

**Audit Report on Financial Statements  
issued by an Independent Auditor**

**ENAGÁS, S.A.  
Financial Statements and Management Report  
for the year ended  
December 31, 2017**

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

## **AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR**

To the shareholders of Enagás, S.A.:

### **Report on the financial statements**

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#### **Opinion**

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

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 1.2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

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#### **Basis for opinion**

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

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

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

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## Key audit matters

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

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

**Description** On January 24, 2017, the Directorate General for Hydrocarbons of the Ministry for Energy and Mines terminated the “Improvements to the National Energy Security and Development of the South Peruvian Pipeline” concession agreement and on December 4, 2017, the National Institute for the Defense of Competition and Intellectual Property (INDECOPI) published in the Official Gazette, El Peruano, that Gasoducto del Sur Peruano, S.A. had filed for bankruptcy, as explained in Note 1.4.c to the accompanying financial statements.

Enagás maintains a financial asset amounting to 275.3 million American dollars related to the investment in Gasoducto del Sur Peruano, S.A. and receivable accounts totaling 227.6 million American dollars, resulting from executing the guarantee for full compliance with the concession agreement as well as the guarantee granted to finance the project, which represent assets registered as of December 31, 2017 amounting to 382 million euros (note 1.4.c of the accompanying financial statements).

In addition, as described in Note 1.4.c to the accompanying financial statements, there is an ongoing controversy between Enagás, S.A. and the Peruvian Government regarding the investment in Gasoducto del Sur Peruano that was communicated through the Ministry of Energy and Mining and the Ministry of Economics and Finance, on December 20, 2017, under the terms of article 9.1 of the Reciprocal Promotion and Protection of Investments (APRI) between Peru and Spain.

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

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**Our response** In this regard, our audit procedures included the following:

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

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

### **Significant estimates**

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**Description** Enagás, S.A. includes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability from investments in Group Companies and the fair value of financial instruments. In this regard, Enagás, S.A. uses derivative financial instruments to hedge the interest rate risk to which its activities are exposed.

The main criteria and assumptions used for the valuation of these assets are described in notes 1.4 and 3.4, respectively, to the accompanying financial statements.

We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, small changes in the hypotheses could have a material impact on the Enagás, S.A. financial statements.

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**Our response** Our audit procedures primarily included:

- ▶ Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each associate, focusing particularly on the discount rate and long-term growth rate applied.
- ▶ Review of projected financial information shown in the business plan, for each investee and each cash-generating unit, by analyzing historical financial and budgetary information, current market conditions, and our own projections of potential changes, as well as public information provided by other companies in the industry.
- ▶ Review of the valuation of financial instruments, in collaboration with our internal specialists, taking into account the reasonableness of the methodology, sources and data used by management, performing contrast testing.
- ▶ Review the accuracy of documentation supporting efficiency tests carried out for derivative financial instruments considered to be hedges with the collaboration of our internal financial instrument specialists.
- ▶ In addition, we checked the adequacy of the information disclosed by the Entity related to the estimates in Notes 1.4.a and 3.4, respectively in accordance with current regulation.

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### **Other information: management report**

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

Our audit opinion on the financial statements does not cover the management report.

Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report, and if not, disclose this fact.
- b) A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Entity obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

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

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### **Responsibilities of the directors and the audit committee for the financial statements**

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 1.2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

## Report on other legal and regulatory requirements

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### Additional report to the audit committee

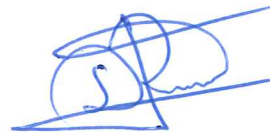
The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 19, 2018.

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### Term of engagement

The ordinary general shareholders' meeting held on March 18, 2016 appointed us as auditors for 3 years, commencing on December 31, 2016.

ERNST & YOUNG, S.L.



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David Ruiz-Roso Moyano

February 19, 2018

**ENAGÁS, S.A.**

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



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**ENAGÁS, S.A.**  
**BALANCES SHEET AT DECEMBER 31, 2017**  
 (In thousands of euros)

ASSETS	Notes	12.31.2017	12.31.2016
<b>NON-CURRENT ASSETS</b>		<b>4,501,044</b>	<b>4,579,512</b>
Intangible assets	<b>2.5</b>	11,570	14,256
Research and development		119	86
IT applications		11,440	14,109
Other intangible assets		11	61
Property, plant, and equipment	<b>2.4</b>	23,130	21,615
Land and buildings		15,649	12,892
Plant and other PP&E items		5,455	5,575
Property, plant, and equipment under construction and prepayments		2,026	3,148
Investment properties	<b>4.1</b>	19,610	24,900
Land		19,610	24,900
Investments in group companies and jointly controlled entities	<b>1.4</b>	4,433,775	4,508,817
Equity instruments		2,347,456	2,344,430
Loans to companies		1,704,306	1,956,522
Other financial assets		382,013	207,865
Financial investments		800	788
Loans to third parties		63	63
Other financial assets		737	725
Deferred tax assets	<b>4.2.g</b>	12,159	9,136
<b>CURRENT ASSETS</b>		<b>628,229</b>	<b>986,779</b>
Inventories		10	11
Raw materials and other consumables		10	11
Trade and other receivables		19,279	14,446
Trade receivables from group companies and associates	<b>2.2</b>	17,826	13,480
Other receivables		1,265	422
Receivable from employees		175	243
Current income tax assets		-	158
Other receivables from public administrations		13	143
Investments in group companies and jointly controlled entities	<b>1.4</b>	555,684	953,045
Loans to companies		555,684	953,045
Accruals		127	2,037
Cash and cash equivalents	<b>3.6.a</b>	53,129	17,240
Cash		53,129	17,240
<b>TOTAL</b>		<b>5,129,273</b>	<b>5,566,291</b>

Notes 1 to 4.7 to the accompanying financial statements are an integral part of the balance sheet at December 31, 2017

LIABILITIES	Notes	12.31.2017	12.31.2016
<b>EQUITY</b>		<b>2,114,095</b>	<b>2,098,862</b>
<b>CAPITAL AND RESERVES</b>		<b>2,115,187</b>	<b>2,101,616</b>
Share capital	3.1.a	358,101	358,101
Issued capital		358,101	358,101
Reserves		1,550,927	1,540,034
Legal and statutory reserves	3.1.c	71,620	71,620
Other reserves		1,479,307	1,468,414
Treasury shares	3.1.b	(8,219)	(8,219)
Profit for the year		349,454	342,306
Interim dividend	1.5.a	(139,241)	(132,565)
Other equity instruments		4,165	1,959
<b>UNREALIZED GAINS (LOSSES) RESERVE</b>	3.1.d	<b>(1,092)</b>	<b>(2,754)</b>
Hedging transactions		(1,092)	(2,754)
<b>NON-CURRENT LIABILITIES</b>		<b>2,744,193</b>	<b>2,354,444</b>
Provisions	2.8.a	3,992	5,371
Non-current employee benefit obligations		2,992	4,371
Other provisions		1,000	1,000
Borrowings	3.2.a	1,139,622	1,202,207
Borrowings from credit entities		1,138,050	1,199,279
Derivatives		1,433	2,878
Other financial liabilities		139	50
Borrowings from group companies and associates		1,597,024	1,145,312
Deferred tax liabilities	4.2.g	3,555	1,554
<b>CURRENT LIABILITIES</b>		<b>270,985</b>	<b>1,112,985</b>
Current financial liabilities	3.2.b	157,564	551,755
Borrowings from credit entities		152,560	328,337
Derivatives		1,306	2,268
Other financial liabilities		3,698	221,150
Borrowings from group companies and associates		52,411	515,076
Trade and other payables	2.3	61,010	46,154
Suppliers		12,748	11,300
Suppliers, group companies, and associates		220	318
Employee benefits payable		5,154	1,648
Current income tax liabilities		15,648	6,418
Other payables to public administrations		27,240	26,470
<b>TOTAL</b>		<b>5,129,273</b>	<b>5,566,291</b>

Notes 1 to 4.7 to the accompanying financial statements constitute an integral part of the balance sheet at December 31, 2017

**ENAGÁS, S.A.**  
**INCOME STATEMENT AT DECEMBER 31, 2017**  
 (In thousands of euros)

	Notes	12.31.2017	12.31.2016
<b>CONTINUING OPERATIONS</b>		<b>409,635</b>	<b>421,046</b>
Revenue	2.1.a	514,906	521,751
Rendering of services		124,906	151,751
Income from dividends received from group companies and jointly controlled entities		390,000	370,000
Work performed by the entity and capitalized	2.4	644	658
Cost of sales		(21)	(28)
Consumption of raw materials and other consumables		(21)	(28)
Other operating income		1,563	1,368
Ancillary income		1,563	1,368
Employee benefits expense	2.1.b	(49,279)	(47,369)
Wages, salaries, et al		(37,274)	(36,089)
Social security costs, et al.		(12,005)	(11,280)
Other operating expenses	2.1.c	(43,148)	(44,690)
External services		(43,144)	(44,168)
Taxes		(158)	(522)
Losses on, impairment of, and changes in trade provisions		154	-
Depreciation and amortization	2.4 and 2.5	(9,740)	(11,169)
Provision surpluses		-	595
Impairment losses and gains (losses) on disposal of assets	4.1.a	(5,290)	(70)
<b>OPERATING PROFIT (LOSS)</b>		<b>409,635</b>	<b>421,046</b>
Finance income	3.3	8,620	159
From marketable securities and other financial instruments		8,620	159
- Loans to group companies and associates		8,619	-
- Loans to third parties		1	159
Finance expenses	3.3	(83,563)	(88,897)
Borrowings from group companies and associates		(65,903)	(66,547)
Third-party borrowings		(17,660)	(22,350)
Exchange gains (losses)	3.3. and 4.1.b	1,657	53
Impairment and gains (losses) on disposal of financial instruments		-	(765)
Gains (losses) on disposals and other gains and losses		-	(765)
<b>FINANCE COST</b>		<b>(73,286)</b>	<b>(89,450)</b>
<b>PROFIT BEFORE TAX</b>		<b>336,349</b>	<b>331,596</b>
Income tax	4.2.e	13,105	10,710
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>349,454</b>	<b>342,306</b>
<b>DISCONTINUED OPERATIONS</b>		-	-
<b>PROFIT FOR THE YEAR</b>		<b>349,454</b>	<b>342,306</b>

Notes 1 to 4.7 to the accompanying financial statements constitute an integral part of the income statement at December 31, 2017

**ENAGÁS, S.A.**  
**STATEMENT OF RECOGNIZED INCOME AND EXPENSES AT DECEMBER 31, 2017**  
 (In thousands of euros)

	Notes	12.31.2017	12.31.2016
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>349,454</b>	<b>342,306</b>
<b>INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY</b>		<b>(253)</b>	<b>(2,720)</b>
From cash flow hedges	3.1.d	(337)	(3,627)
Tax effect	3.1.d	84	907
<b>AMOUNTS TRANSFERRED TO THE INCOME STATEMENT</b>		<b>1,915</b>	<b>4,031</b>
From cash flow hedges	3.1.d	2,553	5,375
Tax effect	3.1.d	(638)	(1,344)
<b>TOTAL RECOGNIZED INCOME (EXPENSES)</b>		<b>351,116</b>	<b>343,617</b>

Notes 1 to 4.7 to the accompanying financial statements constitute an integral part of the statement of recognized income and expenses at December 31, 2017

**ENAGÁS, S.A.**  
**STATEMENT OF TOTAL CHANGES IN EQUITY AT DECEMBER 31, 2017**  
 (In thousands of euros)

	Note	Share capital	Share premium and reserves	Treasury shares	Profit for the year	Interim dividend	Other equity instruments	Unrealized gains (losses) reserve	Total equity
<b>OPENING BALANCE 2016</b>		<b>358,101</b>	<b>1,501,254</b>	-	<b>353,666</b>	<b>(126,052)</b>	-	<b>(4,065)</b>	<b>2,082,904</b>
<b>Total recognized income and expense</b>		-	-	-	342,306	-	-	1,311	343,617
<b>Transactions with shareholders</b>		-	-	(8,219)	(188,834)	(132,565)	1,959	-	(327,659)
- Distribution of dividends	1.5	-	-	-	(188,834)	(132,565)	-	-	(321,399)
- Transactions with treasury shares (net)	3.1.b	-	-	(8,219)	-	-	-	-	(8,219)
- Other transactions		-	-	-	-	-	1,959	-	1,959
Other changes in equity		-	38,780	-	(164,832)	126,052	-	-	-
<b>BALANCE AT DECEMBER 31, 2016</b>		<b>358,101</b>	<b>1,540,034</b>	<b>(8,219)</b>	<b>342,306</b>	<b>(132,565)</b>	<b>1,959</b>	<b>(2,754)</b>	<b>2,098,862</b>
<b>OPENING BALANCE 2017</b>		<b>358,101</b>	<b>1,540,034</b>	<b>(8,219)</b>	<b>342,306</b>	<b>(132,565)</b>	<b>1,959</b>	<b>(2,754)</b>	<b>2,098,862</b>
<b>Total recognized income and expense</b>		-	-	-	349,454	-	-	1,662	351,116
<b>Transactions with shareholders</b>		-	-	-	(198,848)	(139,241)	2,206	-	(335,883)
- Distribution of dividends	1.5	-	-	-	(198,848)	(139,241)	-	-	(338,089)
- Transactions with treasury shares (net)	3.1.b	-	-	-	-	-	-	-	-
- Other transactions		-	-	-	-	-	2,206	-	2,206
Other changes in equity		-	10,893	-	(143,458)	132,565	-	-	-
<b>BALANCE AT DECEMBER 31, 2017</b>		<b>358,101</b>	<b>1,550,927</b>	<b>(8,219)</b>	<b>349,454</b>	<b>(139,241)</b>	<b>4,165</b>	<b>(1,092)</b>	<b>2,114,095</b>

Notes 1 to 4.7 to the accompanying financial statements constitute an integral part of the statement of total changes in equity at December 31, 2017

**ENAGÁS, S.A.**  
**CASH FLOW STATEMENT AT DECEMBER 31, 2017**  
 (In thousands of euros)

	Notes	12.31.2017	12.31.2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES (I)</b>		<b>146,273</b>	<b>634,922</b>
<b>Profit before tax</b>		<b>336,349</b>	<b>331,596</b>
<b>Adjustments to profit (loss)</b>		<b>(337,357)</b>	<b>(320,632)</b>
- Depreciation and amortization	2.4 and 2.5	9,740	11,169
- Impairment losses	4.1.a	5,290	835
- Changes in provisions		3,413	4,689
- Finance income and dividends		(437,552)	(425,109)
- Finance cost	3.3	83,563	88,897
- Other income and expenses		(1,811)	(1,113)
<b>Change in working capital</b>		<b>(255)</b>	<b>(4,927)</b>
- Inventories		1	8
- Trade and other receivables		(4,382)	54
- Other current assets		1,910	(17)
- Trade and other payables		2,213	(4,952)
- Other current liabilities		-	(15)
- Other non-current assets and liabilities		3	(5)
<b>Other cash flows from operating activities</b>		<b>147,536</b>	<b>628,885</b>
- Interest paid		(66,612)	(69,647)
- Dividends received		150,000	600,000
- Interest received		45,030	55,645
- Income tax receipts (payments)		19,118	42,770
- Other proceeds (payments)		-	117
<b>CASH FLOWS FROM INVESTING ACTIVITIES (II)</b>		<b>670,696</b>	<b>71,099</b>
<b>Payments for investments</b>		<b>(223,746)</b>	<b>(184,401)</b>
- Group companies and associates		(2,206)	(174,381)
- Intangible assets and PP&E	2.4 and 2.5	(8,569)	(9,957)
- Other financial assets		(212,971)	(63)
<b>Proceeds from disposals</b>		<b>894,442</b>	<b>255,500</b>
- Group companies and associates		894,442	255,500
<b>CASH FLOWS FROM FINANCING ACTIVITIES (III)</b>		<b>(780,805)</b>	<b>(755,460)</b>
<b>Proceeds from and payments on equity instruments</b>		-	<b>(8,219)</b>
- Proceeds from issuance of equity instruments		-	(8,219)
<b>Proceeds from and repayments of financial liabilities</b>		<b>(442,716)</b>	<b>(425,842)</b>
- Issuance of debentures and other marketable securities		88,921	1,256,500
- Bond issues with credit entities		2,268,329	-
- Issuance of debt with group companies and associates		449,038	270,000
- Repayment and redemption of debentures and other marketable securities		(89,686)	(1,486,500)
- Repayment and amortization of debts with credit entities		(2,490,141)	(120,242)
- Repayment and amortization of debts with group companies and associates		(669,177)	(345,600)
<b>Dividends paid and payments on other equity instruments</b>		<b>(338,089)</b>	<b>(321,399)</b>
- Dividends	1.5	(338,089)	(321,399)
<b>NET FOREIGN EXCHANGE DIFFERENCE (IV)</b>		<b>(275)</b>	<b>(865)</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)</b>		<b>35,889</b>	<b>(50,304)</b>
Cash and cash equivalents at January 1		17,240	67,544
Cash and cash equivalents at December 31		53,129	17,240

