thousand euros in 2015), leaving an outstanding amount of 6,418 thousand euros payable (1,082 thousand euros to be returned in 2015).

The amount pending payment in this respect at December 31 2016 totals 3,700 thousand euros, relating to companies that do not belong to the consolidated tax group (5,211 thousand euros in 2015).

21.4 Reconciliation of profit before tax and taxable income

The reconciliation of accounting profit to taxable profit for income tax purposes is as follows:

	2016			2015		
	Spanish companies consolidated for tax purposes	Foreign companies	Total	Spanish companies consolidated for tax purposes	Foreign companies	Total
Accounting profit before tax	526,252	12,073	538,325	527,978	29,290	557,268
Consolidation adjustments	(34,058)	(11,176)	(45,234)	(14,166)	(31,043)	(45,209)
Permanent differences of individual companies						
Increases	3,420	463	3,883	2,167	29	2,196
Decreases	(479)		(479)	(261)	(6)	(267)
Temporary differences of individual companies						
Increases	67,645	167	67,812	67,106	152	67,258
Decreases	(78,969)	(62)	(79,031)	(39,621)	(36)	(39,657)
Taxable profit	483,811	1,465	485,276	543,203	(1,614)	541,589

The tax base totalling (1,465) thousand euros relates to the foreign companies Enagás Perú, S.A.C., Enagás Chile, S.P.A. and Enagás México S.A. de C.V., which are subject to a 28%, 24% and 30% tax rate respectively.

21.5 Tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2016 and 2015, the Group recognised the following amounts for the following items in consolidated equity:

	(Thousand of euros)					
	2016			2015		
Deferred tax	Increases	Decreases	Total	Increases	Decreases	Total
Measurement of other financial assets	3,704	(1,556)	2,148	4,659	(77)	4,582
Arising in the prior years:						
Measurement of other financial assets	-	(6,915)	(6,915)	-	(3,715)	(3,715)
Total tax recognised directly in equity	3,704	(8,471)	(4,767)	4,659	(3,792)	867

21.6 Reconciliation between profit before tax and income tax expense

The reconciliation of accounting profit to the income tax expense is as follows:

	2016			2015		
	Spanish companies	Foreign companies	Total	Spanish companies	Foreign companies	Total
Accounting profit before tax	526,252	12,073	538,325	527,978	29,290	557,268
Permanent differences and consolidation adjustments	(31,117)	(10,712)	(41,829)	(12,260)	(31,020)	(43,280)
Tax rate %	126,461	300	126,761	144,401	(512)	143,889
Effect of the tax credits	(2,423)	-	(2,423)	(1,320)	-	(1,320)
Effect of tax loss carry forwards not recognised in the year	-	99	99	-	103	103
Effect of different tax rates	-	-	-	-	-	-
Adjustments to income tax	455	-	455	(587)	-	(587)
Other	(4,735)	-	(4,735)	1,502	-	1,502
Income tax for the year	119,758	399	120,157	143,996	(409)	143,587

21.7 Breakdown of income tax expense

The breakdown of "Income tax expense" for 2016 and 2015 is as follows:

	2016	2015
Current tax:		
Continuing operations	(131,027)	(155,717)
Discontinued operations	-	-
Deferred tax:		
Continuing operations	11,325	11,543
Discontinued operations	-	-
Adjustments to income tax:		
Continuing operations	(455)	587
Discontinued operations	-	-
Total gasto por impuesto	(120,157)	(143,587)

The 25% rate has been used for all Spanish companies as a taxable rate for corporate tax, including those under state taxation rules and those taxed under local rules (Vizcaya). In the case of Enagás Perú, S.A.C., Enagás Chile, S.P.A. and Enagás México, S.A. de C.V., 28%, 24% and 30% have been applied, respectively.

21.8 Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities in 2016 and 2015 is as follows:

	2016	2015
Temporary differences (deferred tax assets):		
Grants related to assets and other grants	1,388	1,493
Depreciation deduction limit, R.D.L. 16/2012	34,119	38,553
Provision for employee remuneration	5,678	4,253
Provision for fixed assets	3,906	5,078
Provision for litigation and others	11,235	9,541
Derivatives	931	1,357
Tax loss carry forwards	5,509	5,449
Unused tax credit and other	6,824	7,711
Total deferred tax assets	69,590	73,435
Deferred tax liabilities:		
Unrestricted depreciation	282,683	296,487
Derivatives	5,882	1,004
Other	8,906	8,568
Total deferred tax liabilities	297,471	306,059

Movements in 2016 were as follows:

	Initial value 12/31/2015	Recognised in the income statement	Recognised in equity	Other	End value on 12/31/2016		
					Carrying amount	Deferred Tax assets	Deferred Tax liabilities
Grants related to assets and other grants	1,493	(105)	-	-	1,388	1,388	-
Depreciation deduction limit, R.D.L. 16/2012	38,553	(4,184)	-	(250)	34,119	34,119	-
Provision for employee remuneration	4,253	1,426	-	(1)	5,678	5,678	-
Provisions for fixed assets	5,078	(1,172)	-	-	3,906	3,906	-
Derivatives	9,541	1,474	-	220	11,235	11,235	-
Other	1,357	(365)	110	(171)	931	931	-
Unrestricted depreciation	(296,487)	13,804	-	-	(282,683)	-	282,683
Derivatives	(1,004)	-	(4,878)	-	(5,882)	-	5,882
Other	(8,568)	(338)	-	-	(8,906)	-	8,906
Tax loss carry forwards	5,449	60	-	-	5,509	5,509	-
Unused tax credits and others	7,711	(887)	-	-	6,824	6,824	-
Total	(232,624)	9,712	(4,768)	(202)	(227,881)	69,590	297,471

These deferred tax assets were recognised in the consolidated balance sheet since the directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be recovered.

The main deferred tax asset is a consequence of applying article 7 of Law 16/2012, of December 27, 2012, which adopted “various tax measures aimed at consolidating public finances and boosting economic activity” and in which a limit of tax deductible amortisation/depreciation charges was introduced in connection with corporate income tax due for the years 2013 and 2014. The article establishes that from 2015 onwards, said amortisation/depreciation could either be deducted on a straight-line basis over a period of 10 years or over the useful life of the equity item. The Group decided to apply the deferred tax asset on a straight-line basis over a period of 10 years. In 2016 the deferred tax asset applied for this item amounted to 4,434 thousand euros (4,798 thousand euros in 2015).

The Company also proceeded to recognise the items covered by Transitional Provision Thirty-Seven of Law 27/2004 on corporate income tax under “Unused tax credit and other”. This transitional provision establishes that taxpayers that are subject to the tax rate set in this Law and that were subject to the depreciation/amortisation limitation established in article 7 of Law 16/2012, of 27 December, establishing several tax measures to consolidate public finances and to encourage economic activity, will be entitled to a deduction to tax payable in the tax period commencing in 2015, consisting of 2% of the amounts making up the tax base for that tax period. Based on this legislation, the deduction applied in 2016 amounted to 887 thousand euros (342 thousand euros in 2015).

With respect to the content of Note 29.1 on the long term bonus plan, and in accordance with article 14 of the Corporate Income Tax Law, personnel expenses recognised during this period will be deductible when the shares are delivered or payment is made. Thus, said expenses are not deductible in 2016 and have given rise to a deferred tax asset in the amount of 1,166 thousand euros.

The Group does not have unrecognized deferred tax assets.

The main deferred tax liability relates to applying accelerated tax amortisation/depreciation to certain assets during the period 2009-2014, in accordance with the stipulations of Law 4/2008, of 23 December and Royal Decree Law 13/2010 of 3 December. A deferred tax item was reversed during 2016 in the amount of 13,804 thousand euros (15,494 thousand euros in 2015), via the corresponding positive adjustment to the tax base of 55,215 thousand euros (55,336 thousand euros in 2015).

21.9 Years open to inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive 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. At the end of 2016, the Enagás Group had the years 2012 to 2016 open for inspection for all taxes to which it is liable, except for income tax, which is open for inspection for the years 2011 to 2016.

The directors consider that all applicable taxes 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.

22. Income

The breakdown of Group revenue at December 31 2016 and 2015 is as follows:

(Thousands of euros)

	12/31/2016	12/31/2015
Revenue	1,187,994	1,196,366
Revenue from regulated activities	1,146,977	1,159,494
Revenue from deregulated activities	41,017	36,872
Other income	29,522	25,233
Ancillary and other operating income	29,251	25,078
Grants	271	155
Total	1,217,516	1,221,599

The breakdown of the net amount of turnover based on the Companies within the Group from which they come is as follows:

(Thousands of euros)

	12/31/2016	12/31/2015
Regulated activities:	1,146,977	1,159,494
Enagás Transporte S.A.U.	1,095,013	1,117,117
Enagás GTS, S.A.U.	23,958	12,012
Enagás Transporte del Norte, S.L.	28,006	30,365
Unregulated activities:	41,017	36,872
Enagás, S.A.	4,202	2,158
Enagás Transporte, S.A.U.	32,287	32,128
Enagás México	649	-
Enagás Perú	1,841	-
Enagás Internacional, S.L.U.	2,038	2,586
Total	1,187,994	1,196,366

23. Expenses

An analysis of Group expenses is provided below:

(Thousands of euros)

	12/31/2016	12/31/2015
Staff costs	108,754	96,301
Other operating costs	226,271	224,948
Total	335,025	321,249

23.1 Staff costs

The detail of staff costs is as follows:

(Thousands of euros)

	31.12.2016	31.12.2015
Wages and salaries	84,579	73,816
Termination benefits	2,116	3,404
Social Security	18,091	16,570
Other staff costs	8,402	7,654
Contributions to external pension funds (see Note 20)	2,348	2,304
Own work capitalised	(6,782)	(7,447)
Total	108,754	79,731

At December 31, 2016 the Group had capitalised 6,782 thousand euros for staff costs directly related to ongoing investment projects (7,447 thousand euros at December 31 2015) (Note 6).

The Group recognises the amounts to be settled with Enagás, S.A. shares in connection with the long-term bonus plan approved on March 18, 2016 under "Wages and salaries" as this item is considered a share-based transaction payable in equity instruments in accordance with IFRS 2. Thus, the fair value of services received included under this heading, as consideration for the equity instruments granted, amounts to 1,959 thousand euros at December 31, 2016. In addition, the Enagás Group recognised 800 thousand euros in "Provisions" under non-current liabilities in the consolidated balance sheet at 31 December 2016, in connection with the rendering of services corresponding to that part of the incentive payable in cash, as an employee benefits expense. Furthermore, the employee benefits expense arising from the three-year bonus plan aimed at the remaining staff of the Group is also recognised under this heading.

The average number of Group employees, by professional category, is as follows:

Item	2016	2015
Managers	121	99
Technicians	703	660
Administrative staff	128	125
Manual workers	391	390
Total	1,343	1,274

At December 31 2016, the Group had 1,337 employees (1,337 in 2015). The breakdown by category and gender is as follows:

Item	2016		2015	
	Men	Women	Men	Women
Managers	94	31	85	29
Technicians	482	219	493	210
Administrative staff	21	102	26	105
Manual workers	373	15	375	14
Total	970	367	979	358

The category "Executives" forms part of the Group's Senior Management consisting of nine employees (eight men and one woman).

The average number of employees at Group companies with a disability of a LGD of 33% or higher in 2016 and 2015 is as follows:

Item	2016	2015
Managers	-	-
Technicians	4	3
Administrative staff	2	2
Manual workers	4	3
Total	10	8

23.2 Other operating costs

The breakdown of this heading at December 31 2016 and 2015 is as follows:

(thousands of euros)

	12/31/2016	12/31/2015
External Services		
R&D Costs	780	472
Leases and Royalties	44,361	44,250
Repairs and maintenance	52,760	42,335
Professional services	30,139	29,173
Transport	26,196	27,576
Insurance premiums	6,302	6,418
Banking and similar services	267	340
Advertising, publicity and PR	4,706	3,922
Supplies	19,045	20,224
Other Services	19,315	18,728
External Services	203,871	193,438
Taxes other than income tax	13,929	20,758
Other overhead income tax	170	117
Other external expenses	9,063	10,207
Change in operating provisions	(762)	428
Total other operating costs	226,271	224,948

23.3 Other disclosures

“Other operating costs” includes the fees paid for the audit of the financial statements and for other audit and non-audit work. The fees for audit and non-audit services provided by the auditor of the Group in 2016, Ernst & Young, S.L. (Deloitte, S.L., during 2015), or by a company belonging to the same network or related to the auditor, were as follows:

Item	2016		2015	
	Services provided by the auditor and its related parties	Services provided by other Group auditors	Services provided by the auditor and its related parties	Services provided by other Group auditors
Audit services ⁽¹⁾	712	89	540	49
Other assurance services ⁽²⁾	239	-	737	-
Total audit and audit-related services	951	89	1,277	49
Other services ⁽³⁾	140	-	-	-
Total Other Services	140	-	59	
Total professional services (4)	1,091	89	1,336	49

(1) Audit Services: This section includes services provided during 2016 by the auditor for the performance of statutory audits of the Group's annual accounts and the limited review of the Interim and Quarterly Consolidated Financial Statements As well as the Certification of the Financial Information Control System (SCIF). For comparative purposes, the fee for the ICFR for the year 2015 has been reclassified as audit services.

(2) Other services related to auditing: In accordance with the provisions of Law 22/2015 on Auditing of Accounts, which came into force on June 17, 2016, the work related to the Annual Government Report Corporate, the review of the non-financial information included in the 2016 Annual Report, as well as the Audit Reports for the issuance of the Comfort Letter. During 2016, the rest of services provided have been classified under the heading “Other professional services”.

(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) Law 22/2015 on the Audit of Accounts establishes that non-audit services provided by the auditor must be less than 70% of the average fees paid for audit services for three consecutive years. The amount of non-audit services rendered by the auditor amounts to 53% of the audit services provided by EY (47% for the Group).

24. Net finance cost

The breakdown of the heading “Net financial cost” in the accompanying consolidated income statement is as follows:

	12/31/2016	12/31/2015
Finance revenue from Group companies and associates	7,458	6,884
Finance revenue from third parties	6,799	7,913
Finance revenue	14,257	14,797
Finance and similar costs	(14,873)	(298)
Interest on loans	(106,773)	(113,445)
Interim interests	2,876	4,177
Other	(2,373)	1,119
Financial costs	(121,143)	(108,447)
Profit from hedging instruments	(5,644)	2,090
Exchange differences	(867)	630
Net finance cost	(113,397)	(90,930)

“Finance and similar costs” includes 13,285 thousand euros of the cost relating to the effect of discounting the credit recognised for the recovery of the guarantees provided by the Company for GSP within a maximum of three years (see Note 8).

The Group had capitalized borrowing costs in an amount of 2,876 thousand euros at December 31 2016 (4,177 thousand euros at December 31 2015) (Note 6).

25. Business and geographical segments

25.1 Segmentation criteria

Segment information is organized according to the Group’s various business units (primary reporting segments). The Group identifies its operating segments based on internal reports on the Group’s performance which are regularly reviewed, debated and evaluated in the decision-making process.

25.2 Segments by geographical areas

The majority of the companies that the Enagás Group owns outside of Europe are now consolidated on an equity basis, and it therefore presents the relevant expenses and income in the heading “Share of profit of equity- accounted companies” in the consolidated income statement. The information relating to geographic markets is therefore based on net profits.

The distribution of profits for 2016 and 2015 by geographic market is as follows:

Net profit	12/31/2016	12/31/2015
Europe	406,933	375,103
South America	10,652	37,559
North America	(363)	-
TOTAL	417,222	412,662

25.3 Main business segments

The business areas described below have been established on the basis of the classification included in the Hydrocarbon Sector Law 34/1998 of 7 October, and in accordance with the organizational structure of the Enagás Group, which takes into account the nature of the services and products offered:

a) Infrastructure activity (including gas transport, regasification, and storage):

- Gas transport: Core activity which consists of the movement of gas through the Group’s transport network, composed of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.
- Regasification: The gas is transported from producer countries in methane tankers at 160°C below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using salt water vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.
- Storage: The Enagás Group operates the following underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca), Gaviota (an off-shore facility) located close to Bermeo (Vizcaya) and Yela (Guadalajara).

b) Technical System Operator activity

As Technical System Operator, the Enagás Group continued to develop the functions entrusted to it over the course of 2016 by the Royal Decree 6/2000 of 23 June and the R.D. 949/2001 of 3 August, with the aim of ensuring the continuity and security of the supply, as well as good coordination between the access, storage, transportation and distribution points.

The infrastructure and Technical System Manager activities are considered to be "Regulated Activities" by the Enagás Group.

c) Unregulated activities

These refer to all deregulated activities and transactions related to Group associates.

25.4 Bases and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the General Economic- Financial Department, and it is generated via a computer program which breaks down the financial statements by activity.

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

Segment information is set out below:

(Thousands of euros)

	Infrastructures		Technical System Management		Unregulated activities		Adjustments ^(*)		Group Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Income statement										
Operating revenue	1,182,582	1,199,414	25,638	13,755	81,371	92,392	(72,075)	(83,962)	1,217,516	1,221,599
Depreciation and amortisation	(251,054)	(267,687)	(9,688)	(9,347)	(10,919)	(12,993)	145	240	(271,516)	(289,787)
Operating profit	650,303	657,869	(827)	(13,132)	(38,291)	(41,945)	(669)	(829)	610,516	601,963
Finance revenue	1,937	7,037	10	-	432,821	444,190	(420,511)	(436,430)	14,257	14,797
Finance costs	(53,321)	(9,785)	(97)	(56)	(118,237)	(98,618)	50,512	12	(121,143)	(108,447)
Income tax expense	(148,823)	(168,370)	234	3,691	28,267	20,860	165	232	(120,157)	(143,587)
Profit after tax	468,270	440,115	(677)	(9,497)	320,133	365,864	(370,504)	(383,820)	417,222	412,662

Balance sheet	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Total assets	6,887,426	6,289,484	59,092	41,188	8,105,135	6,331,336	(5,803,686)	(4,910,090)	9,247,967	7,751,918
Fixed asset purchases	71,584	120,769	8,993	8,169	9,789	9,489	(814)	(11,652)	89,552	126,775
Non-current liabilities ^(**)	505,255	510,300	555	15	22,439	13,237	(203)	70	528,046	523,622
Deferred tax liabilities	289,801	303,539	-	-	7,873	2,520	(203)	-	297,471	306,059
Provisions	169,246	156,292	555	15	14,566	10,717	-	-	184,367	167,024
Other non-current liabilities	46,208	50,469	-	-	-	-	-	70	46,208	50,539
Current liabilities ^(**)	94,623	154,835	31,853	33,919	51,424	63,827	(3,903)	(11,380)	173,997	241,201
Trade and other payables	94,623	154,835	31,853	33,919	51,424	63,827	(3,903)	(11,380)	173,997	241,201

(*) Adjustments' includes eliminations for intercompany transactions (service rendered and loans granted), as well as the elimination of Investment-Capital and Reserves.

(**) Does not include financial liabilities

26. Environmental information

The Group's efforts to protect the environment and its biodiversity, to boost energy efficiency, lower its carbon emissions and promote the responsible use of resources are the key components of its environmental management strategy, designed to mitigate its impact on its surroundings.

The Group has integrated environmental protection within the Company's strategic programmes and policies via the implementation of the Environmental Management System developed and certified by LLOYD'S, prepared in accordance with the requirements of the UNE EN ISO 14001 standard, which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the LNG storage and regasification plants in Barcelona, Cartagena and Huelva, the Serrablo, Gaviota and Yela underground storage facilities, the facilities for the basic gas pipeline network, the Zaragoza laboratory and the management of New Infrastructure Development Projects.

Further, in an effort to improve data transparency and strengthen commitment to the environment, the regasification plants in Barcelona and Huelva are certified in accordance with European EMAS regulations.

In 2016, LLOYD'S, the accreditation agency, issued the corresponding audit reports on the EMS with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in this field.

The Enagás S.A. Group goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and facilities, assessing risks and promoting eco-efficiency, practising responsible waste and residue management, minimising its carbon footprint and attempting to help combat climate change.

Furthermore, the Group incorporates environmental criteria into its contractor and supplier dealings, taking environmental issues into consideration when it awards service and product supply contracts.

In 2016, environmental action totalling 11,084 thousand euros was undertaken, together with investments in balance sheet assets (29,440 thousand euros in 2015). Environmental expenses incurred by the Group in 2016 totalled 1,853 thousand euros (1,468 thousand euros in 2015) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Enagás Group is exposed are sufficiently covered by third-party liability insurance policies.

27. Greenhouse gas emission allowances

Certain Enagás Group facilities fall within the scope of Law 1/2006 of 9 March, governing trading in greenhouse gas emission allowances.

Directive 2009/29/EC of the European Parliament and of the Council of April 23 2009, amended the system with respect to the period 2013-2020. Although an auction is set up as the customary procedure for allocating emission allowances as of 2013 for the owners of the facilities included in the scope of the emission allowance trading scheme, the owners that opt to do so, pursuant to that envisaged in the Directive, will receive free allowances from 2013 to 2020 in accordance with the European Union harmonisation legislation.

A decision by the Council of Ministers of November 15, 2013 approved the final free-of-charge assignment of greenhouse gas emission rights to institutions covered by the emission rights trading system in 2013-2020, including the facilities maintained by Enagás Transporte, S.A.U. The facilities for which these allocations have been received are:

- The Serrablo, Yela and Gaviota underground storage facilities.
- The Barcelona, Cartagena and Huelva LNG storage and regasification plants
- The compressor stations in: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Seville, Haro, Paterna, Tivissa, Zamora, Zaragoza, Alcázar de San Juan, Lumbier and Villar de Arnedo and Montesa.

All of the rights assigned to the Enagás Group, definitively and free-of-charge for its facilities, total 985,915 rights for the period 2013 to 2020, of which 90,224 are for 2016 and 115,588 relate to 2015. Furthermore, an additional 18,635 rights were received, corresponding to pending settlements from prior years approved by the Spanish Office for Climate Change.