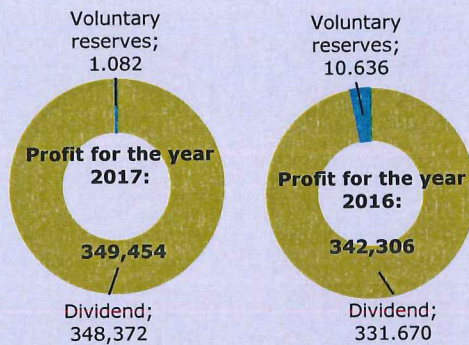
Notes 1 to 4.7 to the accompanying financial statements are an integral part of the cash flow statement at December 31, 2017

## 1. Group activities and basis of presentation

### Significant matters

#### Results

- Net profits attributed to the company increased by 2.1% with respect to 2016, amounting to 349 million euros.
- Net earnings per share increased to 1.46 euros per share as compared to 1.43 euros per share in 2016.
- The proposed dividend payment per share for 2017 amounts to 1.46 euros per share (1.39 euros per share in 2016) (Note 1.5).
- The Board of Directors proposed the following distribution of profit corresponding to 2017 for the Parent, Enagás, S.A. (Note 1.5):



#### Positive Working Capital

At 31 of December, the Company has a positive Working Capital. This situation has been corrected regarding December 31, 2016 when Enagás S.A. had 126,206 thousand euros negative Working Capital, as a result of the registration, in the current liabilities, of the accounts payable for the guarantees concerning GSP project. These guarantees were paid in January 2017, being financed primarily with long-term debt.

#### Investments in Group Companies

At December, 31, the entity maintains investments in Group Companies amounting to 4,989 million euros, through which develops some of their activities. The details of these investments is as follow:

- Equity instruments for the amount of 2,347 million euros (Note 1.4.a).
- Credits to companies for the amount of 2,260 million euros (Note 1.4.b).
- Other financial assets for the amount of 382 million euros (Note 1.4.c).

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

With respect to the situation arising in connection with the investment in GSP as a consequence of the termination of the concession agreement on January 24, 2017, there is currently a disagreement between the Peruvian authorities and Enagás with respect to applying the investment recovery mechanism, which amounts 382 million euros, established in the GSP concession contract. This resulted in the initiation of direct contact on December 19, 2017 as a step prior to international arbitration by virtue of the APRI España-Peru as disclosed in Note 1.4.c.

#### Guarantees

At December 31, 2017, Enagás, S.A. granted guarantees in the amount of 3,902 million euros (Note 1.6).

### 1.1 Activity

Enagás, S.A. ("the Company" or "the Parent"), incorporated in Spain on July 13, 1972 in accordance with the Spanish Corporate Enterprises Act, leads a group of entities which includes interest in subsidiaries, associates, joint operations, and jointly controlled entities, which dedicate themselves to various activities and together with Enagás, S.A. make up the Enagás Group ("the Group"). The Group's corporate purpose encompasses the transport, storage, and regasification of natural gas, as well as the performance of all functions relating to technical management of the gas system.

#### a) Business purpose

- Regasification, basic and secondary transport as well as storage of natural gas, via the corresponding gas infrastructure or installations, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.
- Design, construction, start up, exploitation, operation, and maintenance of all types of complementary gas infrastructure and installations, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties
- Development of all functions relating to technical management of the gas system
- Transport and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding



installations, of its own or of third parties, as well as the design, construction, start up, exploitation, operation, and maintenance of all types of complementary infrastructure and installations necessary for said activities

- v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them
- vi. Rendering of services of a diverse nature, amongst them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas markets management activities to the extent they are compatible with the activities permitted for the Company by law.

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

- vii. Management of the corporate group comprised of the interest held in share capital of companies belonging to the group
- viii. Rendering of assistance or support services to the investee companies, including the provision of appropriate guarantees and reinforcement for them

## b) Other information

Its registered address is located at Paseo de los Olmos, 19, 28005, Madrid. Its by-laws and other public information on the Company and its Group can be consulted on its website, [www.Enagás.es](http://www.Enagás.es), and at its registered address.

In addition to the operations which Enagás, S.A. carries out directly as parent of the Enagás Group and in accordance with prevailing legislation, the Company is obliged to prepare the consolidated financial statements of the Group, which includes interest held in subsidiaries, associates, joint operations, and joint controlled entities.

The main figures for the consolidated financial statements of the Enagás Group corresponding to 2017 and 2016 were as follows:

	12.31.2017	12.31.2016
Total Assets	9,572,636	9,182,273
Equity	2,941,284	2,462,936
Revenue	1,360,170	1,187,994
Net profit (loss)	490,837	417,222

## 1.2 Basis of presentation

These financial statements were prepared by the directors of the Company in accordance with the applicable regulatory framework for financial information, as established in:

- i. Spain's Code of Commerce and other company law
- ii. Spanish GAAP enacted by Royal Decree 1514/2007 of November 16, modified in 2016 by Royal Decree Law 602/2016 of December 2, as well as prevailing mercantile law
- iii. Binding rules approved by the ICAC (Instituto de Contabilidad y Auditoría de Cuentas - Spanish Audit and Accounting Institute) enacting Spanish GAAP and its complementary regulations
- iv. Other applicable Spanish accounting regulations

The Company has not applied any non-mandatory accounting policies.

Further, the Company's directors have prepared these financial statements in accordance with all the mandatory accounting principles and regulations which had a significant effect on them.

The financial statements of Enagás, S.A. and its consolidated group for 2017 were prepared by the directors of the Company in their Board meeting held on February 19, 2018. The financial statements of Enagás, S.A. and its consolidated group for 2016 were approved at the Shareholders' General Meeting held on March 31, 2017 and duly filed at the Madrid Mercantile Registry.

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

### a) Materiality criteria

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

### b) Fair presentation

The accompanying financial statements were prepared from the Company's accounting records and are presented in accordance with the applicable regulatory financial reporting framework, specifically the accounting principles and criteria therein, to present fairly the Company's equity, financial position, results, and changes in its equity and cash flows for the year being reported. These financial statements were authorized for issue by the Company's directors and will be submitted for approval at an ordinary general shareholders' meeting where they are expected to be ratified without modification.

### c) Comparative information

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

#### d) Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity, and cash flow statement are grouped together to facilitate understanding. However, whenever the amounts involved are material, the information is broken down in the related notes to the accompanying financial statements.

#### 1.3 Estimates and accounting judgments

The results and determination of equity depend on the accounting principles and policies, measurement criteria, and estimates made by the directors of the Company in the preparation of the financial statements.

In the Company's financial statements for 2017 estimates were occasionally made by its senior executives, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses, and obligations reported herein. These estimates basically relate to:

- The useful life of PP&E items and intangible assets (**Notes 2.4 and 2.5**)
- The measurement of assets to determine the possible existence of impairment losses (**Note 2.6**)
- Provisions for pending invoices (**Notes 2.2 and 2.3**)
- The calculation of provisions and contingencies (**Note 2.8**)
- The calculation of corporate income tax and deferred tax assets (**Note 4.2**)
- The market value of certain financial instruments (**Note 3.4**)

#### 1.4 Investments in group companies and jointly controlled entities

##### Accounting policies

###### Equity instruments

- Investments in group companies and jointly controlled entities are measured at cost less any accumulated impairment loss. An impairment loss is measured as the difference between the carrying amount and recoverable amount, taken to be the higher of fair value less costs to sell and the present value of estimated future cash flows from the investment.
- Unless better evidence is available with respect to the recoverable amount, impairment is estimated by taking into account the investee's equity, adjusted for any unrealized

capital gains existing on the measurement date (including goodwill, if there is any).

###### Loans and receivables

- (i) Financial assets deriving from the sale of goods or rendering of services as part of the Company's ordinary course of business and (ii) financial assets that are not commercial in origin, are neither equity instruments nor derivatives, carry fixed or determinable payments and are not quoted in an active market.

##### Significant estimates and judgments

- At each year end, or when there is evidence of a loss in value, the Company carries out an analysis of the recoverability of investments in group companies and jointly controlled entities with a view to verifying whether the recoverable amount of said investments is greater than the carrying amounts recognized by the Company.
- To calculate the recoverable amount of the Group companies, an analysis of discounted cash flows is performed, based on detailed future projections for said investments.
- With respect to the impairment analysis relating to Group companies and jointly controlled entities, the sensitivity analysis of the discount rate with a +/-0.5% variation carried out at 2017 year end, showed that the Company is not exposed to significant risk arising from reasonably possible changes. Thus, Company management considers that, within the specified ranges, there would be no changes in the impairment calculation.

#### e) Changes in accounting policies

There were no significant changes in accounting policies in 2017 as compared to the criteria applied in 2016.

The balances of items recognized under "Investments in group companies and jointly-controlled entities," both current and non-current, at 2017 and 2016 year end are broken down as follows:

	2017	2016
<b>Non-current financial instruments</b>	<b>4,433,775</b>	<b>4,508,817</b>
Investments in group companies and jointly controlled entities (Note 1.4.a)	2,347,456	2,344,430
Loans and receivables	2,086,319	2,164,387
Loans (Note 1.4.b)	1,704,306	1,956,522
Other financial assets (Note 1.4.c)	382,013	207,865
<b>Current financial instruments</b>	<b>555,684</b>	<b>953,045</b>
Loans and receivables (Note 1.4.b)	160,085	808,881
Receivables from Group companies due to tax effect	155,599	144,164
Dividends receivable (1)	240,000	-

(1) This amount corresponds to the dividends pending collection from Enagás Transporte, S.A.U., of which 3,000 thousand euros were collected in January 2018.

## a) Equity instruments

Name/address/activity	% shareholding		Thousands of euros								
	Direct	Indirect	Share capital	Profit (loss) from			Total equity	Dividends received	Carrying amount		
				Operating income	Net profit	Other equity			Cost	Impairment losses for the year	Accumulated impairment losses
<b>2017</b>	<b>2,347,456</b>										
Enagás Transporte, S.A.U.	100	-	532,089	585,882	462,275	1,509,735	2,504,099	390,000	1,961,832	-	-
Enagás GTS, S.A.U.	100	-	5,914	(765)	(711)	(870)	4,333	-	33,694	-	-
Enagás Financiaciones, S.A.U.	100	-	890	76,497	6,018	7,293	14,201	-	8,192	-	-
Enagás Internacional, S.L.U.	100	-	99,508	64,041	29,755	261,602	390,865	-	331,781	-	-
Estación de Compresión Soto La Marina, S.A.P.I. de C.V. (*)	50	0	19,815	26,828	27,157	(34,836)	12,136	-	9,932	-	-
Enagás Peru SAC (*)	0	100	6,365	(441)	(977)	(751)	4,637	-	1	-	-
Enagás Mexico SA de CV (*)	0	100	2,313	(198)	(252)	(1,378)	683	-	-	-	-
Enagás Emprende, S.L.U.	100	-	600	(39)	(29)	1,397	1,968	-	2,000	-	-
Mibgas Derivatives, S.A.	19	9	500	-	-	-	500	-	24	-	-
<b>2016</b>	<b>2,344,430</b>										
Enagás Transporte, S.A.U.	100	-	532,089	610,178	460,770	1,448,803	2,441,662	370,000	1,961,660	-	-
Enagás GTS, S.A.U.	100	-	5,914	(827)	(689)	(353)	4,872	-	33,544	-	-
Enagás Financiaciones, S.A.U.	100	-	890	65,437	(458)	7,734	8,166	-	8,175	-	-
Enagás Internacional, S.L.U.	100	-	99,508	34,741	(2,557)	309,058	406,009	-	331,752	-	-
Estación de Compresión Soto La Marina, S.A.P.I. de C.V. (*)	50	0	19,161	1,954	(1,926)	(28,660)	(11,425)	-	9,149	-	-
Enagás Peru SAC (*)	0	100	2,355	677	444	(878)	1,921	-	-	-	-
Enagás Mexico SA de CV (*)	0	100	2,313	(343)	(249)	(951)	1,113	-	-	-	-
Enagás Emprende, S.L.U.	100	-	45	(0)	(0)	101	146	-	150	-	-

These companies are not listed on any stock market.

The following changes to the Company's equity instruments were carried out during 2017:

- As a consequence of approving the long-term bonus plan at the Enagás, S.A. shareholder general meeting on March 18,

2016 ( **Note 4.4**), and in accordance with Consultation 7 published in BOICAC nº 75/2008, the Company increased the value of the equity instruments of each of the subsidiaries with beneficiaries associated to the plan, that is, Enagás Transporte, S.A.U, Enagás GTS, S.A.U, Enagás Financiaciones, S.A.U., and Enagás Internacional S.L.U., in the amount of 368 thousand euros (2016: 429 thousand euros). The balancing entry relating to said contribution is included in "Other equity instruments" under equity in the balance sheet at December 31, 2017 as a result of the cost assumed by the Company in each of the aforementioned subsidiaries.

- On July 26, 2017, Mibgas Derivatives, S.A. was incorporated for 500 thousand euros. This company was initially incorporated by Mibgas, S.A. Subsequently, on September 7, 2017, Mibgas, S.A. signed a share purchase-sale agreement with Redes Energéticas Nacionales, SGPS, S.A. ("REN"), Reganosa, S.A., and Enagás, S.A. by virtue of which, the shareholder structure of Mibgas Derivatives, S.A. was as follows: Mibgas, S.A. 67%, Enagás, S.A. 19.4%, REN 9.7%,

and Reganosa, S.A. 3.9%. Given that Enagás GTS, S.A.U. holds a 13.34% stake in Mibgas, S.A. as a result of these transactions, Enagás, S.A. holds a total interest of 28.34% in Mibgas Derivatives, S.A. (8.94% of indirect interest via Enagás GTS, S.A.U. and 19.4% of direct interest).

- On February 8, 2017 Enagás Emprende, S.L.U. carried out a capital increase via the issue of 165,000 new participation units at a nominal value of one euro each and a total premium amounting to 385 thousand euros, through a fully disbursed monetary contribution.

In addition, on December 5, 2017, Enagás Emprende, S.L.U. carried out a new capital increase via the issue of 390,000 participation units at a nominal value of one euro each and a total premium amounting to 910 thousand euros.

At December 31, 2017 and 2016, the Company had not recognized any impairment losses relating to its direct investments in Group companies.

## b) Loans

	Non-current balances		Current balances	
	2017	2016	2017	2016
Enagás Transporte, S.A.U.	1,304,015	1,555,758	152,819	801,616
Enagás Internacional, S.L.U.	400,291	400,291	7,266	7,265
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	-	473	-	-
<b>Total</b>	<b>1,704,306</b>	<b>1,956,522</b>	<b>160,085</b>	<b>808,881</b>

The main changes during 2017 in credit granted was as follows:

- Amortization by Enagás, Transporte, S.A.U. in the amount of 894,442 thousand euros.
- Capitalization of credit granted to Estación de Compresión Soto la Marina, S.A.P.I. de C.V. in the amount of 473 thousand euros.
- Accrual and liquidation of interest by Enagás Transporte, S.A.U. in the amount of 28,415 thousand euros and 33,841 thousand euros, respectively.

The credit facilities granted to Group companies are subject to market interest rates, with the average rates for 2017 and 2016 amounting to 1.7% and 1.8%, respectively.

The breakdown by maturity of said credit facilities recognized at 2017 and 2016 year end is as follows:

2017	2018	2019	2020	2021	2022 and beyond	Total
Loans and receivables	160,085	491,742	221,742	111,742	879,080	1,864,391
<b>Total</b>	<b>160,085</b>	<b>491,742</b>	<b>221,742</b>	<b>111,742</b>	<b>879,080</b>	<b>1,864,391</b>

2016	2017	2018	2019	2020	2021 and beyond	Total
Loans and receivables	808,881	151,742	491,742	121,742	1,191,296	2,765,403
<b>Total</b>	<b>808,881</b>	<b>151,742</b>	<b>491,742</b>	<b>121,742</b>	<b>1,191,296</b>	<b>2,765,403</b>

### c) Other financial assets

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

This situation generated the immediate execution of the counter-guarantees granted by the GSP shareholders, which in the case of Enagás, S.A. generated a payment of 65,627 thousand US dollars (54,967 thousand euros) in connection with the guarantee for full compliance included in the concession agreement, as well as 162,064 thousand US dollars (135,737 thousand euros) corresponding to the execution of the bank financing guarantees during the month of January 2017.

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

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

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

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

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

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

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

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

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

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

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

Based on the foregoing and the publication in "El Peruano" of the status of GSP bankruptcy dated December 4, 2017 by the National Institute for the Defense of Competition and Intellectual Protection of Peru (hereinafter, INDECOPI), Enagás SA has recorded in 2017 a higher account receivable amounting to 275,265 thousand dollars (230,550 thousand euros), being the counterpart a long-term account payable to Enagás Internacional that will be paid once the amount of the aforementioned loans is received.

With respect to the arbitration proceedings against the Peruvian State (still in the prior direct contact phase), based on the conclusions reached by the external and internal legal advisors, said proceedings are not affected by any other circumstance beyond the sound legal arguments being presented by Enagás (for example, an instance of corruption which could affect the awarding of the concession agreement), and it is probable that the entire investment made by Enagás in GSP will be recovered, consisting of the accounts receivable relating to the aforementioned guarantees executed in the amount of 227,691 thousand US dollars (190,704

thousand euros), and the share capital contributed by Enagás Internacional amounting to 275,265 thousand US dollars (230,550 thousand euros).

Taking into account that direct contact was initiated last December 19, 2017, and also assessing the time required for resolving a dispute of this complexity via international arbitration, Enagás estimates that the maximum period for recovery of the investment in GSP is 4 years counting from the notification date of the dispute, in accordance with the conclusions of the internal and external legal advisors. The recognition of financial discounting in 2017 results represented a net effect in the income statement of an expense totaling 8,251 thousand euros.

### Other related matters

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

## 1.5 Dividends distributed and proposed

### a) Proposed distribution of profit attributable to the company

The distribution of 2017 net profit corresponding to the Company, proposed by the Board of Directors and which will be submitted for approval by the shareholders in ordinary general meeting, is as follows (in thousands of euros):

	12.31.2017	12.31.2016
Interim	348,372	331,670
Voluntary reserves	1,082	10,636
<b>TOTAL</b>	<b>349,454</b>	<b>342,306</b>

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

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

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

Based on all the above, the directors of Enagás, in accordance with the opinions of its external and internal legal advisors, as well as an independent expert and an independent expert accountant, consider that these circumstances will not have an impact on the estimated recoverable amount of the investment in GSP and the aforementioned receivable balances totaling 382,013 thousand euros.

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

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

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

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

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

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

## b) Total dividends paid

### 1.6 Commitments assumed and guarantees granted

#### Accounting policies

- A financial guarantee contract is a contract which requires that the issuer makes specific payments to repay the holder for losses incurred when a specific debtor does not fulfill payment obligations at maturity, in accordance with the original or modified conditions of a debt instrument. The rights and obligations associated with a financial guarantee will be considered as financial assets and financial liabilities. For subsequent valuation, a contract will be recognized as the greater amount of a) the amount resulting from standards relating to provisions or b) accumulated amortization of the initial measurement and possible accrued income.
- An investment commitment corresponds to that obligation contracted with a related party which can give rise to outflows of funds or other resources in the future. The following is included amongst these: commitments not recognized in connection with contributing funds or resources as a consequence of incorporation agreements, capital intensive projects carried out by a business combination, commitments not recognized in connection with providing loans or other financial support to the business combination, or commitments not recognized in connection with acquiring a stake, regardless of whether a specific future event occurs or not.

The breakdown of the Company's commitments and guarantees at December 31, 2017 and 2016 is as follows:

Commitments assumed and guarantees granted	Group employees, companies or entities (Note 4.3)	Other related parties (Note 4.3)	Third parties	Total
<b>2017</b>				
Guarantees for related party debts	3,473,179	-	-	<b>3,473,179</b>
Guarantees granted - other	13,499	130,212	285,552	<b>429,263</b>
<b>2016</b>				
Guarantees for related party debts	4,187,829	-	-	<b>4,187,829</b>
Guarantees granted - other	14,587	144,175	316,495	<b>475,257</b>

The above guarantees mainly correspond to:

- The guarantees granted by Enagás, S.A. in connection with the bond issue carried out by Enagás Financiaciones, S.A.U., amounting to 3,010,000 thousand euros; The change with respect to 2016 is due to the final settlement of the bond maturing in 2017, guaranteed by Enagás, S.A.
- At December 31, 2016 the Company had access to a credit line granted by La Caixa, having drawn down 70,504 thousand euros. Said credit line matured on May 31, 2017 and was not renewed.
- The guarantee commitment in the amount of 24,131 thousand euros at December 31, 2017 (2016: 24,779 thousand euros), corresponding to the obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás, S.A. commits to granting a corporate guarantee in favor of the financing entities if said contract has not been canceled or refinanced six months before it matures in July 2022.

The maximum commitment for this guarantee granted by Enagás, S.A. amounts to 24,131 thousand euros (237,500 thousand SEK), and in accordance with the above, said corporate guarantee will not be granted before the month of January 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.

#### a) Guarantees for related party debts

	Thousands of euros	
	2017	2016
Guarantee for E.Financiaciones debt	3,010,000	3,477,700
Guarantee for the E.Transporte derivative	147,514	147,514
Guarantee for the E.Internacional debt in financing Swedegas	77,706	93,775
Guarantee for the E.Internacional debt in connection with Santander credit line	213,828	373,557
Guarantee for the E.Internacional debt in connection with the Caixa credit line	-	70,504
Guarantee commitment with Swedegas	24,131	24,779
<b>Total</b>	<b>3,473,179</b>	<b>4,187,829</b>

## b) Guarantees granted - other

- Guarantees were recognized for full compliance in connection with obligations acquired under concessions awarded, counter-guaranteed by Enagás, S.A., in the amount of 8,376 thousand euros (2016: 9,464 thousand euros).

In addition, the guarantees and sureties granted with Group companies at December 31, 2017 and 2016, include the technical guarantee granted with respect to third parties by Enagás Transporte, S.A.U. in the amount of 5,123 thousand euros, counter-guaranteed by Enagás, S.A.

Likewise, guarantees and sureties granted to other related parties at December 31, 2017 includes guarantees granted before the Federal Electricity Commission ("FEC") in connection with the service contracts relating to the Gasoducto de Morelos and Estación de Compresión Soto La Marina projects in the amount of 8,376 thousand and 7,425 thousand euros, respectively, granted by the related party Banco Santander.

- Financial guarantees granted in connection with the loans granted to Enagás, S.A. by the European Investment Bank in the amount of 366,667 thousand euros (2016: 410,000 thousand euros), of which 108,000 thousand euros were granted by the related party Banco Santander during 2017 (2016: 120,000 thousand euros).
- Technical guarantees granted to third parties to cover certain responsibilities that may arise as a result of executing the contracts comprising its activity, amounting to 33,296 thousand euros at December 31, 2017 (2016: 31,941 thousand euros), of which 6,411 thousand euros correspond to guarantees signed with the Banco Santander (2016: 6,321 thousand euros), an entity which fulfills the criteria to be considered a related party as defined in **(Note 4.3)**.

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



## 2. Operating performance of the Company

### Significant matters

#### Results from operating activities

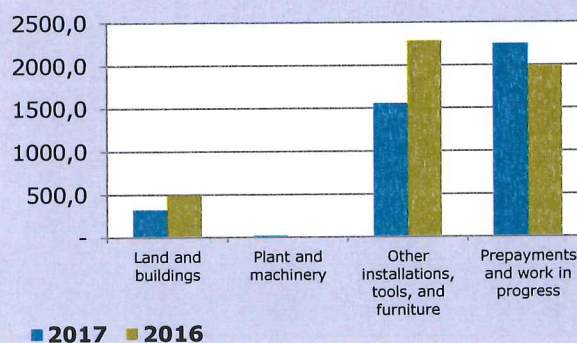
- Operating profit decreased by 2.7% with respect to 2016, amounting to 409,635 thousand euros (**Note 2.1**).
- The main item included in net revenue corresponds to the dividends received from Group companies, which increased with respect to 2016 by 5.4%, amounting to 390,000 thousand euros (**Note 2.1**).

#### Trade receivables

- Current trade receivables and other accounts receivable mainly includes the accounts receivable from the various Group companies for which the Company renders holding services. (**Note 2.2**).

#### Property, plant, and equipment

- In 2017 the amount recognized under this heading increased by 1,515 thousand euros, mainly due to Move Project.
- The distribution of acquisitions by category was the following:



### 2.1 Operating profit

#### Accounting policies

##### Recognition of income

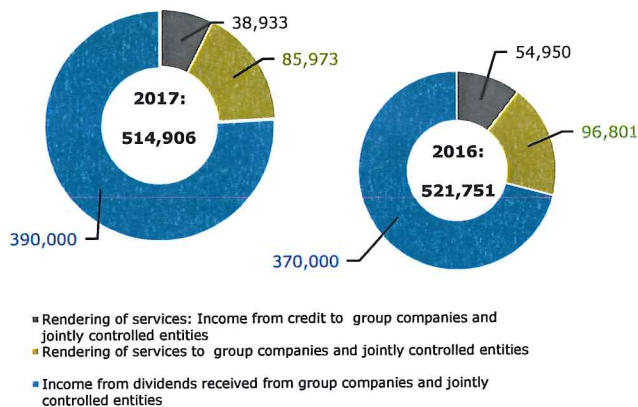
- In accordance with the criteria established by ICAC (Institute of Accounting and Auditors of Accounts - "Instituto de Contabilidad y Auditoría de Cuentas" in Spanish) in BOICAC no. 79, on the accounting classification in separate financial statements of income and expenses for a holding company applying Spanish GAAP enacted by Royal Decree 1514/2007 and on the determination of net revenue for this entity, dividends collected and loan interest received from its investees are included as part of net revenue.
- Income and expenses are recorded according to the accruals principle, that is, at the moment the goods or services represented by them are delivered or rendered, respectively, and regardless of when actual payment or collection occurs. This income is measured at the fair value of the consideration received less discounts and taxes.
- Ordinary income for services rendered by the Company is recognized considering the degree of completion of these services at the balance sheet date, provided that the result of the transaction can be estimated reliably.
- Interest income from financial assets is recognized using the effective interest rate method and dividend income is recognized when the shareholder's right to receive payment is established. At any rate, interest and dividend income accrued on financial assets after their date of acquisition are recognized as revenue in the income statement.

##### Recognition of expenses

- Expenses are recognized in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This implies that expenses are recognized simultaneously with the recognition of an increased liability or decreased asset.
- Expenses are recognized immediately when an outflow does not generate future economic benefits or when the requirements for capitalization are not met.

## a) Revenue

The breakdown of revenue by activity is as follows:



The total amount of dividends received during 2017 in the amount of 390,000 thousand euros corresponds to the dividend distribution received from Enagás Transporte, S.A.U. in 2017, of which 387,000 thousand euros correspond to the interim dividend paid in 2017 and 3,000 thousand euros to the extraordinary dividend charged against reserves from prior years (2016: 370,000 thousand euros).

The breakdown of 2017 and 2016 revenue by geographic market, is provided below:

	12.31.2017	12.31.2016
Spain	514,649	515,936
Latin America	257	5,815
<b>Total</b>	<b>514,906</b>	<b>521,751</b>

## b) Employee benefits expense and social security costs

	12.31.2017	12.31.2016
Wages and salaries, et al.	35,610	35,814
Termination benefits	1,664	275
Social security	5,541	5,650
Other employee benefits expense	5,643	4,831
Contributions to external pension funds (defined contribution plan) (Note 4.4).	821	799
<b>Total</b>	<b>49,279</b>	<b>47,369</b>

It should be noted that in 2017 a staff adaptation plan was carried out that culminated with the termination agreement of 10 professionals, 3 of them will be dismissed during the first quarter of 2018, but at the end of 2017 they already fulfilled the necessary requirements for their provision among the group of 62 or more years (in 2016, 14 professionals culminated with termination agreements).

	12.31.2017	12.31.2016
Social security costs, et al.:		
-Social security	5,541	5,650
- Contributions to pension plans	2,170	1,570
- Other welfare charges	4,294	4,060
<b>Total</b>	<b>12,005</b>	<b>11,280</b>

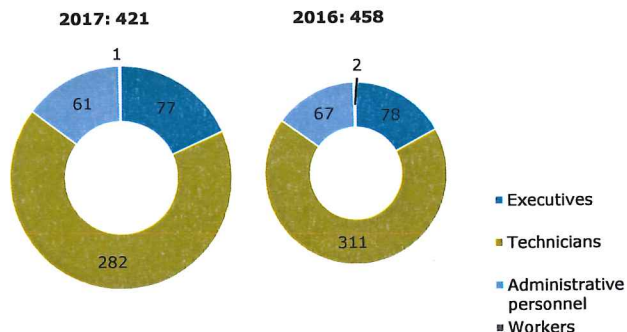
The contributions made by the Company to the pension plan amounted to 821 thousand euros in 2017 (2016: 799 thousand euros), recognized under "Social security costs, et al." included in "Employee benefits expense" of the accompanying income statement. In addition, the amount corresponding to the savings insurance for executives is also included, totaling 1,349 thousand euros (2016: 771 thousand euros).

In accordance with the pension plan contracted and adapted to the Law regulating Pension Plans and Funds, the Company makes contributions to the "Enagás Pension Fund," a defined contribution plan managed by Gestión de Previsión y Pensiones, S.A. The depositary of said plan, which covers commitments acquired by the Company with the affected part of its active personnel, is Banco Bilbao Vizcaya Argentaria, S.A. Said plan recognizes consolidated rights for past services and involves a commitment to make monthly contributions corresponding to an average 3.92% of the portion of salaries paid eligible for said calculation (2016: 4.10%). It is a mixed plan designed to cover both retirement commitments as well as risks relating to disabilities and death of the participants. The total number of plan participants at December 31, 2017 amounts to 299 (2016: 354 participants).

The pension plan contributions made during each year are recognized under "Employee benefits expense" of the income statement. At 2017 and 2016 year end there were no amounts pending payment with respect to this item.