Within the Group, the rights assigned for 2016 and 2015 were valued at 8.04 euros/right and 6.96 euros/right, respectively, the spot price on the first business day of 2016 and 2015 as per RWE Trading GMBH, which implies additions for the year of 639 thousand euros (616 thousand euros for 2015).

The Enagás Group consumed 133,878 greenhouse gas emission allowances in 2016 (130,878 in 2015).

In the first quarter of 2016, the Enagás Group submitted its emission reports, verified by the accredited agency (AENOR), to the pertinent regional governments, which validated said emissions.

In the second quarter of 2016, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2015 for all these installations.

In 2016, the Enagás Group did not arrange any futures contracts relating to greenhouse gas emission allowances nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

28. Related party transactions and balances

The Group's "related parties", in addition to subsidiaries, associates and jointly controlled entities, are considered to be "key personnel" in its management team (members of the Board of Directors, executives and their close family members), together with entities over which key management personnel could exercise significant or total control as established in Order EHA/3050/2004, of 15 September, and CNMV Circular 1/2008, of 30 January.

Balances with Group companies that have not been eliminated during the consolidation process relate to:

- Receivables totaling 16,321 thousand euros at December 31, 2016 (6,744 thousand euros at December 2015) (see Note 10).
- Payables totaling 2,736 thousand euros at December 31, 2016 (2,439 thousand euros at December 31 2015) (see Note 19).
- Loans to Group companies totaling 293,929 thousand euros at December 31, 2016 (168,090 thousand euros at December 31, 2015 (see Note 8).
- Long-term receivables from GSP totalling 207,865 thousand euros at 31 December 2016 (See Note 8).

Below is a detail of the Group's related-party transactions in 2016 and 2015, distinguishing between significant shareholders, board members, executives and other related parties. 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.

2016

(Thousands of euros)

Income and expenses	12/31/2016				Total
	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	
Expenses:					
Finance costs	-	-	-	3,853	3,853
Services received	-	-	34,449	234	34,683
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	1,632	-	-	1,632
TOTAL EXPENSES	-	1,632	34,449	4,087	40,168
Income:					
Finance revenue	-	-	7,342	-	7,342
Services rendered	-	-	14,259	-	14,259
Gains on derecognition or disposal of assets	-	-	14	-	14
Other income	-	-	3,106	-	3,106
TOTAL INCOME	-	-	24,721	-	24,721

2015

(Thousands of euros)

Income and expenses	12/31/2015				Total
	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	
Expenses:					
Finance costs	-	-	-	3,215	3,215
Services received	-	-	27,291	609	27,900
Losses on derecognition or disposal of assets	-	-	98	-	98
Other expenses	-	1,007	-	-	1,007
TOTAL EXPENSES	-	1,007	27,389	3,824	32,220
Income:					
Finance revenue	-	-	6,885	17	6,902
Services rendered	-	-	10,651	-	10,651
Gains on derecognition or disposal of assets	-	-	142	-	142
Other income	-	-	3,106	-	3,106
TOTAL INCOME	-	-	20,784	17	20,801

2016

(Thousands of euros)

Other transactions	12/31/2016			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Debt securities of related parties (see Note 31)	-	24,779	-	24,779
Guarantees and sureties granted - Others (see Note 31)	-	9,464	144,175	153,639
Investment commitments (see Note 31)	-	218,289	-	218,289
Dividends and other profits paid out	30,970	-	-	30,970

2015

(Thousands of euros)

Other transactions	12/31/2015			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Debt securities of related parties (see Note 31)	-	163,880	-	163,880
Guarantees and sureties granted - Others (see Note 31)	-	89,711	148,768	238,479
Investment commitments (see Note 32)	-	250,220	-	250,220
Dividends and other profits paid out	30,051	-	-	30,051

Since 2015, the Banco Santander Group complied with the aforementioned definition of "related party".

Of the transactions indicated in the preceding table, 3,853 thousand euros in finance costs for 2016 corresponds to this related entity (3,215 thousand euros in 2015), (including the finance costs arising from interest rate hedges) and 144,175 thousand euros in guarantees and sureties granted at December 31, 2016 (148,768 thousand euros at December 31, 2015).

This bank also carried out the following transactions with the Enagás Group:

- The Enagás Group maintains financing through a multi-currency club deal that has not been drawn down at December 31 2016 (see Note 15). This related party represents 9.63% of all banks that have participated in this source of financing for this transaction.
- This related party participated as a passive bookrunner in the bond issue carried out by Enagás Financiaciones, S.A.U. in May 2015. In addition, this related party also participated as a passive bookrunner in the bond issue carried out by Enagás Financiaciones, S.A.U. on 19 October 2016 (see Note 15).
- In the course of 2016, Enagás Internacional, S.L.U. arranged a credit line with this related party for a maximum amount of 400,000 thousand US dollars, maturing in 2018 and guaranteed by Enagás, S.A. At 31 December 2016 the balance drawn down amounted to 373,557 thousand euros (see Note 15).

Directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

29. Directors and senior management compensation

The remuneration received in 2016 and 2015 by the members of the Board of Directors and by Senior Management of Enagás, S.A., broken down by item, was as follows:

2016

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Board of Directors	2,121	1,630	206	-	111
Senior management	2,738	-	137	62	61
TOTAL	4,859	1,630	343	62	172

2015

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Board of Directors	2,014	1,007	170	12	33
Senior management	2,212	-	111	56	17
TOTAL	4,226	1,007	281	68	50

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 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" which was in turn approved under agenda item number 7.

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

Members of senior management (members of the executive committee) are also beneficiaries of the long-term bonus plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8. As approved by the shareholders in general meeting, the Board has assigned them a total of 95,102 performance shares or rights relating to shares as well as an incentive in cash amounting to 800 thousand euros. Said rights do not at present constitute acquisition of shares or collection of any amounts until the programme has finalised, the final bonus depending on the degree to which the programme objectives have been met.

Executive directors and senior management form part of the group covered by the mixed group insurance policy for pension commitments. Of the premium paid in 2016, 291 thousand euros corresponded to executive directors and 277 thousand euros to senior management.

The increase in insurance premiums was exclusively due to greater costs arising from the loss or reduction during this period in profit sharing with insurance entities without an increase in the premiums or a significant expansion of coverage. This increase in turn results in an increase in withholdings on account of compensation in kind included under "Other", without this compensation in kind having seen any significant increases.

The aforementioned remuneration distributed to each of the members of the Board of Directors in 2016 and 2015, excluding insurance premiums and pension plans, was as follows:

(Thousand of euros)

DIRECTORS	2016	2015
D. Antonio Llardén Carratalá, (Executive Director) ¹	1,839	1,749
D. Marcelino Oreja Arburúa ²	693	561
Sociedad Estatal de Participaciones Industriales (Property Director)	127	76
Mr. Sultan Hamed Khamis Al Burtamani ³	-	11
D. Jesús David Álvarez Mezquíriz (Independent Director) ³	-	20
D. Ramón Pérez Simarro (Independent Director) ⁴	126	76
D. Martí Parellada Sabata (Independent Director) ⁴	142	81
D. Luis Javier Navarro Vigil (External Director) ⁴	126	76
D. Jesús Máximo Pedrosa Ortega (Property Director) ⁴	126	76
D ^a Rosa Rodríguez Díaz (Consejera Independiente) ⁴	127	76
D ^a Ana Palacio Vallelersundi (Consejera Independiente) ⁴	133	80
D ^a Isabel Tocino Biscalorasaga (Consejera Independiente) ⁴	139	81
D. Antonio Hernández Mancha (Independent Director) ⁴	126	76
D. Luis Valero Artola (Independent Director) ⁴	127	76
D. Gonzalo Solana González (Independent Director) ⁴	127	76
TOTAL	3,958	3,191

1. The remuneration for the Executive Chairman in 2016 was approved in detail by the shareholders in general meeting on 18 March 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018". During 2016, the Executive Chairman received fixed remuneration in the amount of 980 thousand euros and variable remuneration in the amount of 572 thousand euros; he also received 102 thousand euros for Board membership and other remuneration in kind amounting to 185 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 totalled 1,839 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 109 thousand euros. 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 Executive Chairman is one of the beneficiaries covered by this policy; of the total premium paid during the year, 201 thousand euros correspond to the Executive Chairman. The Executive Chairman is beneficiary of the long-term bonus plan 2016-2018 approved by the shareholders in general meeting on 18 March 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 programme finalises, the final bonus depending on the degree to which the programme objectives have been met.

2. The remuneration for the CEO in 2016 was approved in detail by the shareholders in general meeting on 18 March 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018". During 2016, the CEO received fixed remuneration in the amount of 390 thousand euros and variable remuneration in the amount of 179 thousand euros; he also received 102 thousand euros for Board membership and other remuneration in kind amounting to 22 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 totalled 693 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 1.5 thousand euros. The CEO is also beneficiary of the mixed group insurance policy for pension commitments. The premium corresponding to the CEO for this policy amounted to 90 thousand euros for the period. The CEO is beneficiary of the long-term bonus 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 programme finalises, the final bonus depending on the degree to which the programme objectives have been met.

3 Said Directors stood down in 2016.

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

29.1 Share-based payments

On 18 March 2016, the Enagás, S.A. shareholders in general meeting approved a long-term bonus plan aimed at executive directors and senior management of the Company and its group of companies, with a view to maximising 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, a maximum of 307,643 shares are deliverable, all of which will come from the Company's treasury shares. Further, the beneficiaries of the plan are not guaranteed any minimum value for the assigned shares. The cash part of the plan is limited to an estimated maximum payment of 2.5 million euros should all the objectives be fully met.

This plan is aimed at persons who, due to their level of responsibility or their position in the Enagás Group, contribute decisively to achieving the Company's objectives. The plan initially designated 43 beneficiaries, without prejudice to the possibility of including new beneficiaries in the case of new hirings, mobility within the Company, or changes in professional levels during the measurement period.

The objectives established to evaluate whether the plan has been achieved are as follows:

- Accumulated results corresponding to the funds from operations (FFO) of the Enagás Group. Said parameter reflects the financial soundness and growth in net profits, cornerstones of the Enagás Group's strategic plan. Both EBITDA and dividends received from investee companies (considered under the equity method) are taken into consideration. It is a benchmark indicator for investors. The fulfillment of this objective will permit the Company to meet the foreseen Group dividend distribution, investment, and debt amortisation. Determination of EBITDA (calculated as operational income less operational expenses, that is "operating profit", plus amortisation and depreciation expenses), plus dividends collected (as defined below), plus collections less payments relating to corporate taxes, plus interest collection less interest expenses, and plus or less applicable EBITDA adjustments.
- Accumulated cash flows received from investee companies considered under the equity method ("dividend"). This reflects the focus on international growth and a realistic and profitable investment plan as cornerstones of the Strategic Plan. It is calculated as the cash flows (cash) received from investee companies (considered under the equity method), calculated at a fixed exchange rate.
- Total returns for the shareholder ("TRS"). TRS is understood to be the difference (expressed in percentage terms) between the final value of an investment in ordinary shares and the initial value of same investment. Said final value will be calculated taking into account dividends or similar items (i.e. script dividends) received by the shareholder in connection with said investment during the corresponding time period. Said parameter will be measured on a relative basis with respect to the Comparison Group comprised of fifteen companies.
- Compliance with the Sustainability Plan. This reflects sustainability as the framework within which the Enagás Group carries out its business activities. The following items will be considered when evaluating the Company's fulfillment of the Sustainability Plan: carbon footprints, equality (non-discrimination), and other matters (commitment to employees, customer satisfaction, volunteer initiatives, patronage, etc.)