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

The average number of Enagás employees, broken down by professional categories, was as follows:



At December 31, 2017 Company staff is comprised of 338 employees (2016: 449 employees). This development is mainly the result of organizational changes the Company has been through, and which correspond to the transfer of certain organizational units to the Company from Enagás Transporte, S.A.U.

The breakdown by professional category and gender is as follows:

Categories	2017		2016	
	Male	Female	Male	Female
Executives	49	20	57	21
Technicians	106	114	171	134
Administrative personnel	7	41	11	54
Workers	1	-	1	-
<b>Total</b>	<b>163</b>	<b>175</b>	<b>240</b>	<b>209</b>

"Executives" includes senior executive management of Enagás, S.A., comprising eight persons (six men and two women).

In addition, the average number of staff during 2017 and 2016 employed by the Company with disabilities greater than or equal to 33%, broken down by categories, is as follows:

	2017	2016
Executives	-	-
Technicians	2	2
Administrative personnel	1	1
Workers	1	1
<b>Total</b>	<b>4</b>	<b>4</b>

### c) Other operating expenses

	12.31.2017	12.31.2016
External services	(43,144)	(44,168)
Taxes	(158)	(522)
Losses on, impairment of, and changes in trade provisions	154	-
<b>Total</b>	<b>(43,148)</b>	<b>(44,690)</b>

The most significant expenses included under "External services" correspond to repair and upkeep services and independent professional services amounting to 12,857 thousand euros and 7,358 thousand euros, respectively, at December 31, 2017 (2016: 11,864 thousand euros and 7,956 thousand euros, respectively).

## 2.2 Trade and other receivables - non-current and current

### Accounting policies

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

### Loans and receivables

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

## Significant estimates and judgments

- At least at financial year end the Company tests those financial assets not recognized at fair value for impairment. Objective evidence of impairment exists if the recoverable amount of the financial asset is less than its carrying amount. When impairment occurs, it is recognized in the income statement.
  - Specifically, the criteria used by the Company to calculate the corresponding adjustments, if any, consists in recognizing the corresponding provisions in the amount equivalent to the difference between the recoverable amount of the receivables and the carrying amount at which the items are recognized.
- The recoverable amount of the debt is calculated by discounting future estimated cash flows using the effective interest rate applicable at the initial transaction date.
- If, in subsequent periods, the value of the financial asset measured at amortized cost recovers, then the impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the carrying amount had the impairment not been recognized. The reversal is recognized in the income statement for the corresponding year.

The balance recognized under "Trade receivables from group companies and associates" at December 31, 2017 and 2016 is broken down as follows (Note 4.3):

	12.31.2017	12.31.2016
Enagás Internacional, S.L.U.	1,652	5,359
Gasoducto Morelos S.A.P.I. de CV	2,914	2,959
Enagás GTS, S.A.U.	1,384	2,063
Enagás Transporte, S.A.U.	10,308	1,510
Other	1,568	1,589
<b>Total</b>	<b>17,826</b>	<b>13,480</b>

These balances mainly correspond to corporate services rendered by Enagás, S.A. which finalize subsequent to December 31, 2017 and have therefore not been collected yet.

## 2.3 Trade and other payables

### Accounting policies

- Trade and other payables are financial liabilities that do not accrue explicit interest and are recognized at their face value provided the effect of financial discounting is not significant.
- Loans and payables are initially recognized at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortized cost.
- In accordance with the ICAC resolution, when calculating the average payment period for suppliers, the Company considered trade transactions corresponding to the delivery of goods or the rendering of services accrued from the date Law 31/2014, of December 3 took effect.
- Exclusively for purposes of the disclosure requirements established in the ICAC resolution, supplier payments include trade payables corresponding to suppliers of goods and services recognized in "Suppliers," "Suppliers, group companies, and associates" and "Other payables" under current liabilities.
- The average payment period is understood to be the time elapsed from the delivery of goods or rendering of services at the expense of the supplier to the material payment of the transaction.
- The maximum statutory payment period applicable to the Company during 2017 according to Law 3/2004, of December 29, which established measures on combating late payment in commercial transactions, totaled 60 days. Payments meant to settle obligations but which have been withheld due to embargoes, court rulings, administrative proceedings relating to claim settlements or analogous situations dictated by judicial or administrative bodies, were excluded for purposes of the aforementioned calculations.

## Trade and other payables

Trade and other payables	12.31.2017	12.31.2016
Suppliers	12,748	11,300
Suppliers, group companies, and associates	220	318
Employee benefits payable	5,154	1,648
Current income tax liabilities (Note 4.2.a)	15,648	6,418
Other payables to public administrations (Note 4.2.a)	27,240	26,470
<b>Total</b>	<b>61,010</b>	<b>46,154</b>

The balance recognized under "Suppliers" mainly corresponds to the purchase of materials and services rendered for Enagás, S.A., the balancing entries of which are recognized under "External services," "PP&E," and "Intangible assets" of the income statement and balance sheet, respectively.

## Information on average payment periods for suppliers

The disclosures required in the second additional provision of Law 31/2014, of December 3, prepared in accordance with the ICAC resolution of January 29, 2016, are as follows:

Days	2017	2016
Average supplier payment period	39	22
Ratio of payments made	39	22
Ratio of pending payments	38	14

Amount	2017	2016
Total payments made	49,952	53,889
Total pending payments	1,730	2,517

## 2.4 Property, plant, and equipment

### Accounting policies

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated depreciation and any impairment losses.
- Acquisition or production cost includes:
  - The financial expenses related to financing infrastructure projects accrued exclusively during the construction period when the works last for more than one year
  - Employee expenses directly related to work in progress, decreasing the amount recognized under "Employee benefits expenses" (Note 2.1)
- Expenses incurred for remodeling, expansion or improvements are capitalized as an increase in the value of the corresponding assets provided they result in an increase in the capacity or productivity, or prolong the useful life, of said assets, deducting the net carrying amount of any substituted assets. However, periodic maintenance and repair expenses are charged to the income statement for the period in which they are incurred.

- Depreciation is carried out on a straight-line basis once the assets are ready for use, in accordance with the following useful lives:

	Annual rate	Useful life (years)
Buildings	3%-2%	33.33-50
Other technical installations and machinery	12%-5%	8.33-20
Equipment and tools	30%	3.33
Furniture and fixtures	10%	10
Data processing equipment	25%	4
Transport equipment	16%	6.25

### Significant estimates and judgments

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

2017	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Land and buildings	28,309	322	3,342	-	31,973
Plant and machinery	4,715	18	-	-	4,733
Other installations, tools, and furniture	35,005	1,557	30	-	36,592
Prepayments and work in progress	3,148	2,250	(3,372)	-	2,026
<b>Total cost</b>	<b>71,177</b>	<b>4,147</b>	<b>-</b>	<b>-</b>	<b>75,324</b>
Land and buildings	(15,417)	(907)	-	-	(16,324)
Plant and machinery	(3,592)	(440)	-	-	(4,032)
Other installations, tools, and furniture	(30,553)	(1,285)	-	-	(31,838)
Prepayments and work in progress	-	-	-	-	-
<b>Total amortization</b>	<b>(49,562)</b>	<b>(2,632)</b>	<b>-</b>	<b>-</b>	<b>(52,194)</b>
Land and buildings	12,892	(585)	3,342	-	15,649
Plant and machinery	1,123	(422)	-	-	701
Other installations, tools, and furniture	4,452	272	30	-	4,754
Prepayments and work in progress	3,148	2,250	(3,372)	-	2,026
<b>Net carrying amounts - Property, plant, and equipment</b>	<b>21,615</b>	<b>1,515</b>	<b>-</b>	<b>-</b>	<b>23,130</b>

2016	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Land and buildings	27,820	489	-	-	28,309
Plant and machinery	4,715	-	-	-	4,715
Other installations, tools, and furniture	31,771	2,285	949	-	35,005
Prepayments and work in progress	2,114	1,983	(949)	-	3,148
<b>Total cost</b>	<b>66,420</b>	<b>4,757</b>	<b>-</b>	<b>-</b>	<b>71,177</b>
Land and buildings	(14,544)	(873)	-	-	(15,417)
Plant and machinery	(3,146)	(446)	-	-	(3,592)
Other installations, tools, and furniture	(29,130)	(1,423)	-	-	(30,553)
Prepayments and work in progress	-	-	-	-	-
<b>Total amortization</b>	<b>(46,820)</b>	<b>(2,742)</b>	<b>-</b>	<b>-</b>	<b>(49,562)</b>
Land and buildings	13,276	(384)	-	-	12,892
Plant and machinery	1,569	(446)	-	-	1,123
Other installations, tools, and furniture	2,641	862	949	-	4,452
Prepayments and work in progress	2,114	1,983	(949)	-	3,148
<b>Net carrying amounts - Property, plant, and equipment</b>	<b>19,600</b>	<b>2,015</b>	<b>-</b>	<b>-</b>	<b>21,615</b>

At December 31, 2017, the additions under "Land and construction" include 322 thousand euros corresponding to refurbishments for adapting Company Headquarters.

The additions recognized under "Other installations, tools, and furniture" at December 31, 2017 mainly correspond to hardware relating to the "Proyecto Evolución plataforma puesto corporativo" and "Proyecto Actualización cabinas de almacenamiento" and amounting to 667 thousand and 428 thousand euros, respectively.

The transfers recognized under "Land and construction" correspond to the set up of the MOVE project.

The additions recognized under "Prepayments and work in progress" at December 31, 2017 mainly correspond to the "Proyecto Remodelación del Dispatching."

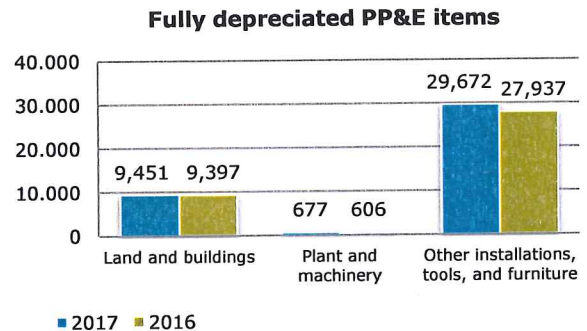
The impact of work performed by the Company on PP&E items represented an increase in investment amounting to 644 thousand euros in 2017 (2016: 658 thousand euros).

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

It is Company policy to insure its assets so that no significant losses on equity may occur, based on best market practices and taking into account the nature and characteristics of the PP&E items.

In addition, the Company has contracted the corresponding insurance policies to cover third party civil liabilities.

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



## 2.5 Intangible assets

### Accounting policies

- As a general rule, intangible assets are measured initially at acquisition or production cost. They are subsequently measured at cost less accumulated amortization and impairment losses, if any.

### Research and development expenses

- Research expenses are capitalized by amortizing 95% of the expenses in the first year and the remaining amount in the following year, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.
- Development expenses are capitalized by amortizing on a straight-line basis over the corresponding useful life, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.

### Software

- Acquisition and development costs incurred with respect to basic IT systems used for management are recognized with a charge to "Intangible assets" in the balance sheet. Maintenance costs of IT systems are recognized in the income statement for the year in which they are incurred. They are measured at the amount disbursed for ownership or right-of-use of IT programs, as well as their production cost if they are developed by the Company. Further, they are amortized over a period of four years.
- Intangible assets with finite useful lives are amortized based on the following amortization rates:

	Annual rate	Useful life
Development costs	5%-50%	20-2
Other intangible assets	20%	5
Computer software	25%	4

2017	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Research and development	10,304	479	-	-	10,783
IT applications	104,172	3,943	-	-	108,115
Other intangible assets	6,724	-	-	-	6,724
<b>Total cost</b>	<b>121,200</b>	<b>4,422</b>	-	-	<b>125,622</b>
Research and development	(10,218)	(446)	-	-	(10,664)
IT applications	(90,063)	(6,612)	-	-	(96,675)
Other intangible assets	(6,663)	(50)	-	-	(6,713)
<b>Total amortization</b>	<b>(106,944)</b>	<b>(7,108)</b>	-	-	<b>(114,052)</b>
Research and development	86	33	-	-	119
IT applications	14,109	(2,669)	-	-	11,440
Other intangible assets	61	(50)	-	-	11
<b>Net carrying amounts - Intangible assets</b>	<b>14,256</b>	<b>(2,686)</b>	-	-	<b>11,570</b>

2016	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Research and development	9,954	350	-	-	10,304
IT applications	99,322	4,850	-	-	104,172
Other intangible assets	6,724	-	-	-	6,724
<b>Total cost</b>	<b>116,000</b>	<b>5,200</b>	-	-	<b>121,200</b>
Research and development	(9,890)	(328)	-	-	(10,218)
IT applications	(82,042)	(8,021)	-	-	(90,063)
Other intangible assets	(6,585)	(78)	-	-	(6,663)
<b>Total amortization</b>	<b>(98,517)</b>	<b>(8,427)</b>	-	-	<b>(106,944)</b>
Research and development	64	22	-	-	86
IT applications	17,280	(3,171)	-	-	14,109
Other intangible assets	139	(78)	-	-	61
<b>Net carrying amounts - Intangible assets</b>	<b>17,483</b>	<b>(3,227)</b>	-	-	<b>14,256</b>

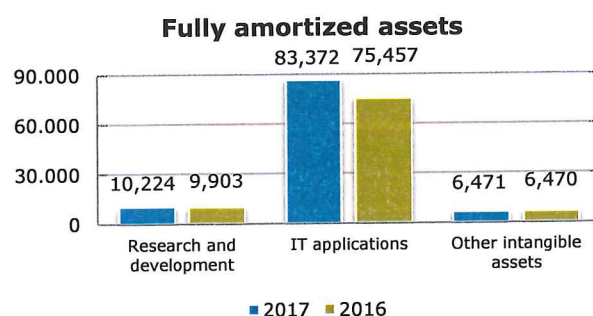
The additions to "Research and Development" during 2017 mainly correspond to the "Proyecto Planta de generación de gas renovable" in the amount of 104 thousand euros, the "Proyecto Estudios rinoanalíticos" in the amount of 123 thousand euros, the "Proyecto Transporte de Hidrógeno en Gasoductos" in the amount of 42 thousand euros, and the "Proyecto Especificaciones para inyección de hidrógeno a la red" in the amount of 34 thousand euros.

The main additions recognized under "IT applications" during 2017 are broken down as follows:

- Software for IT Infrastructure development 2017, in the amount of 564 thousand euros
- Software for critical server updates in the amount of 1,071 thousand euros.
- Software for IT Infrastructure development 2016, in the amount of 540 thousand euros

- Software corporate performance 2017 in the amount of 353 thousand euros.
- Software for improving cash management in the amount of 194 thousand euros

At December 31, 2017 the Company recognized fully amortized intangible assets still in use as shown in the following table:





## 2.6 Impairment of non-financial assets

### Accounting policies

- At year end, or when there are indications of impairment, the Company analyzes the recoverable amounts to determine the possibility of impairment. This recoverable amount is the greater of market value less cost of sales and value in use, that is, the present value of estimated future cash flows. The criteria employed by the Company for calculating the recoverable amounts of PP&E items is that of value in use in the majority of cases.
- Should the recoverable amount be less than the net carrying amount of the asset, a provision is recognized for the impairment loss corresponding to the difference identified, with a charge to "Impairment and gains (losses) on disposal of assets" in the accompanying income statement.

### Significant estimates and judgments

- Determination of impairment losses on non-current assets other than financial assets is based on fulfillment of a series of hypotheses which are described below in this note and are revised annually.
- To estimate value in use, the Company estimates projections regarding pre-tax future cash flows based on the most recent budget forecasts approved by the directors. These budget forecasts are prepared using the best available estimates for income and expenses relating to each item based on sector forecasts, past experience, and future expectations.
- These forecasts cover the cash flows for future years applying reasonable growth rates which never increase from the last year.
- To calculate present value, these cash flows are discounted using a pre-tax rate which corresponds to the business's capital cost. For its calculation, the present value of money is taken into consideration together with the risk premiums generally used by analysts of the business.