The portion to be settled in Enagás, S.A. shares is considered a share-based transaction payable in equity instruments in accordance with IFRS 2 and, in accordance with said standard, the fair value of services received, as consideration for the equity instruments granted, is included in the consolidated income statement at 31 December 2016 under "Staff costs" in the amount of 1,959 thousand euros and a credit to "Other equity instruments" in the consolidated balance sheet at 31 December 2016. The Enagás Group estimates fair value of the equity instruments granted on an accrual basis over the corresponding period (from January 1 2016 to 31 December 2018) plus the loyalty period of approximately four months for full disbursement.

The Enagás Group used the Monte-Carlo model (widely used in financial practice for valuing options) for measurement in this programme, with a view to including the effect of market conditions when measuring the equity instruments granted. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the fact that the dividends accrued during the plan period are not paid to the beneficiaries was taken into account as they do not become shareholders of the Company until the plan has effectively been settled. The breakdown and fair value of the shares at the granting date are as follows:

ILP 2016	
Total shares at grant date⁽¹⁾	307,643
Fair value of equity instruments (EUR)	26.37
Divident profitability	4.20%
Expected volatility	19%
Discount rate	0.186%

(1) This number of shares reflects the maximum number of shares to be delivered under the plan, and includes both the possibility of achieving the maximum degree of fulfillment of objectives established in the plan (125%) as well as the possibility that new hirings, staff mobility within the Group, or changes in professional levels, lead to the inclusion of new beneficiaries during the measurement period.

With respect to that part of the bonus payable in cash, the Enagás Group recognised the rendering of services corresponding to this plan as an employee benefits expense amounting to 800 thousand euros, with a credit to "Provisions" under non-current liabilities in the consolidated balance sheet at December 31, 2016 (see Note 14.1). 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, 2016, the estimate is made assuming that all the objectives relating to the plan have been fully achieved.

30. Other Director disclosures

In keeping with the provisions of article 229 et seq. of the Spanish Limited Liability Companies Law, these notes include disclosures relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those group companies engaged in the transport, regasification, distribution or supply of natural gas, as regulated by the Oil and Gas Act (Law 34/1998).

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to the Group by Directors at December 31, 2016 and 2015 are as follows:

2016

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

2015

Directors	Company	No. of shares	% shareholding
D. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
D. Jesús Máximo Pedrosa Ortega	Iberdrola	3,382	0.00%
D. Jesús Máximo Pedrosa Ortega ⁽¹⁾	Iberdrola	7,472	0.00%

(1). Through Inversores Asfis as joint and several director with a 60% shareholding.

Positions held or duties performed by Group directors at companies whose corporate purpose is the same, similar or complementary disclosed to Enagás, S.A. at December 31 2016 and 2015, are as follows:

2016

Directors	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	MIBGAS	Director

2015

Directors	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	MIBGAS	Director

No activities that are identical, similar or complementary to those of Enagás, other than those listed above, are carried out by its directors as independent professionals or as employees.

At the end of 2016, neither the members of the Company's Board of Directors nor persons associated with them, as defined by article 229 of the Spanish Limited Liability Companies Law, reported to the other members of the Board of Directors any direct or indirect conflict of interest with the Company's interests.

31. Commitments and guarantees

2016

(Thousands of euros)

Commitments and guarantees	12/31/2016			
	Group employees, companies or entities (see Note 28)	Other related parties (see Note 28)	Third parties	Total
Debt securities of related parties	24,779	-		24,779
Guarantees and sureties granted - Others	9,464	144,175	333,103	486,742
Investment commitments	218,289	-	25,708	243,997

2015

(Thousands of euros)

Commitments and guarantees	12/31/2015			
	Group employees, companies or entities (see Note 28)	Other related parties (see Note 28)	Third parties	Total
Debt securities of related parties	163,880	-		163,880
Guarantees and sureties granted - Others	89,711	148,768	353,242	591,721
Investment commitments	250,220	-	16,065	266,285

"Debt securities of related parties" includes corporate guarantees for the amount of 24,779 thousand euros at December 31 2016 (163,880 thousand euros at December 31 2015) as detailed below:

- The obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás Group commits to granting a corporate guarantee in favor of the financing entities if said contract has not been cancelled or refinanced six months before it matures in July 2022. The maximum commitment relating to this possible guarantee amounts to 24,779 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.
- At December 31, 2015, corporate guarantees granted in connection with GSP debt were included in the amount of 138,016 thousand euros. At December 31, 2016, as indicated in Note 15, said guarantees were recognised in the consolidated balance sheet since the Group considered it probable that at year end they would be enforced in the amount of 154,093 thousand euros. At December 31, 2016, there were no additional guarantees in connection with the GSP project.

In addition, "Guarantees and sureties granted - Others" includes mainly the below items for the amount of 486,742 thousand euros at December 31 2016 (591,721 thousand euros at December 31 2015):

- Guarantees of faithful compliance to entities of the group on obligations in concessions granted, counter-guaranteed by Enagás, S.A., amounting to 9,464 thousand euros (89,711 thousand euros at 31 December 2015). As in the case of the guarantees provided in connection with the debt, at 31 December 2016, the guarantee for full compliance with the GSP concession agreement was recognised in the consolidated balance sheet. The amount corresponding to this guarantee totals 67,057 thousand euros. There are no additional guarantees relating to this project apart from those described in Notes 8 and 15 to the accompanying consolidated financial statements at 31 December 2016.

Under guaranties and sureties granted with other related parties at December 31 2016 include the guarantees granted before the Federal Electricity Commission ("CFE") for the service contracts relating to the Morelos Gas Pipeline and Soto de la Marina Compression Station projects for the amount of 9,464 and 8,390 thousand euros, respectively, which have been granted by the related company Banco Santander.

- Financial guarantees granted as security for the loans granted by the European Investment Bank to Enagás, S.A. for the amount of 410,000 thousand euros (430,000 thousand euros in 2015), of which 120,000 thousand euros have been granted by the related entity Banco Santander in 2016 (125,000 thousand euros in 2015).
- Guarantees pledged during bid processes for the amount of 875 thousand euros (3,267 thousand euros at December 31 2015).
- Technical guarantees granted before third parties to cover certain responsibilities that may arise from the execution of the agreements that make up its activity, amounting to 48,549 thousand euros at December 31 2016, (51,386 thousand euros in 2015), of which, 6,321 thousand euros (6,411 thousand euros in 2015) correspond to sureties formalised with Banco Santander an entity that complies with the definition of related party as defined in Note 28.

“Investment Commitments” includes the below items amounting to 243,498 thousand euros at December 31 2016 (266,285 thousand euros at December 31 2015):

- The Enagás Group has investment commitments amounting to 212,800 thousand euros fundamentally relating to TAP projects. At December 31, 2015 the Enagás Group held firm investment commitments in the amount of 250,220 thousand euros relating to TAP projects (141,025 thousand euros) and GSP projects (109,195 thousand euros), which were paid during the 2016 financial year.

TAP’s investment commitments detailed above, the shareholders fulfill the obligation to finance the project until achieving the financial closing, which is currently expected to occur in December 2017. Once the financial closing of the project has been achieved, it is expected that the partners will recover part of the investment made, which in the case of Enagás amounts to 205,600 thousand euros.

Furthermore, within the framework of negotiations for achieving said financial closing, it is estimated that at the moment of signing the corresponding financing contracts, the financial entities will demand guarantees from the partners during the construction phase, which will be granted to the extent that the subsidiary draws down the credit line until an estimated total amount of 589,700 thousand euros for the Enagás Group.

- The Enagás Group holds investments in nine Economic Interest Groups (EIG) whose business is the leasing of assets managed by an unrelated third party, which retains the majority of the profits and business risks, with the Group only availing itself of the tax incentives provided in Spanish legislation (see Note 8). The Enagás Group enters the tax losses generated by these EIGs against equity and offset by the debt registered with the payable tax, the corresponding revenue (Note 21). In this regard, the Enagás Group holds firm investment commitments for this item to the amount of 25,708 thousand euros, which will be paid in full during the 2017 financial year.

Directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

32. Joint ventures and associates

Information on the joint ventures, jointly controlled operations and associates in which the Enagás Group had interests at December 31, 2016 is set out in the table below:

Company	Country	Activity	Type of control	Type of business	%	% of voting rights controlled by the Enagás Group	Thousand of euros ⁽²⁾		Fair value functional currency		
							Fair Value	Dividends received	Thousand of euros	Thousand USD	Thousand SEK
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	Joint control	Joint operation	66.96%	66.96%	19,201	13,535	19,201	-	-
Gasoducto de Extremadura, S.A.	Spain	Gas transport	Joint control	Joint operation	51.00%	51.00%	6,931	6,996	6,931	-	-
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	Joint control	Joint operation	50.00%	50.00%	56,235	4,000	56,235	-	-
Subgrupo Altamira LNG, C.V. (4)	Holand ⁽⁴⁾ / Mexico	Holding company/ Regasification	Joint control	Joint operation	40.00%	40.00%	41,218	16,195	-	52,423	-
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	Joint control	Joint operation	50.00%	50.00%	14,576	-	-	16,205	-
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	Joint control	Joint operation	50.00%	50.00%	3	2,504	-	4	-
GNL Quintero, S.A. ⁽¹⁾	Chile	Regasificación	Joint control	Joint operation	60.40%	60.40%	492,380	9,683	-	576,256	-
Terminal de Valparaíso, S.A. ⁽¹⁾	Chile	Holding company	Joint control	Joint operation	51.00%	51.00%	136,386	5,795	-	179,988	-
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	Joint control	Joint operation	50.00%	50.00%	9,599	-	9,599	-	-
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	Joint control	Joint operation	50.00%	50.00%	2	-	-	2	-
Transportadora de gas del Perú, S.A.	Peru	Gas transport	Significant influence	Associate	28.94%	28.94%	516,176	42,355	-	665,786	-
Gasoducto del Sur Peruano, S.A.	Peru	Gas transport	Significant influence	Associate	26.87%	26.87%	247,142	-	-	277,155	-
Trans Adriatic Pipeline, A.G. ^(3 y 4)	Switzerland ^(3 y 4)	Gas transport	Significant influence	Associate	16.00%	16.00%	97,230	-	97,230	-	-
Compañía Operadora de Gas del Amazonas, S.A.C.	Peru	Operation and maintenance	Joint control	Joint operation	30.00%	30.00%	12,325	853	-	15,000	-
Tecgas, Inc.	Canada	Holding company	Joint control	Joint operation	30.00%	30.00%	1,121	-	-	1,191	-
EC Soto la Marina O&M SAPI de CV	Mexico	Operation and maintenance	Joint control	Joint operation	50.00%	50.00%	2	-	-	2	-
Morelos O&M, S.A.P.I de CV	Mexico	Operation and maintenance	Joint control	Joint operation	50.00%	50.00%	35	-	-	39	-
Subgrupo Swedegas ⁽⁵⁾	Sweden	Gas transports	Joint control	Joint operation	50.00%	50.00%	97,228	10,528	-	-	894,550
Iniciativas de Gas, S.L. ⁽⁶⁾	Spain	Holding company	Joint control	Joint operation	60.00%	60.00%	48,834	-	48,834	-	-
Planta de Regasificación de Sagunto, S.A. ⁽⁶⁾	Spain	Storage and regasification	Joint control	Joint operation	72.50%	72.50%	141,454	-	141,454	-	-
Vira Gas, SL	Spain	Storage and regasification	Joint control	Joint operation	49.00%	49.00%	196	-	196	-	-
Mibgas, S.A.	Spain	Storage and regasification	Significant influence	Associate	13.34%	13.34%	417	-	417	-	-

(1) The company GNL Quintero is owned by Terminal de Valparaíso S.A. By 40%, (Enagás Chile owns 51% of Terminal of Valparaíso S.A.) and by Enagas Chile by 40%. Therefore, the indirect and direct share of the Enagás Group in GNL Quintero is 60.40%. The distribution of the dividend is made by GNL Quintero up through the Terminal of Valparaíso by 20.4%.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the "net book value" of the financial investment is shown in historical euros and includes the acquisition costs activated. The euros corresponding to the "dividends received" are translated at the exchange rate corresponding to the moment of the transaction.

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

(4) Both companies are jointly involved with other international industrial partners. Its activity consists of the development and operation of infrastructure projects, such as the Altamira regasification plant already in operation and the TAP Trans-Adriatic Pipeline Project (declared the European Union's Project of Common Interest).

(5) The group holds a 50% stake in the Swedish company Knubbsäl Topholding AB jointly with Fluxys Europe BV. This company is in turn indirect holder of 100% of the shares of Swedegas AB, operator of the Swedish gas system. Swedegas AB, operator of the Swedish gas system.

(6) The company Planta de Regasificación de Sagunto Gas, S.A. Is owned by Iniciativas de Gas, S.L. By 50% and by Infraestructuras de Gas, S.L. By the other 50%. Both companies are in turn owned by the Enagas Group by 60% and 85% respectively. Therefore, the indirect participation of the Enagas Group on the Regeneration Plant of Sagunto Gas, S.A. It amounts to 72.5%. The distribution of the dividend is carried out by the Sagunto Gas Regasification Plant, S.A.

The main aggregates in the individual financial statements for joint operations, joint ventures and associates of Grupo Enagás, S.A. at December 31 2016 are also set out below:

BALANCE SHEET AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾								
	Assets			Equity		Liabilities			
	Non-current	Current		Other comprehensive income	Other equity	Non-current		Current	
		Cash and cash equivalente	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 Valparaíso, 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 del 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 to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the balance sheet amounts have been translated at the year-end exchange rate.

INCOME STATEMENT AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾						
	Income Statement						
	Revenue	Depreciation	Interest income	Interest expense	Income tax	Other income and expense	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.PI. de C.V.	33,158	(11,957)	-	(12,754)	(1,784)	(6,321)	342
Morelos EPC, S.A.PI. 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 Valparaíso, S.A.	10,993	-	-	-	-	4	10,997
EC Soto La Marina S.A.PI. de C.V.	11,463	(4,459)	-	(3,828)	192	(5,294)	(1,926)
EC Soto La Marina EPC S.A.PI. 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 del 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.PI. de C.V.	3,631	-	-	-	(59)	(3,489)	83
Morelos O&M, S.A.PI. 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 to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the amounts in the income statement have been translated at the accumulated average exchange rate for the year.

The main aggregates in the individual financial statements for joint operations, joint ventures and associates which formed part of Grupo Enagás, S.A. at December 31 2015 are as follows:

BALANCE SHEET AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾								
	Assets			Equity		Liabilities			
	Non-current	Current		Other comprehensive income	Other equity	Non-current		Current	
		Cash and cash equivalente	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	36,743	28,176	3,766	-	62,670	-	-	-	6,015
Gasoducto de Extremadura, S.A.	15,804	20,489	2,323	-	35,625	-	-	-	2,991
Bahía de Bizkaia Gas, S.L.	262,550	26,805	7,842	(4,785)	64,402	193,627	23,406	14,876	5,671
Subgrupo Altamira LNG, C.V.	354,159	31,542	16,021	(873)	173,507	125,290	4,891	24,368	74,539
Gasoducto de Morelos, S.A.P.I. de C.V.	253,415	33,836	12,699	(4,454)	20,555	209,248	-	8,465	66,136
Morelos EPC, S.A.P.I. de C.V.	6	611	43,705	-	31,748	-	-	-	12,574
GNL Quintero, S.A.	880,554	181,950	18,679	-	111,075	863,237	77,441	19,542	9,888
Terminal de Valparaiso, S.A.	319,845	346	7	-	320,185	-	-	-	13
EC Soto La Marina SAPI de CV	97,731	825	5,319	-	(1,241)	66,352	-	862	37,902
EC Soto La Marina EPC SAPI de CV	11,797	17	9,337	-	(11,236)	-	-	45	32,342
Transportadora de gas del Perú, S.A.	1,319,410	137,587	89,111	-	392,794	980,233	112,352	7,904	52,825
Gasoducto del Sur Peruano, S.A.	1,321,776	60,262	35,847	-	516,944	598,137	-	-	302,804
Trans Adriatic Pipeline, A.G.	521,180	133,500	31,250	(2,600)	195,990	382,680	14,250	-	95,610
Compañía Operadora de Gas del Amazonas, S.A.C.	2,367	19,007	10,896	-	4,794	-	-	-	27,476
Tecgas, Inc.	1	-	-	-	1	-	-	-	-
EC Soto la Marina O&M SAPI de CV	106	21	3	-	(207)	-	-	-	337
Morelos O&M, S.A.P.I de CV	23	118	215	-	75	-	-	-	281
Subgrupo Swedegas	678,322	21,570	10,754	(279)	193,792	414,189	97,318	-	5,626
Iniciativas de Gas, S.L.	986	39	678	-	1,703	-	-	-	-
Planta de Regasificación de Sagunto, S.A.	315,917	33,894	26,734	(7,232)	26,498	294,935	25,132	32,122	5,090

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the balance sheet amounts have been translated at the year-end exchange rate.

INCOME STATEMENT AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾						
	Income Statement						
	Revenue	Depreciation	Interest income	Interest expense	Income tax	Other income and expense	Netprofit/(loss)
Gasoducto Al-Andalus, S.A.	42,599	(7,380)	12	-	(7,333)	(9,041)	18,857
Gasoducto de Extremadura, S.A.	26,833	(3,303)	10	-	(4,907)	(6,014)	12,619
Bahía de Bizkaia Gas, S.L.	53,747	(13,996)	8	(10,603)	(4,029)	(14,764)	10,363
Subgrupo Altamira LNG, C.V.	72,589	(13,905)	12	(6,254)	(14,271)	(16,711)	21,460
Gasoducto de Morelos, S.A.P.I. de C.V.	16,778	(5,242)	-	(6,145)	(6,214)	(3,970)	(4,793)
Morelos EPC, S.A.P.I. de C.V.	75,087	-	-	-	(7,316)	(46,090)	21,681
GNL Quintero, S.A.	179,572	(32,442)	275	(66,681)	(12,454)	(37,087)	31,183
Terminal de Valparaíso, S.A.	14,065	-	-	-	-	(29)	14,036
EC Soto La Marina S.A.P.I. de C.V.	1,728	(741)	-	(701)	7,978	(30,063)	(21,799)
EC Soto La Marina EPC S.A.P.I. de C.V.	25,025	-	-	(26)	9,148	(45,523)	(11,376)
Transportadora de gas del Perú, S.A.	490,344	(62,760)	44	(63,744)	(43,269)	(222,912)	97,703
Gasoducto del Sur Peruano, S.A.	794,187	(1,699)	128	(8,565)	(8,883)	(752,961)	22,207
Trans Adriatic Pipeline, A.G.	-	(501)	-	(1,811)	(7,208)	(26,691)	(36,211)
Compañía Operadora de Gas del Amazonas, S.A.C.	119,111	(585)	39	-	(950)	(115,346)	2,269
Tecgas, Inc.	-	-	-	-	-	-	-
EC Soto la Marina O&M S.A.P.I. de C.V.	766	-	-	-	86	(1,058)	(206)
Morelos O&M, S.A.P.I. de C.V.	169	(1)	-	-	(5)	(159)	4
Subgrupo Swedegas	42,305	(13,518)	-	(14,558)	(721)	(14,535)	(1,027)
Iniciativas de Gas, S.L.	8,523	-	-	-	13	(39)	8,497
Planta de Regasificación de Sagunto, S.A.	96,808	(30,589)	-	(14,825)	(9,917)	(15,882)	25,595

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the amounts in the income statement have been translated at the accumulated average exchange rate for the year.

At December 31, 2016 and December 31 2015, the reconciliation of the carrying amount of joint ventures against the total value of investments in companies consolidated on an equity basis is as follows:

2016	Net carrying financial assets on 12/31/2016	Dividends	Shareholders' equity		Net unrealised gains (losses) reserve		Other adjustm.	Total equity accounted investments on 12/31/2016
			Profit for the year	Reserves	Translation differences	Hedging transactions		
Equity-accounted investments	1,727,427	(185,872)	41,205	95,482	193,093	(4,079)	3,717	1,870,973

2016	Net carrying financial assets on 12/31/2015	Dividends	Shareholders' equity		Net unrealised gains(losses) reserve		Other adjustm.	Total equity accounted investments on 12/31/2016
			Profit for the year	Reserves	Translation differences	Hedging transactions		
Inversiones contabilizadas por método de participación	1,048,295	(99.610)	46.235	49.247	142.153	(1.325)	6.110	1.191.105

33. Subsequent Events

At January 23, 2017, GSP had not achieved a financial closing agreement as required in clauses 6.5 and 6.6 of the concession agreement "Improvements to the energy security of the country and development of Gasoducto Sur Peruano". Thus, as a result of non-compliance with the contractually established deadline expanded by resolution no. 1293-2016-MEM/DGH of 18 July 2016 issued by the Directorate General for Hydrocarbons of the Ministry for Energy and Mines, the concession agreement was terminated and execution of the guarantees implemented (see Notes 8 and 15), thus initiating the termination procedure and transfer of the concession assets. The Company paid out most of the guarantees during the month of January 2017, consequently derecognising the related financial liabilities as recorded at December 31, 2016.

In the context of the transactions involving the purchase of shares in GNL Quintero, S.A. and the formalisation of the call and put options granted to Empresa Nacional del Petróleo, S.A. ("ENAP") and Sumhuram Energy Chile II Limitada ("OCC"), respectively (see Notes 2.3. and 15), all the shareholders agreed upon modification of the Shareholder Agreement in force up to that date, with said modifications becoming effective from January 1 2017. These modifications ensure control over GNL Quintero, S.A. by Enagás Chile, Spa., thus requiring consolidation using the full consolidation method during 2017.