During the twelve months of 2017, there were no movements with respect to the provisions which cover impairment losses of assets held by the Company other than those disclosed in the notes to the financial statements.

## 2.7 Leases

### Accounting policies

- Leases are classified as finance leases when, based on the economic terms of the arrangement, all the risks and rewards incidental to ownership of the leased item are substantially transferred to the lessee. All other leases are classified as operating leases.

#### Finance leases

- At December 31, 2017 and 2016 the Company was not party to any finance lease arrangements.

### Operating leases

- When the Company acts as lessee in an operating lease arrangement, lease expenses are recognized in the income statement of the year in which they accrue.
- Any collection or payment that might be made when arranging an operating lease will be treated as advance collection or payment and recognized in the income statement over the lease term as the benefits of the leased asset are provided or received.

The following breakdown shows the minimum lease payments the Company had contracted with the lessors at 2017 and 2016 year end in accordance with the current lease agreements, without considering the effect of shared expenses, future inflation-related adjustments, or contractually agreed rent increases:

Operating leases	Nominal amount	
	2017	2016
Minimum lease payments		
Less than one year	2,323	3,987
Between one and five years	3,824	7,883
More than 5 years	-	-
<b>Total</b>	<b>6,147</b>	<b>11,870</b>

Operating lease and sublease payments and fees recognized as expenses and income, respectively, in 2017 amounted to 3,449 thousand euros (2016: 3,214 thousand euros).

As lessee, the Company's most significant operating lease agreement at 2017 and 2016 year end is for the office building (9,962.50 square meters) in Madrid where its head offices are located. The lease expires on December 31, 2020. With respect to contingent rental payments, the agreement includes annual increases in accordance with CPI.

## 2.8 Provisions and contingent liabilities

### Significant estimates and judgments

- In drawing up the annual financial statements, the Company's directors distinguish between:
  - a) **Provisions:** credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.
  - b) **Contingent liabilities:** possible obligations that arise from past events and whose future materialization depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within the Company's control.
- The annual financial statements recognize all provisions for which it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognized in the annual financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is remote.
- Provisions are measured at the present value of the best estimate possible for the expenditure required to settle or transfer the present obligation based on information available concerning the obligating event and its consequences, while changes in the carrying amounts of provisions from discounting are recognized as a finance expense as accrued.
- The compensation to be received from a third party when an obligation is settled is recognized as a separate asset so long as it is virtually certain that the reimbursement will be received, unless part of the risk has been contractually externalized so that the Company is legally exempt from having to settle, in which case the reimbursement is taken into consideration in estimating the amount of the provision, if any. The policy followed with respect to the recognition of provisions for risks and expenses is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or liabilities, sureties and similar guarantees. They are recognized upon emergence of the liability or obligation determining the indemnity or payment.
- At 2017 year end several legal proceedings and claims which had been filed against the Company were in progress, relating to matters arising in the normal course of its business. Both the Company's legal advisors and its directors consider that the final outcome of the proceedings and claims not recognized in the accompanying financial statements will not have a significant effect on the annual accounts of the years in which they are resolved.

## a) Provisions

The movements during 2017 and 2016 with respect to non-current provisions were as follows:

Non-current provisions	Beginning balance	Amounts provisioned	Reversals	Reclassifications	Closing balance
<b>2017</b>					
Staff remuneration	4,371	1,574	-	(2,953)	2,992
Other liabilities	1,000	-	-	-	1,000
<b>Total non-current provisions</b>	<b>5,371</b>	<b>1,574</b>	<b>-</b>	<b>(2,953)</b>	<b>3,992</b>
<b>2016</b>					
Staff remuneration	-	4,371	-	-	4,371
Other liabilities	1,615	-	(615)	-	1,000
<b>Total non-current provisions</b>	<b>1,615</b>	<b>4,371</b>	<b>(615)</b>	<b>-</b>	<b>5,371</b>

"Staff remuneration" mainly includes the cash portion of the long-term incentive plan (**Note 4.4**) as well as the three-year bonus plan for contribution to results aimed at the remaining staff of the Company.

There no movements under "Other liabilities" during 2017 and the reversal carried out during 2016 in the amount of 615 thousand euros corresponds to obligations mainly arising from litigation and claims.

In January, 2018 a provision has been applied under the heading "Other liabilities" for the amount of 534 thousand euros corresponding to obligations which come from claims and litigation.

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

## b) Contingent liabilities

At December 31, 2017, there were no significant contingencies requiring disclosure in the Company's financial statements.

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

#### Significant matters

##### Financial leverage

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

##### Equity

- Share capital at December 31, 2017 amounted to 358 million euros.
- At December 31, 2017, equity had increased by 14 million euros with respect to the prior year closing, amounting to 2,115 million euros.

With respect to the Company's share capital it is worth noting the following:

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

##### Borrowings

The average annual interest rate during 2017 for the Company's net financial debt amounted to 2.1% (2016: 2.1%).

The main transactions carried out during year were as follows:

- Early cancellation of two loans granted to Enagás, S.A. by the European Bank of Investments with a payment of 275,000 thousand euros.
- Contracting credit lines with Banco Santander in the amount of 235,000 thousand US dollars. At December 31, 2017 the amount drawn down on these credit lines totaled 227,370 thousand US dollars.
- Extension of the multi-currency borrowing facility until December 2022. No amount had been drawn on this financing at December 31, 2017.

##### Available funds

- The Company can avail itself of financing in the amount of 1,559.50 million euros (2016: 1,517.2 million euros) (**Note 3.6**).

##### Derivative financial instruments

- Enagás, S.A. carries out cash flow hedging transactions. At December 31, 2017 the fair value of the derivatives recognized under liabilities amounted to 2,7 million euros (2016: 5,2 million euros) (**Note 3.4**).

### 3.1 Equity

#### a) Share capital

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

All shares of the parent company Enagás, S.A. are listed on the four official Spanish exchanges as well as on the electronic trading market. At the closing of December 29, 2017 the quoted share price was 23.87 euros, having reached a maximum of 26.715 euros per share on June 7.

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

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

Company	Interest in share capital (%)	
	12.31.2017	12.31.2016
Sociedad Estatal de Participaciones Industriales	5.000	5.000
Lazard Asset Management (1)	5.074	0.133
Bank of America Corporation	3.614	3.614
BlackRock Inc.	3.383	2.721
Fidelity International limited	1.906	2.119
State Street Corporation	3.008	1.925
Retail Oeics Aggregate	1.010	1.010

(1) Subsequent to December 31, 2017, Lazard Asset Management informed the CNMV and Enagás, SA that on February 8, 2018, they reduced their participation in the capital of the company, holding 4.63% in the shareholding of Enagas SA

In relation to the movements in the shareholding structure more significant events during the year 2017, according to information posted on the CNMV(\*) to 31 December 2017, between the months of September and December, Lazard Asset Management (5.074%), Blackrock INC (3.383%), State Street Corporation (3.008%) and Fidelity International Limited (1.906%) have reported shareholdings in Enagás.

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

## b) Treasury shares

## d) Unrealized gains (losses) reserve

### Cash flow hedges

Unrealized gains (losses) reserve correspond to derivatives contracted by the Company and designated as cash flow hedges associated with the debt (Note 3.4).

The movements resulting from these transactions during 2017 and 2016 are as follows:

	Beginning balance	Change in value	Taken to profit and loss	Balance at year end
<b>2017</b>				
Cash flow hedges	(3,381)	(337)	2,553	(1,165)
Tax recognized in equity	627	84	(638)	73
<b>Total</b>	<b>(2,754)</b>	<b>(253)</b>	<b>1,915</b>	<b>(1,092)</b>
<b>2016</b>				
Cash flow hedges	(5,129)	(3,627)	5,375	(3,381)
Tax recognized in equity	1,064	907	(1,344)	627
<b>Total</b>	<b>(4,065)</b>	<b>(2,720)</b>	<b>4,031</b>	<b>(2,754)</b>

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

There were no more acquisitions of treasury shares during 2017.

## c) Reserves

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

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

### 3.2 Financial borrowings

#### Accounting policies

- Financial liabilities include loans and payables recognized by the Company that have arisen from the purchase of goods and services in the normal course of the Company's business and those which, while not having commercial substance, cannot be classed as derivative financial instruments.
- Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs.
- Except for derivative financial instruments, financial liabilities are recognized at amortized cost subsequent to their initial measurement.
- Financial liabilities are derecognized when the related contractual obligations are canceled or expire.

Categories	Class		Borrowings					
	Bank borrowings and finance leases		Bonds and other marketable debt securities		Derivatives and other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Non-current borrowings</b>								
Debts and payables	1,138,050	1,199,279	-	-	139	50	1,138,189	1,199,329
Derivatives	-	-	-	-	1,433	2,878	1,433	2,878
<b>Total long-term borrowings</b>	<b>1,138,050</b>	<b>1,199,279</b>	<b>-</b>	<b>-</b>	<b>1,572</b>	<b>2,928</b>	<b>1,139,622</b>	<b>1,202,207</b>
<b>Borrowings</b>								
Debts and payables	152,560	328,337	-	-	3,698	221,150	156,258	549,487
Derivatives	-	-	-	-	1,306	2,268	1,306	2,268
<b>Total short-term borrowings</b>	<b>152,560</b>	<b>328,337</b>	<b>-</b>	<b>-</b>	<b>5,004</b>	<b>223,418</b>	<b>157,564</b>	<b>551,755</b>

The breakdown by maturity of the debts and payables recognized under "Borrowings from credit entities and finance leases," as well as the maturities of derivatives is as follows:

2017	2018	2019	2020	2021	2022 and beyond	Valuation adjustments and/ other transaction costs	Total
Borrowings from credit entities	152,560	332,178	121,742	121,742	568,789	(6,401)	1,290,610
Derivatives	1,306	636	797	-	-	-	2,739
Other	3,698	7	20	20	92	-	3,837
<b>Total</b>	<b>157,564</b>	<b>332,821</b>	<b>122,559</b>	<b>121,762</b>	<b>568,881</b>	<b>(6,401)</b>	<b>1,297,186</b>

2016	2017	2018	2019	2020	2021 and beyond	Valuation adjustments and/ other transaction costs	Total
Borrowings from credit entities	328,337	151,742	141,742	121,742	790,532	(6,479)	1,527,616
Derivatives	2,268	1,371	1,396	111	-	-	5,146
Other	221,150	3	7	7	33	-	221,200
<b>Total</b>	<b>551,755</b>	<b>153,116</b>	<b>143,145</b>	<b>121,860</b>	<b>790,565</b>	<b>(6,479)</b>	<b>1,753,962</b>

## a) Non-current financial liabilities

At December 31, 2017 the Company had contracted credit lines with a limit of 1,696,826 thousand euros, partially drawn down in the amount of 190,435 thousand euros (in 2016 the Company had contracted credit lines up to a limit of 1,500,000 thousand euros, none of which had been drawn down) **(Note 3.6)**.

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

The average interest rate on the Company's net euro-denominated debt in 2017 was 2.1% (2016: 2.1%).

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

- Short-term reclassifications amounting to 251,742 thousand euros.
- The Company has a Credit Facility with Banco Santander at the date of 22 of February for the amount of 235,000 thousand dollars, being willing at 31 December 2017 for the withdrawn amount of 190,435 thousand euros (227,370 thousand dollars).
- With respect to the multi-currency Club Deal borrowing facility, in 2017 the Company formalized the extension of its entire amount to 2022 (1,500,000 thousand euros). No amounts of the financing facility had been drawn during 2017.

## b) Current financial liabilities

The change in 2017 under "Borrowings from credit entities and financial leases" is mainly due to reclassifying non-current items in the amount of 251,742 thousand euros **(Note 3.2.a)** and amortization of loans in the amount of 426,742 thousand euros.

With respect to debentures and other marketable securities, though at December 31, 2017 and 2016, Enagás, S.A. had no related balances, the Company recognizes the Euro Commercial Paper (ECP) program under this heading, amounting to a maximum of 1,000,000 thousand euros, registered at the Irish Stock Exchange in 2011 and renewed on May 12, 2016. The arranger of the program is Banco Santander, S.A., an entity which together with nine more banks acts as a designated dealer. Thus, during 2017, activity mainly reflected bond issues amounting to a nominal value of 88,921 thousand euros (2016: 1,256,500 thousand euros) and maturing instruments amounting to a nominal value of 89,686 thousand euros (2016: 1,486,500 thousand euros).

Enagás, S.A. did not renew this program during 2017.

On May 4, 2017, Enagás Financiaciones S.A.U. registered the Euro Commercial Paper program at the Irish Stock Exchange for a maximum amount of 1,000,000 thousand euros, with Enagás, S.A. acting as guarantor.

At December 31, 2016, "Other financial liabilities" included the amount relating to guarantees in connection with the GSP project, which were executed during the month of January 2017.

## c) Borrowings from group companies

	Long term		Short term	
	2017	2016	2017	2016
Enagás Financiaciones, S.A.U.	1,389,922	1,145,312	34,806	502,121
Enagás Internacional, S.L.U.	207,102	-	17,262	12,809
Enagás GTS, S.A.U.	-	-	183	146
Others	-	-	160	-
<b>Total</b>	<b>1,597,024</b>	<b>1,145,312</b>	<b>52,411</b>	<b>515,076</b>

The average rate in 2017 for the corresponding loans amounted to 2.8% (2016: 2.8%).

The most noteworthy significant changes in borrowings from group companies are as follows:

- The loan granted by Enagás Financiaciones, S.A.U. in 2017, amounting to 241,000 thousand euros.
- Likewise, the Company recognized an account payable by Enagás Internacional amounting to 230,550 thousand euros (275,265 thousand dollars) relating to restoration of the share capital invested in GSP by said company, given that Enagás S.A. is the titleholder of the credit ceded by the Odebrecht Group, which will permit recovery of the investment in GSP share capital, as disclosed in **Note 1.4.c**. The total financially discounted amount sums to 207,102 thousand euros over a 4-year period.
- The balances of items recognized under "Current borrowings from group companies and jointly-controlled entities" at 2017 and 2016 year end are broken down as follows:

The balance of interest and loans granted in the short term to the company Enagás, S.A. by other companies in the group.

Debts with companies of the Tax Group as a Parent Company for the amount of 32,609 thousand euros (22,974 thousand euros in 2016), corresponding mainly to the amounts of 15,004, 183 and 17,262 thousand euros with the Enagás Financing companies, SAU, Enagás GTS, SAU and Enagás Internacional, S.L.U., respectively, for this concept, as of December 31, 2017 (10,019, 146 and 12,809 thousand euros, respectively, as of December 31, 2016). Once the definitive declaration of the 2016 Corporate Tax has been presented, Enagás, S.A. paid the account payable for Corporation Tax to the corresponding group companies belonging to the tax consolidated amount of 23,673 thousand euros (17,852 thousand euros in 2016 for the 2015 Corporate Tax) **(Note 4.2.a)**.

The change in non-current loans granted by Enagás Financiaciones, S.A.U. to Enagás, S.A. mainly correspond to the amortization of principal in the amount of 467,700 thousand euros.

The breakdown by maturity is as follows:

2017	2018	2019	2020	2021	2022 and beyond	Valuation adjustments and/ other transaction costs	Total
Loans and other payables	52,411	-	-	10,000	1,605,211	(18,187)	1,649,435
<b>Total</b>	<b>52,411</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>1,605,211</b>	<b>(18,187)</b>	<b>1,649,435</b>

2016	2017	2018	2019	2020	2021 and beyond	Valuation adjustments and/ other transaction costs	Total
Loans and other payables	515,076	-	-	-	1.167.108	(21.796)	1.660.388
<b>Total</b>	<b>515,076</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.167.108</b>	<b>(21.796)</b>	<b>1.660.388</b>

### 3.3 Net financial result

	2017	2016
Finance income	8,620	159
<b>Finance income</b>	<b>8,620</b>	<b>159</b>
Finance and similar expenses	(17,849)	(13,983)
Loan interest	(65,714)	(74,914)
<b>Finance expenses</b>	<b>(83,563)</b>	<b>(88,897)</b>
<b>Exchange gains (losses)</b>	<b>1,657</b>	<b>53</b>
<b>Impairment and gains (losses) on disposal of financial instruments</b>	<b>-</b>	<b>(765)</b>
<b>Net finance cost</b>	<b>(73,286)</b>	<b>(89,450)</b>

It is worth noting that the loan interest expenses were calculated by applying the effective interest rate method.

In addition, the financial result includes the financial discount of the credit for the recovery in four years of the guarantees provided by the company in favor of GSP, as well as of the net equity and the account payable with Enagás, S.L.U., the net effect has been a expense amounting to 8,251 thousand euros. The detail of this effect is the following:

- The financial update of the credit for the guarantees and the updating of the investment has supposed an expense registered as "financial expenses and assimilated" amounting 16,451 thousand euros (13,285 thousand euros in 2016 only from the warranties).

Similarly, finance income includes the financial discounting of the account payable to Enagás Internacional, S.L.U. in connection with ceding the accounts receivable from GSP in the amount of 8,200 thousand euros.

The heading "Impairment losses and gains (losses) on disposal of financial instruments" at December 31, 2016 included 765 thousand euros corresponding to the impairment allowance recognized during 2016 and relating to impairment of the loan granted to the Fundación Instituto Petrofísico in the same amount as said entity is currently undergoing bankruptcy proceedings.

### 3.4 Derivative financial instruments

#### Accounting policies

- The Company uses financial derivatives to hedge against the risks to which its activities, operations, and projected cash flows are exposed. As part of this policy, the Company has contracted interest rate swaps in market conditions and does not use derivative financial instruments for speculative purposes.
- For these derivative financial instruments to qualify as hedges, they are initially designated as such, documenting the hedging relationship as well as the risk management objective and hedging strategy for the various transactions hedged. In addition, the Company periodically assesses the effectiveness of its hedges from inception to derecognition/discontinuation (and at least at every close). Hedges are deemed effective if it is expected, prospectively, that the changes in fair value or cash flows from the hedged item (attributable to the hedged



risk) are almost entirely offset by the changes in the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

- All derivative financial instruments are measured, both initially and subsequently, at fair value. The differences in fair value are recognized in the income statement except in the case of specific treatment under hedge accounting.
- The Company applies cash flow hedges so that the changes in the fair value of derivatives are recognized, to the extent said hedges are effective and net of their tax effects, under "Equity - Unrealized gains (loss) reserve - Hedging transactions." Accumulated gains or losses under said heading are taken to

the income statement in the same period in which the hedged item affects results when liquidated. The results corresponding to the ineffective portion of the hedges are directly recognized in the income statement as finance income or expense.

- Hedge accounting is discontinued when the hedging instrument expires, or when it is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the year.

### Significant estimates

- The Company calculates credit risk in the valuation of derivatives. This adoption requires an adjustment in the valuation techniques of the Company to obtain the fair value of its derivatives. The Company incorporates a bilateral credit risk adjustment with the objective of reflecting both its own risk and that of the counterparty in the fair value of the derivatives.
- The inputs applied to the obtaining of credit risk and counterparty (determination of the probability of default) are mainly based on the application of their own or credit spreads of comparable companies currently traded on the market (curves of CDS, TIR debt issues). In the absence of their own or credit spreads of comparable companies, and with the objective of maximizing.

The use of relevant observable variables have been used the references listed companies that have been identified as the most appropriate on a case-by-case basis (credit spread rates quoted). For counterparties with credit information available, the spreads of credit used are obtained from the Credit Default Swap (CDS) listed in the market.

In addition to the adjustment of the fair value of the credit risk have been taken into consideration the credit enhancements relating to the guarantees or collateral in determining the severity rate to apply for each one of the positions. The severity is considered only in time. In the case of the absence of credit enhancements relating to guarantees or collateral applies a minimum rate of recovery of 40%.

Category	Classification	Type	Amount contracted	Maturity	Fair value at 12.31.17		Fair value at 12.31.16	
					Assets	Liabilities	Assets	Liabilities
Interest rate swap	Cash flow hedges	Variable to fixed	475,000	January 2017	-	-	-	(681)
Interest rate swap	Cash flow hedges	Variable to fixed	100,000	May 2017	-	-	-	(217)
Interest rate swap	Cash flow hedges	Variable to fixed	150,000	December 2019	-	(1,250)	-	(1,992)
Interest rate swap	Cash flow hedges	Variable to fixed	150,000	January 2020	-	(767)	-	(1,270)
Interest rate swap	Cash flow hedges	Variable to fixed	65,000	March 2020	-	(722)	-	(986)
<b>Total</b>			<b>940,000</b>		-	<b>(2,739)</b>	-	<b>(5,146)</b>

No new hedging transactions were carried out during 2017.

## a) Cash flow hedges

With respect to cash flow hedges, the breakdown at December 31, 2017 and 2016 by period in which the related cash flows will arise is as follows:

Amount contracted	Currency	Maturity	Total	2018	2019	2020 and beyond
150,000	Euros	December 2019	1,250	615	635	-
150,000	Euros	January 2020	767	373	270	124
65,000	Euros	March 2020	722	318	274	130
<b>940,000</b>			<b>2,739</b>	<b>1,306</b>	<b>1,179</b>	<b>254</b>

Amount contracted	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	655	655	682
150,000	Euros	January 2020	1,270	414	414	442
65,000	Euros	March 2020	986	301	301	384
<b>940,000</b>			<b>5,146</b>	<b>2,268</b>	<b>1,370</b>	<b>1,508</b>

## 3.5 Financial risk and capital management

### a) Qualitative information

Enagás S.A. is exposed to certain risks which it manages with a risk control and management model established on a group level. The model is directed towards guaranteeing achievement of the Company's objectives in a predictable manner with a medium-low risk profile.

This model can adapt itself to the complexity of the Company's corporate activity in a competitive global environment and a complex economic context in which risk can materialize more quickly and the danger of contagion is evident.

The model is based on the following:

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

The integrated analysis of all risks allows for their adequate control and management, understanding the relationship amongst them and facilitating their overall assessment. Enagás has established a regulatory framework through its "Risk control and management policy" and "General risk control and management standards,"

which define the basic principles to be applied and identify the responsibilities of the different departments of the Company.

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

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

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

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

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

### Credit risk

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

Credit risk in connection with trade receivables is historically very limited as the Company mainly operates with Group companies (Note 3.2.c).

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

### Interest rate risk

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

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

Based on the Company's estimates and debt structure targets, hedges are put in place using derivatives that reduce these risks (Note 3.4).

### Foreign currency risk

Changes in exchange rates can affect the debt positions denominated in foreign currency. The Company manages the exchange rate risk through natural hedges which consist in the contracting of financial instruments in the same currency as that in which the investment was made of (Note 4.1).

### Liquidity risk

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

The liquidity policy followed by the Company is oriented towards ensuring that all short-term payment commitments acquired are fully met without having to secure funds under burdensome terms.

For this purpose, different management measures are taken such as maintenance of credit facilities ensuring flexibility, sufficient amounts and sufficient maturities, diversified sourcing for financing needs via access to different markets and geographical areas, as well as the diversification of maturities in debt issued.

### Tax risk

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

### Other risks

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

## b) Quantitative information

### Interest rate risk

	12.31.2017	12.31.2016
Percentage of financial debt referenced at protected rates	66%	84%

Taking into account these percentages of net financial debt at fixed rates, and after performing a sensitivity analysis using a range of +0.25/-0.10% changes in market interest rates, the Company considers that according to its estimates the impact on results of such variations in finance costs of variable rate debt could be as follows:

	Interest rate change			
	2017		2016	
	25 basis points	-10 basis points	25 basis points	-10 basis points
Change in finance costs	2,441	(976)	1,247	(499)

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

### c) Capital management

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

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

The financial leverage of the Enagás Group at December 31, 2017 and 2016 (consolidated figures) is broken down as follows:

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

	2017	2016
Net financial debt	5,007,703	5,088,703
Equity	2,585,639	2,373,681
<b>Leverage Ratio</b>	<b>65.9%</b>	<b>68.2%</b>

In this manner, Enagás, S.A. has shown its financial soundness, as confirmed by various rating agencies. The credit rating agency Standard & Poor's maintained the long-term rating it issued for Enagás, S.A. at "A-" with a negative prognosis at December 31, 2017. In addition, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2017 with a stable prognosis.

### 3.6 Cash flows

#### Accounting policies

- Cash equivalents are considered to include those liquid financial assets, deposits, and liquid financial investments, which can be converted into a determinable cash amount within a period of less than 3 months and for which the risk of a change in value is of little significance.

#### a) Cash and cash equivalents

	2017	2016
Cash	53,129	17,240
<b>Total</b>	<b>53,129</b>	<b>17,240</b>

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

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

#### b) Available funds

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

	2017	2016
Cash and cash equivalents	53,129	17,240
Other available funds	1,506,391	1,500,000
<b>Total</b>	<b>1,559,520</b>	<b>1,517,240</b>

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

## 4. Additional information

### Significant matters

#### Investment properties

- Enagás, S.A. owns a plot of land located at km. 18 of the A-6 in Las Rozas (Madrid), classified as a property investment as it is being held to obtain capital gains from its sale.
- The market value of this plot at December 31, 2017 amounts to 19.6 million euros. Said valuation was carried out by an independent appraiser in accordance with the standards established in the Regulations of the Royal Institute of Chartered surveyors (**Note 4.1.a**).

#### Remuneration for Board of Directors and Senior Management

- Remuneration for the Board of Directors, without taking into account the insurance premiums, amounted to 2,215 thousand euros (2016: 2,121 thousand euros) (**Note 4.4**).
- Remuneration for Senior Management, without taking into account the pension plans and insurance premiums, amounted to 2,402 thousand euros (2016: 2,077 thousand euros) (**Note 4.4**).

### 4.1 Information on other balance sheet items

#### Accounting policies

##### Investment properties

- The cost model is applied for measuring investment property, that is, the corresponding assets are measured at acquisition cost less the corresponding accumulated depreciation and any impairment losses. However, as this heading only includes one plot of land not currently in use, it was measured at its recoverable amount, calculated as the fair value less the necessary costs for its sale.

##### Balances denominated in foreign currency

- The Company's functional currency is the euro. Thus, transactions involving other currencies are recorded at the rates of exchange prevailing on the transaction dates.
- At year end, monetary assets and liabilities denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. Profits or losses arising upon updating these balances are recognized directly in the income statement of the year in which they occur.

#### Significant estimates

- Market valuations carried out by the independent expert were carried out in accordance with the standards established in the Regulations of the Royal Institute of Chartered Surveyors ("RICS") and can be found in the so-called "Red Book" - Valuations Manual (RICS Valuation - Professional Standards,

January 2014). Said market valuations defined by RICS are internationally recognized by advisors and accountants providing services for investors and corporations that own investment properties, as well as by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

#### a) Investment properties

	Balance at Thursday, December 31, 2015	Impairment allowances 2016	Balance at Saturday, December 31, 2016	Impairment allowances 2017	Balance at Sunday, December 31, 2017
Cost	47,211	-	47,211	-	47,211
Impairment	(22,241)	(70)	(22,311)	(5,290)	(27,601)
<b>Net carrying amount</b>	<b>24,970</b>	<b>(70)</b>	<b>24,900</b>	<b>(5,290)</b>	<b>19,610</b>

- Corresponds entirely to a plot of land located at km. 18 of the A-6 in Las Rozas (Madrid) which is maintained to obtain capital gains from its sale as a consequence of future increases in corresponding market prices. At December 31, 2017, Jones Lang LaSalle España, S.A. issued a valuation report dated January 2, 2017, which concluded that the recoverable amount of the plot at that date amounted to 19,610 thousand euros (2016: 24,900 thousand euros).
- There are no mortgages or encumbrances of any type on the investment properties.
- It is Company policy to insure its assets so that no significant losses on equity may occur, based on the best market practices and taking into account the nature and characteristics of the investment properties. In addition, the Company has contracted the corresponding insurance policies to cover third party civil liabilities.

## b) Balances denominated in foreign currency

The breakdown of the most significant balances in foreign currencies, recognized at the spot rate prevailing at year end, is as follows:

	2017	2016
Loans to third parties	382,013	207,865
Loans to Group companies	-	473
Borrowings from Group companies	208,755	-
Borrowings from credit entities	190,436	-
Other current financial liabilities	3,695	221,150

The exchange gains (losses) recognized in the income statement by type of financial instrument is as follows:

	By transactions settled during the period		By balances pending maturity		Total	
	2017	2016	2017	2016	2017	2016
Loans to Group companies	24	-	-	(199)	24	(199)
Borrowings from Group companies	7,077	-	1,653	99	8,730	99
Other exchange gains (losses)	3,495	153	(10,592)	-	(7,097)	153
<b>Total</b>	<b>10,596</b>	<b>153</b>	<b>(8,939)</b>	<b>(100)</b>	<b>1,657</b>	<b>53</b>

## 4.2 Tax matters

### Accounting policies

- Income tax payable or receivable comprises the current tax payable or receivable as well as the deferred tax expense or income.
- Current tax is the amount of income taxes payable (recoverable) by the Company in respect of the taxable profit (tax loss) for the year. Deductions in the tax rate and other tax advantages, excluding withholdings and payments on account, together with tax loss carryforwards from prior years effectively applied in this period, reduce the amount of corporate income tax payable.
- Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the carrying amounts of assets and liabilities and their tax bases, as well as any unused tax loss carryforwards and unused tax credits. These amounts are measured by applying the tax rate to the corresponding temporary differences or tax credits at which they are expected to be realized or settled.
- Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).
- Deferred tax assets are only recognized when the Company considers it probable that future taxable profit will be available against which these assets may be utilized.
- Deferred tax assets and liabilities relating to transactions charged or credited directly to equity are also recognized in equity with a balancing entry.
- Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. In addition, at the end of each reporting period, unrecognized deferred tax assets are analyzed and recognized to the extent that it has become probable that future taxable profit will allow them to be recovered.

### Significant estimates

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

### a) Current balances with public administrations

	2017	2016
<b>Credit balances</b>		
<b>Deferred tax assets</b>	<b>12,159</b>	<b>9,136</b>
<b>Current balances with public administrations</b>	<b>13</b>	<b>301</b>
Taxes receivable from the Treasury	-	158
VAT receivable from the Treasury	13	143
<b>Debit balances</b>		
<b>Deferred tax liabilities</b>	<b>3,555</b>	<b>1,554</b>
<b>Current balances with the Treasury</b>	<b>42,888</b>	<b>32,888</b>
Amounts payable to the Treasury for withholdings	25,642	24,904
Corporation tax payable	15,648	6,418
VAT payable	1,331	1,013
Payable to Social Security	267	553

During 2017, Enagás, S.A. paid 96,294 thousand euros on account in connection with the 2017 corporate income tax (2016: 105,502 thousand euros), corresponding to the Tax Group for which Enagás, S.A. acts as parent.

At December 31, 2017 and 2016 the balance for corporate income tax payable to the tax authorities corresponds to the account payable relating to the Tax Group for the years 2017 and 2016.