Since January 1 2017 and the date on which these Consolidated Annual Accounts were drawn up, no events have occurred that would significantly affect the profit (loss) of the Group or its equity

34. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Appendix I – Subsidiaries of the Enagás Group at December 31 2016

Company	Country	Activity	%	Voting rights controlled by Enagás	Share capital
Enagás Transporte S.A.U.	Spain	Regasification, storage and transport of gas	100	100%	532,089,120 Euros
Enagás GTS, S.A.U.	Spain	Technical system operation	100	100%	5,914,451 Euros
Enagás Internacional, S.L.U.	Spain	Holding company	100	100%	125,659,766 USD
Enagás Financiaciones, S.A.U.	Spain	Financial management	100	100%	2,490,000 Euros
Enagás Transporte del Norte S.L.	Spain	Gas transport	90	90%	38,501,045 Euros
Compañía Transportista de Gas Canarias, S.A.	Spain	Storage of gas and regasification	100	100%	900,000 Euros
Enagás Chile, S.P.A.	Chile	Holding company	100	100%	382,630,442 USD
Enagás Mexico, S.A.	Mexico	Holding company	100	100%	2,696,486 USD
Enagás Peru, S.A.C.	Peru	Holding company	100	100%	2,654,120 USD
Enagás USA, LLC	United States of America	Holding company	100	100%	1,888,234 USD
Infraestructuras de Gas, S.A.	Spain	Holding company	85	85%	340,000 Euros
Enagas Emprende, S.L.	Spain	Holding company	100	100%	45,000 Euros
Gasoducto Villa de Reyes SAPI de CV	Mexico	Holding company	100	100%	2,758 USD
Gasoducto Tuxpan Tula SAPI de CV	Mexico	Holding company	100	100%	3,035 USD

Consolidated Management Report

I. Enagás situations

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.

Enagás Gas Infrastructure

At December 31, 2016, the gas infrastructure of the Enagás Group was integrated by the Natural Gas Basic Network as follows:

- 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 40% of the Altamira Plant (Mexico). In 2016, Enagás has increased its participation by 40% in the Bahía de Quintero plant (Chile) to a total participation of 60.4% and has acquired an additional 42.5% of the Sagunto plant (Valencia) owning 72.5% of that plant.
- In December 2016 the Enagás Group continued to increase its participation (4.6%) in the company Transportadora de gas del Peru (TgP), whose assets make up the Natural Gas Transportation System through pipelines from Camisea to Lurín and Transportation of Natural Gas Liquids through pipelines from Camisea to the Coast, reaching a total participation of 28.94%.
- On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%.
- In addition, it should be noted that the Enagás Group participates in the 30% of COGA, the company responsible for the operation and maintenance of the infrastructure of Transportadora de Gas del Peru.
- 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 Spanish stock market companies with one of the highest free float (95%). More than 70% of our international shareholdings, highlights shareholders in the United Kingdom and US-Canada (29% and 19%, 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 (62%) 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 Council is reflected in the significant increase in the percentage of women, from 6% in 2007 to 23% in 2016, with a commitment to reach 30% by 2020.

Behavior and probable evolution

The future context of Enagás operation will be determined by the energetic transition process under way, which will mean a profound transformation towards an environmentally sustainable energy model with low greenhouse gas emissions and other pollutant gases. In the medium term, therefore, gas is an important part of the solution to pollution problems associated with energy supply, as a relatively clean, flexible, widely diversified and competitive source.

Gas demand is growing again, following the slowdown in recent years, supported by economic recovery, low gas prices and the increasing substitution of oil and coal derivatives in some regions. In Spain, the demand for natural gas grew by 2.1% in 2016 compared to the previous year (growth for a second consecutive year), mainly due to the evolution of industrial demand.

In relation to the net profit during 2017 it is expected to increase the by 12% in comparison with 2016 (including the effect of the revaluation of the cost of the first acquisition of Quintero). The Enagás Group plans to carry out investments for the 2017 worth approximately 650 million euros, of which 70% are expected to be used for international investment and 30% to regulated assets in Spain.

In 2015, Enagás presented an update of its Strategic Plan for 2015-2017, which gives continuity to the approach that the company has been developing. During 2016, 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 Enagás is based on the following strategic drivers:

- Efforts in operational efficiency
- Realistic / profitable investment plan
- Focus on international growth
- Sustainability as a framework for the development of the Enagás business

II. Evolution and results

Economic Dimension

Good governance

In 2016, new policies have been approved for the selection of directors, conflicts of interest, as well as succession of the president and the CEO. A Long-Term Incentive plan 2016-2018 was also approved, based on different objectives aligned with Enagás' strategic plan and with the expectations expressed by institutional investors and proxy advisors.

Financial and operational excellence

Principal Economic Results

Net income amounted to 417.2 million euros, 1.1% more than in 2015. The result of the equity method of 41.2 million euros (10% of the contribution of the investee companies to the profit after tax). In 2016, investments amounting to 912 million euros were made, making acquisitions that reinforce our position in assets in which we were already present.

The dividend per share for 2016 increased 5.3% over the previous year, reaching 1.39 euros per share. Enagás concluded 2016 at 24.1 euros per share. This implies a capitalization of 5,752 million euros. The share capital of Enagás at December 31, 2016 was 358.1 million euros in 2015, with 238.7 million shares.

During the first half of the year, Enagás successfully completed a € 750 million bond issue with one of the lowest coupons of a Spanish issuer and European utilities for a 12-year term. This operation has allowed to extend the average life of the debt up to the 6.3 years and optimize the profile of maturities.

On October, Enagás placed in the markets a bond issue amounting to 500 million euros. The issue, maturing in 2026, has a fixed annual coupon of 0.75% and an issue price of 99.397%.

In 2016 the rating agency Standard & Poor's in its annual review report has reaffirmed Enagás' long-term rating at A-, with a stable outlook and business risk profile at "Excellent".

Enagás is part of the Dow Jones Sustainability Index for the ninth consecutive year, with the leading company in the Gas Utilities sector with a rating of 91 points. In addition, the company has been recognized as a global leader by CDP (Carbon Disclosure Project) for its action and strategy on climate change, being included in "The Climate A List" that elaborates.

Business growth

At national level, Enagás, through its subsidiary Enagás Transporte, SAU, closed in July the acquisition of 42.5% of Planta de Regasificación de Sagunto, S.A. (Saggas) with the acquisition of Unión Fenosa Gas, S.A. of the 85% stake in Infraestructuras del Gas, S.A., which owned 50% of Saggas. Given that Enagás Transporte S.A.U. already owned indirectly through its subsidiary Iniciativas del Gas, S.L. a 30% stake in Saggas, the percentage of indirect participation of Enagás Transporte, S.A.U. increases to 42.5% reaching a total participation of 72.5%.

At international level, Enagás, through its subsidiary Enagás Chile, S.p.A, closed in September the acquisition of 20% of GNL Quintero S.A. (GNL Quintero Plant) that Endesa Chile, Spa. maintained on GNL Quintero and in November the acquisition of an additional 20% to the Aprovechadora Global de Energía, S.A.. With the closing of this operations, Enagás Chile, Spa has directly acquired a 40% shareholding in GNL Quintero, in addition to the 20.4% that already had indirectly through its participation in Terminal de Valparaíso SA, increasing its total participation in the company to 60, 4%.

In addition, Enagás has closed the acquisition of 4.6% of Transportadora de Gas del Perú, S.A. (TgP) through its subsidiary Enagás Internacional, S.L.U. (1.64% acquisition in April and 2.96% acquisition in December). Extending its participation from 24.34% to 28.94% throughout 2016 and maintaining the situation of significant influence on the company.

On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%.

In June 2016, in compliance with the provisions of article 65 of Law 34/1998, of October 7, on the Hydrocarbons Sector, on the process of stock split of the company MIBGAS, SA, the acquisition by Enagás GTS, SAU of 13.34% of the share capital the company has made.

On July 29, 2016 two companies were formed: Enagás Emprende, SLU, with 150 thousand euros, with registered office in Spain and 100% owned by Enagás, SA, and Vira Gas Imaging, SL, amounting 400 thousand euros, with registered office in Spain and owned by 49% by Enagás Emprende, SLU.

Social Dimension

Human resources management

Enagás, as a Top Employer certified company, has maintained in recent years the stability and quality of employment with a sustained growth of staff of 3.5% a year since 2009. Enagás is characterized by stable and quality employment, with 94.5% of open-ended contracts and a voluntary rotation rate of 0.63% in 2016. Out of the 103 new contracts made in 2016, 39% are women and 72% under 35.

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.

Enagás commits itself day by day by applying the principle of equality of opportunities and non-discrimination, and bets on the diversity among its professionals, placing as base of its strategy the Integral Plan of Diversity, that affects, as a matter of priority, in the areas of gender diversity, functional, generational and cultural.

Enagás has renewed in 2016 the certification as company efr and the Equality badge.

In 2016 the labor climate survey was carried out, with a 71% participation (3% more than in 2014), and the degree of commitment has remained at 85%.

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

The Enagás Compliance Model is the main tool to ensure ethics and integrity in the development of Enagás activities. In addition, within the framework of the Compliance Model, Enagás has a Crime Prevention Model that is configured as the core of the company's criminal compliance.

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 2016 three communications have been received through the ethical channel, a suggestion on labor issues not related to compliance with the Code of Ethics, which has been transferred to the area responsible for its management and two notifications related to compliance with the Code of Ethics that have been dismissed by express resignation of the complainant.

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 (223 participating employees and 1,475 dedicated hours), sponsorship, patronage or donation (2.2 million euros in 2016).

Supply chain

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 38 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 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. In 2016 the scope of certification was extended in accordance with ISO 14001 to the Head Office, thus attaining certification of 100% of Enagás activity in accordance with ISO 14001. In addition, analysis was conducted in connection with obtaining EMAS certification for the storage facilities of Serrablo and Yela. The Huelva and Barcelona regasification plants have already received EMAS certification.

During 2016, environmental actions were carried out in the amount of 11,084 thousand euros, recognised as investments under assets in the balance sheet (29,440 thousand euros in 2015). The Company also assumed environmental expenses amounting to 1,853 thousand euros in 2016, recognised under "Other operating expenses" (1,468 thousand euros in 2015).

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.

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

The Company set itself new objectives in 2016 related to energy consumption (natural gas and electricity); electricity generation from its own clean sources; and reduction of fugitive emissions. The 2016 Programme for the Enagás Energy Efficiency and Emissions Reduction Plan was also implemented. The ecological fleet certification (in the master modality) issued by AEGFA and IDEA was also obtained, certifying that the Enagás transport fleet complies with strict standards of respect towards the environment and sustainability.

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 2016 increased by 5,089 thousand euros with respect to 2015.

The Enagás debt structure is noteworthy in that fixed rate debt predominates, comprising more than 80% of debt. Likewise, 61% of the debt corresponds to capital markets, 26% to long-term institutional debt (BEI and ICO), and 13% to bank financing.

	2015	2016
Net debt/ EBITDA* Adjusted	4.5x	5.2x
FFO / Net Debt	16.40%	15%
Cost of debts	2.70%	2.40%
Liquidity (million of euro)	2,268	2,409

*Adjusted EBITDA for dividends received from subsidiaries.

IV. Additional Information

This additional disclosure is included to comply with article 116.bis of Securities Market Law 24/1988, of 28 July.

a) Capital structure, including securities which are not admitted to trading on a regulated market in a member state, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching thereto and the percentage of total share capital represented

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390	238,734,260	238,734,260

All the shares are of the same class.

b) Any restriction on the transferability of the shares

Legal restrictions:

Additional provision 31 of Hydrocarbon Sector Law 34/1998, of 7 October, in force since enactment of Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

“No individual or body corporate may hold a direct or indirect stake of more than 5% in the share capital of the parent company (ENAGAS, S.A.), nor exercise voting rights exceeding 3%. These shares cannot be syndicated under any circumstances. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in said parent company of over 1%. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector. Interest held in the share capital cannot be syndicated under any circumstances.

Thus, the sum of direct or indirect interest held by the entities carrying out activities in the natural gas sector cannot exceed 40%.

“For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Securities Market Law 24/1988, of July 28, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless there is evidence to the contrary, it shall be deemed that the members of the Board of Directors of a body corporate act on its behalf or in a concerted fashion with it.
- b) Partners with those with which one of them exercises control over a dominated company in accordance with article 4 of the LMV”.

In any event, both the primary ownership of shares and other securities as well as any voting rights shall be taken into account.

Non-compliance with respect to the limitations regarding interest in share capital to which the present provision relates will be considered a serious violation in accordance with the terms set out in article 109 of the Securities Market Law, holding those natural or corporate persons responsible who hold title over the securities or to whom the excess interest in share capital or voting rights can be attributed, as per the stipulations of the previous paragraphs. At any rate, the fines established in said Law will be applicable.

Enagás S.A. cannot transfer the shares of subsidiaries which carry out regulated activities to third parties”. In addition, section 3 of Additional Provision 31 of this law states that:

“The limitations to the percentage amount of interest that can be held as well as the non-transferability of the shares to which this provision relates shall not be applicable to other subsidiaries that ENAGÁS, S.A. may incorporate for the performance of business activities different to the transport activities regulated by article 66 of Hydrocarbon Sector Law 34/1998, of 7 October, on management of the transport network and technical management of the Spanish gas system”.

Statutory restrictions:

In accordance with the aforementioned law, article 6 bis of Enagás bylaws (“Limitations on holdings in share capital”), establishes the following:

“No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights of over 3%. These shares cannot be syndicated under any circumstances. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights of over 1%. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector. Interest held in the share capital cannot be syndicated under any circumstances.

Thus, the sum of direct or indirect interest held by the entities carrying out activities in the natural gas sector cannot exceed 40%.

For purposes of calculating the interest held by the Company legislation of the Hydrocarbon sector will be applicable.

Enagás cannot transfer shares of subsidiaries belonging to the Group and who carry out transport and technical system management activities regulated in accordance with Hydrocarbon regulations to third parties”.

c) Significant direct and indirect shareholdings

Significant shareholdings (excluding directors):

Name or corporate name - of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
RETAILS OEICS AGGREGATE	0	2,410,274	1.01
BANK OF AMERICA CORPORATION	0	8,627,588	3.61

Significant shareholdings of directors holding voting shares in the company:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting shares
LUIS VALERO ARTOLA	2	0	0
DON ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.02
DON MARCELINO OREJA ARBURÚA	3,875	0	0
SOLANA GONZALEZ, GONZALO	440	50	0
DON LUIS JAVIER NAVARRO VIGIL	1,405	0	0
DON MARTÍ PARELLADA SABATA	910	0	0
DON RAMÓN PÉREZ SIMARRO	100	0	0
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5
TOTAL	12,001,839	50	5.02

d) Any restriction to the voting right

Without prejudice to the content of section b) above, there are no additional restrictions to voting rights.

e) Agreements between shareholders

There is no record of any agreements among the Company's shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35º. – COMPOSITION OF THE BOARD.

The Company shall be governed and managed by the Board of Directors, which shall represent the Company collegiately, both in and out of court. Its representation shall extend, with no limitation of powers, to all acts embodied in the Company's objects.

The Board of Directors shall be composed of a minimum of 6 members and a maximum of 14, appointed at the General Shareholders' Meeting.

Directors shall be elected by vote. For this purpose, the shares that are voluntarily pooled, to make a share capital that is equal to or greater than the result of dividing the latter by the number of Directors, shall be entitled to appoint a number of Directors equal to the integer number resulting from that proportion. If this power is exercised, the shares pooled in this way shall not take part in the voting for the appointment of the remaining Directors.

A director need not be a shareholder, may step down from office, may have his appointment revoked, and may be re-elected on one or more occasions.

Appointment as director shall take effect upon acceptance of the post.

The following persons cannot be directors or, if applicable, natural-person representatives of a body-corporate director:

- a) Natural persons or bodies corporate who hold the post of director in more than 5 (five) companies whose shares are listed on national or foreign exchanges.
- b) Natural or legal persons who fall under any incompatibility or prohibition regulated by the general provisions, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

ARTICLE 37º.- POSTS.

The Board of Directors, shall appoint its Chairman pursuant to a report of the Appointments, Remuneration and Social Corporate Responsibility Committee. Should an executive director be appointed as Chairman, a favourable vote of two thirds of the Board will be required.

The Board of Directors may appoint an Independent Director, on the proposal of the Appointments, Remuneration and Social Corporate Responsibility Committee, who will be empowered, under the title of Lead Independent Director, to:

- a) request the Executive Chairman to hold a Board meeting when said Lead Independent Director deems it appropriate;
- b) request the inclusion of items in the Board meeting agendas;
- c) coordinate and arrange meetings of non-executive Board members;
- d) oversee assessment of the Executive Chairman by the Board and, where appropriate, the CEO;
- e) perform the functions of Chairman as Vice-Chairman with respect to the Board of Directors in case of absence, illness, or any other reason making attendance impossible for the Chairman. In the absence of a Lead Independent Director, the Chairman will be substituted for purposes of this section by the most senior director in age.

The appointment of a Lead Independent Director shall be obligatory, if the Chairman of the Board is an Executive Director. In such cases, the Lead Independent Director shall be appointed by the Board with the Executive Directors abstaining from the vote.

The Chairman and the Secretary to the Board of Directors and the Deputy Secretary, should there be one, who have been re-elected to the Board by a resolution of the General Meeting, shall continue to perform the offices hitherto held on the Board without need of being freshly elected, subject to the power of revocation of such offices that rests with the Board of Directors.

Provisions of the Board of Directors Organizational and Procedural Rules (approved by the Board of Directors on 21 December 2015):

ARTICLE 3.- QUANTITATIVE AND QUALITATIVE COMPOSITION.

1.- Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, and without prejudice to the powers of proposal enjoyed by shareholders, the Board of Directors shall submit to the General Meeting such Board membership size as it deems appropriate in the interests of the Company at the given time. The General Meeting shall decide on the final number.

2.-The Board of Directors shall be composed of Directors classified into the categories specified below:

a) Internal or Executive Directors: directors who perform senior management functions or are employed by the company or its Group.

If a director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of Directors may belong to this category.

b) External Consultants: Also, these will turn into three categories:

b1) Proprietary directors: directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

b2) Independent Directors: directors of acknowledged professional prestige who are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present regulations. The number of independent directors shall represent at least one third of all directors.

b3) Other external directors: external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of these regulations

In exercising its powers of co-option and proposal to the General Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, Independent Directors represent a broad majority over Executive Directors, and that among Non-Executive Directors the ratio of Proprietary to Independent Directors reflects the existing ratio of share capital represented by Proprietary Directors to all other capital.

The following persons cannot be directors or, if applicable, natural-person representatives of a body-corporate director:

a) Natural persons or bodies corporate who hold the post of director in more than 5 (five) companies whose shares are listed on national or foreign exchanges.

b) Natural or legal persons who fall under any incompatibility or prohibition regulated by the general provisions, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

c) Neither can the position of director be held by natural or legal persons who exercise control or rights in a company which performs natural gas production or marketing functions, or any other natural or legal persons whose presence on the Board of Directors could affect the Company's transport network management, in accordance with the legislation applicable in the Hydrocarbon sector.

ARTICLE 8.- APPOINTMENT OF DIRECTORS

- 1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Companies Act and the company's Bylaws.
- 2.- In order to be considered for appointment, candidates must have a solid reputation and possess the professional know-how and experience required to discharge their duties, in addition to complying with all requirements associated with the post imposed by law and the bylaws.

Appointment proposals for independent directors correspond to the Appointments, Remuneration, and Corporate Social Responsibility Committee.

Proposals for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments and Remuneration Committee. When the Board of Directors departs from the Committee's recommendations, it must explain the reasons for this, and such reasons must be duly recorded in the minutes.

Proposed appointments must always be accompanied by a justifying report issued by the Board which assesses the competence, experience, and merits of the proposed candidate, which will be attached to the minutes of the General Shareholders Meeting or the Board's meeting.

The above shall be equally applicable to natural persons designated as representatives of a body-corporate director. The proposed natural-person representative must be subjected to the report of the Appointments, Remuneration, and Corporate Social Responsibility Committee.

- 3.- The Board of Directors must ensure that the selection procedures for its members favour diversity in relation to gender, experience, and know-how, and that there is no implicit bias which may lead to discrimination, especially against female candidates. .

ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS

Independent Directors are defined as those who, appointed based on their personal and professional aptitudes, may perform their duties without being affected by dealings with the Company, its significant shareholders or its executives. As such, the following shall in no circumstances qualify as independent directors:

- a) Persons who have been employed by, or served as Executive Directors of, Group companies, unless three or five years, respectively, have elapsed since the termination of that relationship.
- b) Persons who receive any sum or benefit other than Director's remuneration from the Company or its Group, unless such benefit is negligible. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the Company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.
- c) Persons who are, or have been during the past three years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for that period.
- d) Are Executive Directors or Senior Managers of another company in which an Executive Director or Senior Manager of Enagás, S.A. be an external counselor.
- e) Persons who maintain, or have maintained in the past year, a significant business relationship with Enagás, S.A. or any other Group company, whether on their own behalf or as a significant shareholder, director or senior manager of any company that maintains or has maintained such relationship. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.

- f) Persons who are significant shareholders, executive directors or senior managers of any entity that receives, or have received during the past three years, significant donations from Enagás, S.A. or its Group. Mere sponsors of a foundation receiving donations are not included here.
- g) Spouses, partners or relatives up to the second degree of any of the Company's Executive Directors or senior managers..
- h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.
- i) Persons who have been directors for a continuous period longer than 12 years.
- j) Those involved in any of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with Board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder, but also with his or her Proprietary Directors in the investee Company.

Proprietary Directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as Independents Directors once said shareholder has sold all remaining shares in the Company.

A director with shares in the Company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

ARTICLE 10.- TENURE AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting or the following one, should the vacancy arise once the General Meeting has been convened and before it is held.

ARTICLE 11.- DIRECTOR'S REELECTION

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the directors proposed during the previous term of office, shall provide information required to assess proposal for re- appointment of directors presented by the Board of Directors to the General Shareholders' Meeting and shall propose, if applicable, the reelection of independent directors.