In addition, given that Enagás, S.A. acts as parent of the Tax Group, as it is said in **Note 4.2.b** For these purposes the Society maintains debtor and creditor balances for the Corporation Tax with the various subsidiaries of the Tax Group. During 2017 the Company settled related balances with the remaining companies belonging to the Tax Group in connection with the 2016 tax returns.

Specifically, it collected 143,960 thousand euros, an amount recognized at 2016 year end under current loans to group companies and jointly controlled entities (**Note 1.4**), and paid 23,674 thousand euros, recognized at 2016 year end under current borrowings from Group companies and jointly controlled entities (**Note 2.3**).

### b) Tax returns

From January 1, 2013, Enagás S.A. is the parent company of the Fiscal Consolidated Group 493/12 for Corporate Tax, with subsidiaries as of December 31, 2017:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.
- Compañía Transportista de Gas Canarias, S.A.
- Enagás Emprende, S.L.U.
- Scale Gas Solutions, S.L. (March 21, 2017)
- Efficiency for LNF Applications, S.L. (March 21, 2017)
- Gas to move Transport Solutions, S.L. (December 19, 2017)
- Infraestructuras de Gas, S.A. (January 1, 2017)

This means the joint determination of the Group's tax results, as well as the deductions and tax rebates applied. Corporation tax is calculated based on income or accounting results, obtained by applying generally accepted accounting principles, which do not necessarily agree with tax results, considered to be taxable income.

**c) Reconciliation of accounting profit (loss) with taxable income**

	Income statement					
	2017			2016		
	Increases	Decreases	Total	Increases	Decreases	Total
<b>Pre-tax accounting profit</b>	<b>336,349</b>	<b>-</b>	<b>336,349</b>	<b>331,596</b>	<b>-</b>	<b>331,596</b>
<b>Permanent differences:</b>	<b>517</b>	<b>(390,000)</b>	<b>(389,483)</b>	<b>1,011</b>	<b>(370,369)</b>	<b>(369,358)</b>
Donations	477	-	477	1,011	-	1,011
Exemption of dividends	-	(390,000)	(390,000)	-	(370,000)	(370,000)
Other	40	-	40	-	(369)	(369)
<b>Temporary differences:</b>	<b>19,139</b>	<b>(9,652)</b>	<b>9,487</b>	<b>7,396</b>	<b>(2,913)</b>	<b>4,483</b>
Arising in 2006						
Provisions for employee benefits	4,981	-	4,981	6,671	-	6,671
Fixed asset provisions	5,290	-	5,290	70	-	70
Other	8,211	(8,671)	(460)	11	(803)	(792)
Arising in prior years:						
Limited deduction for amortization/depreciation R.D.L. 2012/16	-	(981)	(981)	-	(981)	(981)
Accelerated amortization/depreciation Law 4/2008, 13/2010	434	-	434	434	-	434
Other	223	-	223	210	(1,129)	(919)
<b>Taxable income</b>	<b>356,005</b>	<b>(399,652)</b>	<b>(43,647)</b>	<b>340,003</b>	<b>(373,282)</b>	<b>(33,279)</b>

**d) Tax recognized in equity**

	2017			2016		
	Increases	Decreases	Total	Increases	Decreases	Total
<b>Deferred tax:</b>						
Arising in 2006						
Measurement of other financial assets (Note 3.1.d)	84	(638)	(554)	907	(1,344)	(437)
<b>Total deferred tax</b>	<b>84</b>	<b>(638)</b>	<b>(554)</b>	<b>907</b>	<b>(1,344)</b>	<b>(437)</b>
<b>Total tax recognised directly in equity</b>	<b>84</b>	<b>(638)</b>	<b>(554)</b>	<b>907</b>	<b>(1,344)</b>	<b>(437)</b>

**e) Reconciliation between accounting profit (loss) and tax expense (income)**

	2017	2016
<b>Pre-tax accounting profit</b>	<b>336,349</b>	<b>331,596</b>
25% tax rate	84,087	82,899
<b>Effect of permanent differences</b>	<b>(97,371)</b>	<b>(92,340)</b>
<b>Deductions:</b>	<b>(251)</b>	<b>(920)</b>
Due to limits on deductible amortization/depreciation	(49)	(49)
Due to investments in R&D&I	-	(505)
Due to donations	(202)	(366)
<b>Adjustments in income tax rate</b>	<b>430</b>	<b>(349)</b>
<b>Total income tax expense reported in the income statement</b>	<b>(13,105)</b>	<b>(10,710)</b>



## f) Years open to tax inspections

In accordance with prevailing legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.

In March 2017 the Spanish tax authorities initiated general verification and inspection processes with respect to Enagás, S.A. tax returns. The years and taxes subject to this process correspond to the corporate income tax for 2013 to 2015, VAT for 2013 to 2015, withholdings/payments on account with respect to tax on income from professional work, property taxes, and taxes levied on non-residents for 2013 to 2015.

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

Likewise, at 2017 year end, the inspections for 2016 and 2017 are pending with respect to applicable taxes.

## g) Deferred tax assets and liabilities

	2017	2016
<b>Deferred tax assets:</b>		
<b>Temporary differences (deferred tax assets):</b>	<b>11,816</b>	<b>8,744</b>
Provision for remuneration (1)	6,049	5,553
Provision for litigation	250	250
Derivatives	374	928
Limited deduction for amortization/depreciation R.D.L. 16/2012 (2)	1,718	1,963
Other (3)	3,425	50
<b>Pending deductions and other (4)</b>	<b>343</b>	<b>392</b>
<b>Total deferred tax assets</b>	<b>12,159</b>	<b>9,136</b>
<b>Deferred tax liabilities:</b>		
Accelerated depreciation/amortization (5)	(359)	(468)
Margin engineering services	(1,073)	(989)
Other	(2,123)	(97)
<b>Total deferred tax liabilities</b>	<b>(3,555)</b>	<b>(1,554)</b>

- (1) These temporary differences correspond to the employee benefits expenses relating to the long-term incentive plan, recognized in this period in accordance with article 14 of the Spanish Corporate Income Tax Law, and which will be deductible as soon as share delivery or cash payment occurs, thus giving rise to a deferred tax asset in 2017.
- (2) Arises from the limitation to tax deductible amortization/depreciation with respect to the corporate income tax for the years 2013 and 2014. Said amortization/depreciation is deductible from 2015 on a straight line basis over 10 years or optionally, over the useful life of the corresponding asset. The Company decided to apply the deferred tax asset on a straight-line basis over a period of 10 years.
- (3) This mainly relates to the temporary differences arising in connection with recognition of impairment on property investments during 2017 (Note 4.1), which generated a deferred tax asset.
- (4) In addition, it includes the deduction to be applied from 2015 in accordance with the thirty-seventh transitory provision of Law 27/2014, by virtue of which those contributors for whom limited amortization/depreciation was applicable in 2013 and 2014 will have the right to a 5% deduction of the tax base with respect to the amounts included in the taxable income for the corresponding period.
- (5) Arising from application of accelerated amortization/depreciation of certain assets for tax purposes during the period 2009-2012.

The Company has recognized all significant deferred tax assets in the accompanying balance sheet.

### 4.3 Transactions and balances with related parties

#### Accounting policies

- In addition to subsidiaries, associates, and jointly controlled entities, the Company's "related parties" are considered to include "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control as established in CNMV Order EHA/3050/2004, of September 15, and Circular 1/2008, of January 30 (CNMV - Spanish Securities Exchange Commission).
- The terms of all transactions carried out by the Company with related parties are equivalent to those made on an arm's length basis and the corresponding remuneration in kind has been recorded. In addition, given that transfer prices are adequately supported, the Company's directors consider that there are no significant related risks that could lead to significant liabilities in the future.

Income and expenses	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	Total
<b>2017</b>					
<b>Expenses:</b>					
Finance expenses	-	-	49,452	20,105	<b>69,557</b>
Receipt of services	-	-	1,913	-	<b>1,913</b>
Other expenses	139	1,842	-	15	<b>1,996</b>
<b>Total Expenses</b>	<b>139</b>	<b>1,842</b>	<b>51,365</b>	<b>20,120</b>	<b>73,466</b>
<b>Income:</b>					
Finance income	-	-	47,133	-	<b>47,133</b>
Dividends received	-	-	390,000	-	<b>390,000</b>
Rendering of services	-	-	85,973	-	<b>85,973</b>
Other income	-	-	73	-	<b>73</b>
<b>Total income</b>	<b>-</b>	<b>-</b>	<b>523,179</b>	<b>-</b>	<b>523,179</b>
<b>2016</b>					
<b>Expenses:</b>					
Finance expenses	-	-	53,262	15,732	<b>68,994</b>
Receipt of services	-	-	1,492	-	<b>1,492</b>
Other expenses	128	1,630	-	-	<b>1,758</b>
<b>Total Expenses</b>	<b>128</b>	<b>1,630</b>	<b>54,754</b>	<b>15,732</b>	<b>72,244</b>
<b>Income:</b>					
Finance income	-	-	54,946	4	<b>54,950</b>
Dividends received	-	-	370,000	-	<b>370,000</b>
Rendering of services	-	-	96,801	-	<b>96,801</b>
Other income	-	-	312	-	<b>312</b>
<b>Total income</b>	<b>-</b>	<b>-</b>	<b>522,059</b>	<b>4</b>	<b>522,063</b>

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
<b>2017</b>				
Guarantees for related party debts	-	3,473,179	-	<b>3,473,179</b>
Guarantees granted - other	-	13,499	130,212	<b>143,711</b>
Dividends and other earnings distributed	58,624	-	-	<b>58,624</b>
<b>2016</b>				
Guarantees for related party debts	-	4,187,829	-	<b>4,187,829</b>
Guarantees granted - other	-	14,587	144,175	<b>158,762</b>
Dividends and other earnings distributed	30,970	-	-	<b>30,970</b>

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

Of the transactions disclosed in the above table, 3,654 thousand euros of finance expenses correspond to this entity for 2017 (2016: 2,447 thousand euros), including finance expenses arising out of the interest rate hedging contracts, and 130,212 thousand euros of guarantees and sureties granted at

The breakdown of balances with related parties is as follows:

December 31, 2017 (2016: 144,175 thousand euros).

In addition, the Company arranged financing via a multi-currency club deal, which it had not made use of at December 31, 2017. In this transaction, the related party represents 9.63% of all the banks participating in this financing source.

Balances	2017			2016		
	Group employees, companies or entities	Other related parties	Total	Group employees, companies or entities	Other related parties	Total
Non-current equity instruments	2,347,456	-	<b>2,347,456</b>	2,344,430	-	<b>2,344,430</b>
Finance arrangements: credit facilities and capital contributions (lender)	-					
Long-term loans to Group companies	1,704,306	-	<b>1,704,306</b>	1,956,522	-	<b>1,956,522</b>
Other financial assets	-	382,013	<b>382,013</b>	-	207,865	<b>207,865</b>
Current loans to companies	160,085	-	<b>160,085</b>	808,881	-	<b>808,881</b>
Receivables relating to short-term consolidated income tax	155,599	-	<b>155,599</b>	144,164	-	<b>144,164</b>
Dividends and other benefits received in the short term	240,000	-	<b>240,000</b>	-	-	-
Trade receivables	17,826	-	<b>17,826</b>	13,480	-	<b>13,480</b>
Finance arrangements: loans and capital contributions (borrower)	-					
Non-current borrowings	1,597,024	-	<b>1,597,024</b>	1,145,312	-	<b>1,145,312</b>
Borrowings	19,802	-	<b>19,802</b>	492,102	-	<b>492,102</b>
Payables relating to short-term consolidated income tax	32,609	-	<b>32,609</b>	22,974	-	<b>22,974</b>
Trade payables	220	-	<b>220</b>	318	-	<b>318</b>

#### 4.4 Remuneration for the Board of Directors and Senior Management

##### Accounting policies

##### Share-based payments

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

##### Significant estimates and judgments

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

Remuneration received	Salaries	Attendance fees	Other items	Pension plans	Insurance premiums
<b>2017</b>					
Board of Directors	2,215	1,844	161	-	21
Senior management	2,402	-	98	49	17
<b>Total</b>	<b>4,617</b>	<b>1,844</b>	<b>259</b>	<b>49</b>	<b>38</b>
<b>2016</b>					
Board of Directors	2,121	1,630	206	-	111
Senior management	2,077	-	103	46	41
<b>Total</b>	<b>4,198</b>	<b>1,630</b>	<b>309</b>	<b>46</b>	<b>152</b>

Remuneration received by members of the Board of Directors for Board membership and remuneration corresponding to the Executive Chairman and CEO for exercising their executive functions during 2017 was approved in detail by the shareholders in general meeting on 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 incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 97,455 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

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

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 18 March 2016 under agenda item number 8. As approved by the shareholders in general meeting, the Board has assigned them a total of 76,466 performance shares or rights relating to shares as well as an incentive in cash amounting to 701 thousand euros. Said rights do not at present constitute acquisition of shares or collection of any amounts until the program has finalized, the final bonus depending on the degree to which the program objectives have been met.

Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2017, 419 thousand euros correspond to Executive Directors and 546 thousand euros to Senior Management.

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

Board Members	2017	2016
Mr. Antonio Llardén Carratalá, (Executive Director) (1)	1,793	1,839
Mr. Marcelino Oreja Arburúa (CEO) (2)	818	693
Sociedad Estatal de Participaciones Industriales (Proprietary Director) (4)	140	127
Mr. Luis García del Río (Independent Director) (3)(4)	98	-
Mr. Ramón Pérez Simarro (Independent Director) (3)(4)	37	126
Mr. Martí Parellada Sabata (External Director) (4)	148	142
Mr. Luis Javier Navarro Vigil (External Director) (4)	144	126
Mr. Jesús Máximo Pedrosa Ortega (Proprietary Director) (4)	144	126
Ms. Rosa Rodríguez Díaz (Independent Director) (4)	144	127
Ms. Ana Palacio Vallelersundi (Independent Director) (4)	166	133
Ms. Isabel Tocino Biscalorasaga (Independent Coordinator Director) (4)	157	139
Mr. Antonio Hernández Mancha (Independent Director) (4)	144	126
Mr. Luis Valero Artola (Independent Director) (4)	144	127
Mr. Gonzalo Solana González (Independent Director) (4)	144	57
<b>Total</b>	<b>4,221</b>	<b>3,888</b>

- (1) The remuneration for the Executive Chairman in 2017 was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2017, the Executive Chairman received fixed remuneration in the amount of 1,000 thousand euros and variable remuneration in the amount of 540 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 135 thousand euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without their having been any additional items included in the remuneration). Thus, the combined amounts totaled 1,793 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 20 thousand euros for the period. The Group has outsourced its pension commitments with respect to its executives through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death, and employment disability. The Executive Chairman is one of the beneficiaries covered by this policy, and of the total premium paid during the year, 252 thousand euros correspond to the Executive Chairman. The Executive Chairman is beneficiary of the long-term incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 69,711 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.
- (2) The remuneration for the CEO in 2016 was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2017, the CEO received fixed remuneration in the amount of 460 thousand euros and variable remuneration in the amount of 215 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 26 thousand euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totaled 818 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.2 thousand euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 90 thousand euros for the period. In addition, the CEO is beneficiary of the long-term incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 27,744 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.
- (3) On March 31, 2017 Mr. Ramón Pérez Simarro resigned as director and Mr. Luis García del Río occupied his position.
- (4) The remuneration for these directors relating to Board and committee membership was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018."