Proposed reelections must always be accompanied by a justifying report issued by the Board which assesses the competence, experience, and merits of the candidate and which will be attached to the minutes of the General Meeting or the Board meeting.

In general, an effort must be made to rotate independent directors appropriately. For this reason, when one of them is proposed for reappointment, it will be necessary to justify the circumstances that make continuity advisable.

ARTICLE 12.- REMOVAL OF DIRECTORS

- 1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with law, the company's bylaws and the present Regulations.
- 2.- Directors must place their office at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:
 - a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition, as established under legislation, the bylaws, or these regulations.
 - b) When they are in serious breach of their obligations as directors.
 - c) When they may put the interests of the company at risk or harm its name and reputation. If a director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 123 of the Spanish Companies Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.

All the above shall be disclosed with a reasoned explanation in the Annual Corporate Governance Report.

- d) When the circumstances motivating their appointment as directors no longer exist.
- e) When Independent Directors no longer fulfil the criteria required under article 9.
- f) When the shareholder represented by a Significant-Shareholder Appointed Directors sells its entire interest. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

Should the Board of Directors not deem it advisable to have a Director tender his/her resignation in the cases specified under letters d), e) and f), the Director must be included in the category that, in accordance with these Rules and Regulations, is most appropriate based on his/her new circumstances.

Directors who give up their position before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Irrespective of whether such a resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

- 3.- The Board of Directors shall not propose the removal of independent directors before expiration of the term of office established in the bylaws, except where just cause is found by the Board upon a report issued by the Appointments, Remuneration and Social Corporate Responsibility Committee. Specifically, just cause will be understood to have arisen when the director occupies new positions or assumes new obligations which prevent him/her from dedicating the required time for discharging his/her functions as director, fails to comply with the duties inherent to his/her functions, or changed circumstances lead to independence being lost, in accordance with prevailing legislation.
- 4.- After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the Articles of Association:

ARTICLE 26. –SPECIAL QUORUM.

In order to enable the Ordinary or Extraordinary General Shareholders' Meeting to validly resolve to issue bonds, increase or reduce capital, transform, merge or spin-off the Company and, in general, to amend the bylaws in anyway, it will be necessary, at first call, that the shareholders in attendance (either in person or represented) hold at least fifty per cent of the share capital with voting rights.

At second call, attendance of at least twenty-five percent of the paid up voting capital shall be sufficient.

g) The powers of board members and in particular the power to issue or buy back shares

The powers delegated to the Executive Chairman, Antonio Llardén Carratalá, by the company's Board of Directors, were granted in the public deed executed on February 9, 2007 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 324 in his notarial archive, and recorded in Volume 20,090, Book 0, File 172, Section 8; Sheet M-6113; Entry 668 of the Madrid Mercantile Register.

On March 25, 2014 the Board of Directors of Enagás, S.A. delegated to MARCELINO OREJA ARBURÚA the powers that the Board of Directors considered had to be delegated to the Chief Executive Officer within statutory limits, in accordance with article 43 of the Company's Articles of Association and article 19 of the Board Regulations. These powers were granted in the public deed executed on May 28, 2014 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 1,306 in his notarial archive, and recorded in Volume 32,018, Book 0, File 5, Section 8, Sheet M-6113, Entry 777 of the Madrid Mercantile Register.

Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the agreement adopted at the Shareholders in General Meeting on 27 March, 2015 is effective on the following terms:

“Authorising and empowering the Board of Directors, or any of its members in its place, to carry out derivative acquisitions of treasury shares, in accordance with article 146 of the Corporate Enterprises Act, on the following terms:

1. The acquisitions may be carried out directly by Enagás, S.A. or indirectly via its subsidiaries, on terms identical to those established in this agreement.
2. The acquisitions may be carried out through a purchase-sale agreement, exchange, or any other legally permitted transaction.
3. The maximum number of shares that may be acquired shall be that permitted by law.
4. The acquisition price shall not be greater or less than the result of adding or subtracting, respectively, 15% of the weighted average quoted price from the last trading session.
5. The present authorisation is granted for a maximum period of 5 years from the date of adopting the present agreement.

For purposes of the stipulations in article 146 of the Corporate Enterprises Act, it is expressly noted that the shares acquired under this authorisation, or as a consequence of exercising options on them, can be, entirely or partially, delivered directly to the employees or directors of the Company or the companies belonging to the Group.

This agreement revokes and renders ineffective, with respect to unused amounts, the authorisation granted by the Shareholders in General Meeting on 30 April, 2010 for the derivative acquisition of treasury shares’.

h) Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.

No agreements of this kind exist.

i) Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.

The Company has an agreement with the Executive Chairman, the Chief Executive Officer and eight of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers’ Statute, or as decided by the manager citing one of the reasons outlined under article 50 of the Workers’ Statute, provided the resolution is certified by means of conciliation between the parties, legal judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

All such contracts have been approved by the Board of Directors.

V. 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:

- Establishing a context of appetite for risk that is consistent with the established business goals and the market context in which the company is developing its activities;
- The consideration of some standard types of risk that the company is subject to;
- The segregation and independence of the risk management and control functions brought together in the company on three levels of “defense”;
- The existence of certain governing bodies with responsibilities for supervising the level of risk in the company;
- Transparency in the information provided to third parties, guaranteeing its reliability and rigour.

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 17 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 accrued interest at fixed rates, and the future flows from assets and liabilities that accrue interest at floating rates. The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over a multi-year horizon with low volatility in the income statement. For this purpose, hedges are put in place using derivatives and at the moment the Enagás Group maintains its fixed or protected debt structure of over 70%.

Foreign currency risk relates to debt transactions denominated in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of converting the financial statements of those companies whose currency is not the euro during the consolidation process. Exchange rate risk management at the Enagás Group pursues a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the companies. The possibility of arranging exchange rate derivatives to cover the volatility affecting the collection of dividends is also analysed at each opportunity for international expansion.

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 17 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 Group Enagás.

VI. Subsequent events

At 23 January 2017, GSP had not achieved a financial closing agreement as required in clauses 6.5 and 6.6 of the concession agreement "Improvements to the energy security of the country and development of Gasoducto Sur Peruano". Thus, as a result of non-compliance with the contractually established deadline expanded by resolution no. 1293-2016-MEM/DGH of 18 July 2016 issued by the Directorate General for Hydrocarbons of the Ministry for Energy and Mines, the concession agreement was terminated and execution of the guarantees implemented (see Notes 8 and 15), thus initiating the termination procedure and transfer of the concession assets. The Company paid out most of the guarantees during the month of January 2017, consequently derecognising the related financial liabilities as recorded at 31 December 2016.

In the context of the transactions involving the purchase of shares in GNL Quintero, S.A. and the formalisation of the call and put options granted to Empresa Nacional del Petróleo, S.A. ("ENAP") and Sumhram Energy Chile II Limitada ("OCC"), respectively (see Notes 2.3. and 15), all the shareholders agreed upon modification of the Shareholder Agreement in force up to that date, with said modifications becoming effective from January 1 2017. These modifications ensure control over GNL Quintero, S.A. by Enagás Chile, Spa., thus requiring consolidation using the full consolidation method during 2017.

Since January 1 2017 and the date on which these Consolidated Annual Accounts were drawn up, no events have occurred that would significantly affect the profit (loss) of the Group or its equity.

VII. Research and Development activities

In the field of technological innovation developed by Enagás during 2016, 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 2016 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. At present Enagás has an installation of each of these three types, having been put in place during the year 2016 an installation in the LNG Plant of Barcelona, of maximum power of 3.2 MW, that takes advantage of the gas pressure jump in the point of delivery to the distribution network of the City of Barcelona. This facility, which is providing very satisfactory results, has led Enagás to expand its studies to identify similar solutions elsewhere in its gas transportation network. It is also worth mentioning that a feasibility study has been started at the end of 2016 to evaluate the possibility of installing photovoltaic plants in certain areas of the Enagás facilities, in which, due to their characteristics and type of use, this proves of interest.

Technical Efficiency

As a result of the experience acquired in previous years, during 2016, 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 remarkable production is the nitrogen in the storage and regasification plants by means of absorption technology, of which during the year 2016 two new equipments have been added to the two previously existing ones.

Also, during 2016 and after concluding the pertinent feasibility studies, work has begun on the desalination of sea water by means of a reverse osmosis plant to obtain the drinking water required for different uses in the Barcelona Plant.

Finally, it should be noted that during the second half of 2016 a project has been initiated to assess the opportunity to identify odorant products that would, with advantage, replace the odorant currently used to provide its characteristic odor to natural gas and identify their presence in the event of possible leaks. In parallel they are going to study the possible desirability of simplifying the current double system to smell natural gas both in the entrances and exits of the trunk transport network.

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 2016, among which we highlight the following: evaluation of "Coriolis" type mass meters to validate their suitability in the direct measurement of LNG flow; Improvement of the internationally established procedure (Custody Transfer Handbook) for the determination of the energy transferred in the recharge of tankers; development and implementation of a simulation tool to improve the determination of calorific value at points where the gas is not directly analyzed by chromatography; development of new formulas for the calculation of calorific value; identification of suitable techniques for the measurement of flows in biphasic flows.

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 2016 its effort to improve the results obtained in the analytical of certain minor components of natural gas: water, sulfur, hydrocarbons and odorant.

3. Operational safety

Throughout 2016, 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 and equipment

During 2016, 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 infrastructure

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 the year 2016, the development of the RENOVAGAS Project was continued, a project Enagás was the driving force and currently leads, which is expected to be concluded in March 2017. This project consists, mainly, in the design and installation of a pilot plant with a capacity of 15 kW, which enables the CO₂ present in the biogas stream produced at the FCC-AQUALIA waste treatment plant in Jerez de la Frontera to be converted into methane. For this purpose the biogas stream is passed through a reactor which, through suitable catalysts and counting on the supply of hydrogen produced by hydrolysis with surpluses of renewable energy, reacts the CO₂ with the hydrogen to produce methane.

Finally, during 2016, 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.

VIII. Acquisition and sale of own shares

On May 25, 2016, Enagás, S.A. finalised the acquisition process for 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 plan in place and based on the terms stipulated in the long-term bonus plan and the remuneration policy for the period 2016-2018 approved by the shareholders in general meeting on 18 March 2016. The share purchase was in compliance with the requirements established in article 5 of Commission Regulation CE 2273/2003 and was subject to the terms authorised by the shareholders in general meeting on 18 March 2016. Management of the temporary treasury share repurchase programme 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.

On February 13, 2017, the Board of Directors of Enagás, S.A. authorised the consolidated financial statements and management report for the year ended December 31, 2016, consisting of the accompanying documents, signed 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 19 October 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

D. Antonio Lladén Carratalá

Chief Executive Officer

D. Marcelino Oreja Arburúa

Directors

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por D. Federico Ferrer Delso)

D Antonio Hernández Mancha

D. Luis Javier Navarro Vigil

D^a Ana Palacio Vallelersundi

D. Martí Parellada Sabata

D. Jesús Máximo Pedrosa Ortega

D. Ramón Pérez Simarro

Dña. Rosa Rodríguez Diaz

D. Gonzalo Solana González

Dña. Isabel Tocino Biscarolasaga

D. Luis Valero Artola

Secretary to the Board

D. Rafael Piqueras Bautista