## Share-based payments

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

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

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

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. As established in consultation no. 7 of BOICAC nº 75/2008, the portion to be settled in Enagás, S.A. shares is considered a share-based transaction payable in equity instruments and thus the fair value of services received, as consideration for the equity instruments granted, is

included in the income statement at December 31, 2017, under "Employee benefits expense" in the amount of 1,838 thousand euros (2016: 1,530 thousand euros), and a credit to "Other equity instruments" in the balance sheet at December 31, 2016. Further, the Company estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement. The breakdown and fair value of the shares at the granting date of the Enagás Group long-term incentive plan are as follows:

	Long term incentive plan
Total shares at the granting date	307,643
Fair value of the equity instruments at the granting date (EUR)	26.37
Dividend yield	4.20%
Expected volatility	19%
Discount rate	0.186%

With respect to that part of the bonus payable in cash, the Company recognized the rendering of services corresponding to this plan as an employee benefits expense amounting to 568 thousand euros with a credit to "Provisions" under non-current liabilities in the balance sheet at December 31, 2017.

#### 4.5 Other information on the Board of Directors

For purposes of compliance with the stipulations of article 229 of the Spanish Corporate Enterprises Act, these notes to the accompanying financial statements include disclosure regarding the interest and positions held by members of the Enagás, S.A. Board of Directors in other companies which perform similar or complementary activities. Said disclosure was prepared considering that they are companies with similar or complementary activities to those carried out by Enagás, that is, natural gas transport, regasification, distribution, and marketing activities regulated by Law 34/1998 of the Hydrocarbons Sector.

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

Board member	Company	No. of shares	% shareholding
<b>2017</b>			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega <sup>(1)</sup>	Iberdrola	8,508	0.00%
<b>2016</b>			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega <sup>(1)</sup>	Iberdrola	8,508	0.00%

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

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

Board Member	Company	Position
<b>2017</b>		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member
Marcelino Oreja Arburúa	MIBGAS Derivatives	Board Member
<b>2016</b>		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member

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

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

#### 4.6 Other information

##### a) Environmental information

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

The Company has integrated protection of the environment within its policy and strategic programs via implementation of an Environmental Management System developed and certified by LLOYD'S, in accordance with the requisites of standard UNE EN ISO 14001, which guarantees compliance with applicable environmental legislation and continuous improvement of its environmental behavior with respect to the activities it carries out in the Zaragoza Laboratory and in connection with Management of Development Projects for New Infrastructure.

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

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

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

During 2017, the Company carried out environmental actions in the amount of 66 thousand euros, recognized as investments in the balance sheet. In 2016 the corresponding amount totaled 608 thousand euros. The Company also assumed environmental expenses amounting to 277 thousand euros in 2017, recognized under "Other operating expenses" (2016: 268 thousand euros).

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

The Company did not receive any subsidies or income in 2017 and 2016 as a consequence of activities performed in connection with the environment.

## b) Audit fees

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

Categories	2017	2016
	Services rendered by the auditor of accounts and related companies	Services rendered by the auditor of accounts and related companies
<b>Audit services (1)</b>	842	452
<b>Other assurance services (2)</b>	184	114
<b>Total audit and related services</b>	<b>1,026</b>	<b>566</b>
<b>Other services rendered (3)</b>	-	104
<b>Total other professional services</b>	-	<b>104</b>
<b>Total professional services</b>	<b>1,026</b>	<b>670</b>

(1) **Audit Services:** This heading mainly includes services rendered for the performance of statutory audits of the Company's annual financial statements and the review work performed with respect to the interim financial statements as well as the Certification of the Financial Information Control System (ICFR).

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

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

## 4.7 Subsequent event

There have not been significant developments that significantly affect the annual accounts of Enagás, S.A., which has taken place since the close to 31 December 2017 up to the date of preparation of the present annual accounts.

## **5. Explanation added for translation to English**

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



## MANAGEMENT REPORT OF ENAGÁS, S.A.

### I.-Enagás, S.A. situation

#### Business Model

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

In Spain, it has developed the large infrastructure of the Gas System, which has made it a model in terms of security and supply diversification.

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

#### 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 (27% and 12%, respectively).

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

In addition, Enagás' commitment to promoting gender diversity in the 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

Enagás, S.A., as top of Enagás group will guarantee the proper functioning of the Spanish Gas Network and it will watch over the supply security in order to make easier the competence in a transparent and nondiscriminatory way.

In addition, it will optimize the operations of the Spanish Gas Network by pooling different agents and suggesting measurements in order to improve its operations. Also it will continue developing the transport network and managing its infrastructures in a more safety, efficient, profitable and committed with the environment.

All of these will be done in collaboration with regulators, giving a quality service to its customers, creating value for its shareholders and contributing to the sustainable development of society.

Natural gas is a key piece to achieve a sustainable, secure and energy efficient in a low-carbon economy. It's the most efficient technical solution regarding other conventional fuels, with the lowest cost for citizens and businesses. Natural gas contributes to the competitiveness of industry and to reduce the environmental impact.

In 2017, Enagás has operated under a context of energy demand relatively stagnant, in which gas has accelerated its growth in the last two years, moving primarily coal and being overcome by renewables, whose growth has been most rapid. LNG is still the clear star of the gas sector, with growth in 2016 and 2017, much higher than the demand for gas.

In Spain, the demand for natural gas in 2017 grew 9% over the previous year (growth for the third consecutive year). This increase primarily by growth in industrial demand (7% compared to the previous year) and the demand for electricity generation (27% increase).

### II. Evolution and Results

#### Economic Dimension

##### Good governance

Enagás, S.A. has a sustainability policy and good government that reflects the importance of good governance for the generation of courage on the part of the company. In 2016 adopted a long-term incentive plan 2016-2018, based on different objectives aligned with the strategic plan of Enagás, S.A. and the expectations expressed by institutional investors and proxy advisors.

#### Financial and operational excellence

##### Principal Economic Results

The net profit amounted to 349.5 million euros, 2.09% higher than 2016. In 2017 investments have been made to the value of 8,569 million euros.

The dividend per share for 2017 increased 5% over the previous year, reaching 1.46 euros per share. Enagás, S.A., concluded 2017 at 23,9 euros per share. This implies a capitalization of 5.669 million euros. The share capital of Enagás, S.A., at December 31, 2017 was 358.1 million euros, with 238.7 million shares.

In 2017 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, S.A., 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.

## Social Dimension

### Human resources management

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

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

Enagás, S.A., 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.

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

### Security and Health

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

Enagás, S.A., 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, S.A., is certified as a Healthy Company.

### Ethical compliance and human rights

The Enagás, S.A., 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 and a Global Code of conduct of Enagás, which is configured as the core of the company's criminal compliance.

Enagás, S.A., has a framework of policies, procedures and regulations that consists of: the Group's Code of Ethics, corporate policies and guidelines, and the management and regulatory procedures necessary to ensure due diligence in related matters. The Enagás Ethics Channel is a platform for consulting doubts and notifying irregularities or breaches of the Code of Ethics and is managed by the Ethics Compliance Committee of the company. In 2017 two reports were made via the Ethics Channel: a complaint alleging a superior's abuse of power and privileges, the subsequent investigation of which concluded with corrective measures; and a second report relating to a selection process, which was rejected and filed subsequent to communicating with the interested party.

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

### Relationships with the community

The objective of Enagás, S.A., 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, sponsorship, patronage or donation (1.4 million euros in 2017).

### Supply chain

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

In order to work with Enagás, S.A., 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 entity's average payment period for its suppliers is 39 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 Entity's environmental management to mitigate the impact of its activities.

### Environmental management

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

### Climate change and energy efficiency

Enagás, S.A., 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, S.A., 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 sets itself improvement challenges by establishing objectives for reducing annual emissions in the medium term, as

well as via the definition of an emissions compensation strategy. In order to achieve said objectives, the Company implemented an Energy Efficiency and Emissions Reduction Plan some years ago, through which different energy saving measures are identified, developed, and quantified.

Noteworthy in 2017 was the signing of a commitment to adopt the reporting recommendations prepared by the Task Force on Climate related Financial Disclosures (TCFD) and the initiation of a voluntary compensation program for greenhouse gas emissions.

### III. Liquidity and capital resources

Enagás has adapted to the new circumstances arising out of the crisis, reducing its external financing through banks and resorting to other types of financing, such as bond issues, which has permitted the Company to achieve a more diversified structure. Net debt in 2017 decreased by 2,890,751 thousand euros with respect to 2016.

### IV. Main business risks

The entity Enagás, S.A., 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 entity Enagás, S.A., has established a risk management and control model, based on due control principle, aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model allows to adapt to the complexity of its business activity in a globalized competitive environment, in a complex economic context, where the materialization of a risk is more rapid and with an evident contagion effect.

This model is based on the following features:

- the consideration of some standard types of risk to which the Company is exposed;
- segregation and independence of risk control and management functions articulated by the Company in three lines of "defense";
- governing bodies with responsibilities regarding supervision of the Company's risk level;
- establishing a risk appetite framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the activities are carried out;
- transparency in the information provided to third parties, guaranteeing reliability and rigor.

The integral analysis of all risk permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

The main risks associated with the entity'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 entity 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 entity Enagás, S.A., 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 at acceptable levels.

## 2. Operational and technological risk

During the operation of the infrastructures of Enagás, S.A., 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 entity Enagás, S.A., 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 Enagás, S.A. 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.

Enagás, S.A. 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: (1) 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, S.A., business activity does not allow an active customer concentration risk management policy to be established.

Information concerning credit and counterparty risk management is disclosed in Note 3.5 to the financial statements.

## 4. Financial and Fiscal Risks

The entity Enagás, S.A. is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that bear fixed rates as well as the future cash flows generated by assets and liabilities accruing variable rates. The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the income statement. The entity maintains a fix rate debt or protect debt structure higher to 70% in order to limit this risk. Changes in exchange rates during the consolidation process can affect the debt positions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses of subsidiaries that do not use the euro as functional currency, and translation differences of the financial statements for those companies whose functional currency is not the euro. The Enagás, S.A. exchange rate risk management is designed to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies.

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

The financial risk management policy is described in Note 3.5 to the 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.

Enagás, S.A. 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 entity 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 entity 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, S.A., has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the Company.

## 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 entity.

## V. Subsequent events

There have not been significant developments that significantly affect the annual accounts of the Company Enagás, S.A., which has taken place since the close to 31 December 2017 up to the date of preparation of the present annual accounts.

## VI. Reserch and Development activies

In the field of technological innovation developed by Enagás Transporte, S.A.U., during 2017, the main actions have been to improve various aspects of its present activity and to analyze and deepen the knowledge of other possible technologies that may be in the future supported and put into value the infrastructures and / or the know-how of the Company. Among the first are efficiency in a broad sense; Gas measurement and analysis of its components; Operational safety; the materials and equipment necessary for their activity. Among the second are the production and transport of biogas and hydrogen and, on a second level, a hypothetical future development of the infrastructure needed to deploy CTS (Capture, Transport and Storage CO<sub>2</sub>) technologies.

Find a description of each of the following performace:

### 1. Efficiency

This section includes two distinct chapters: Energy efficiency and technical efficiency.

## Energy Efficiency

During 2017 Enagás has continued its efforts, on the one hand, to reduce the energy consumption of its facilities and, on the other hand, to raise the level of energy it produces for self-consumption or export.

The consumption reduction in its facilities is to mainly focus on the optimization of its processes, to minimize the energy needs of them, and in the modification or replacement of their equipment, to improve their unit performance.

The production of energy is based on the use of the residual energies of its processes to, in turn, produce electrical energy. The residual energy used is the heat that is lost through the exhaust gases of the gas turbines, the cold that is wasted during the vaporization process of the liquefied natural gas (LNG) and the pressure that dissipates in the points in which is regulated by needs of the gas transportation system or for the delivery of gas to other carriers or distributors. In the course of 2017 various projects were initiated or further developed, such as Feasibility studies for wind turbines in Zaragoza and Bermeo, Optimization of ORV seawater consumption, Measurement of fugitive methane emissions, Frequency variators in seawater pumps at plants in Barcelona and Cartagena and the primary tank pump at the Cartagena plant, Optimization of dry-coolers in compressor stations, and Predictive control in regulation and measurement stations.

## Technical Efficiency

As a result of the experience acquired in previous years, during 2017, the possible technical and economic convenience of self-producing certain inputs necessary for the operation of the facilities has continued. In this sense, the most remarkable production is the nitrogen in the storage and regasification plants by means of absorption technology, of which during the year 2016 two new equipment units have been added to the two previously existing ones. Thus, the most noteworthy production is that of expanding the autonomous generation of nitrogen at the Huelva plant.

In addition, during 2017, the technical-economic analysis of possible installation alternatives for the BOG/LNG heat exchanger equipment which increase the amount of boil-off recovered in the reliquefaction unit and, consequently, reduce the consumption of electric energy in the compressors. Based on the results obtained from the study, and subsequent to carrying out a sensitivity analysis in order to determine how changes in the initial parameters affect project profitability, the proposal for optimal configuration of the Cartagena plant involves installation of LNG/BOG heat exchanger equipment in series with the existing seawater/BOG exchanger.

### 2. Measurement and analysis of natural gas

Enagás, S.A. continues to equip itself with the best available techniques to reduce the level of uncertainty in the measurement of the energy contained in natural gas, both in the liquid state (LNG) and in the gaseous state (NG), at the points at which it is received or delivered to third parties. This innovative effort has been translated into different studies and actions during the year 2017, among which we highlight the following: Upgrading the Communications and Measurement Model, upated with the most ideal technology available in the market, and upgrading the LACAP management and control system (Laboratory for the calibration of high pressure counters).

Although it is a matter of minor economic importance compared to the previous one, due to its possible impact on the operation, Enagás, S.A. also continued during 2017 its effort to improve the results obtained in the analytical of certain minor components of natural gas: water, sulfur, hydrocarbons and odorant. After finalizing the study, measures could be determined, such as an archiving system for incidents, acquisition of portable measurement equipment, corrective procedures, evaluation of preventive measures.

### 3. Operational Safety

Throughout 2017, Enagás, S.A. 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, S.A. facilities is adequate and is in line with that of other foreign companies with similar characteristics.

It has also continued to update the tools developed to meet the needs of different areas of the Company both in the design of new facilities and in the operation of existing ones.

All of the above has been carried out in accordance with the legislation in force in the matter.

### 4. Materials y equipment

During 2017, Enagás, S.A. 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, S.A. 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 CO<sub>2</sub> 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 CO<sub>2</sub>).

In line with the above, during 2017, the entity continued with and finalized development of the RENOVAGAS Project, a project initiated and led by Enagás, which concluded in June 2017. This project mainly consisted in the design and construction of a 15 kW pilot installation which transforms the CO<sub>2</sub> present in biogas produced at the waste treatment plant of FCC-AQUALIA in Jerez de la Frontera into methane. The biogas is made to pass through a reactor which, via appropriate catalyzers and with hydrogen input produced by hydrolysis using excess electricity energy of a renewable nature, makes the CO<sub>2</sub> react with the hydrogen, thereby producing methane.

Finally, during 2017, participation in the Spanish CO<sub>2</sub> Platform and collaboration in two very promising European projects (HYREADY; NGHPIPE), which deal with the feasibility of injecting hydrogen, in certain percentages, into the gas networks has also been extended.

## VII. Acquisition and sale of own shares

During 2017 there were no operations in this regard.

Additionally, 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.



The Board of Directors of the company Enagas, S.A. On 19 February 2018, and in compliance with the requirements laid down in article 253 of the Companies Act, and 37 of the Code of Commerce and other detailed rules for the application, made the Annual Accounts and the Management Report for the year ended 31 December 2017, which consists of the attached documents that precede this writing, initialled by the Registrar and with the seal of the Society. Statement of Responsibility.

For the purposes set forth in article 8.1.b) of the Royal Decree 1362/2007, of October, 19, administrators signatories declare that,

to the best of your knowledge, the annual accounts, prepared in accordance with accounting principles applicable, offer a true and fair view of the equity, the financial situation and the results of the company and that the Management Report includes a fair review of the development analysis and business results and the position of the society, along with the description of the principal risks and uncertainties they face. Also state that they know that administrators who do not sign have expressed disagreement with respect to the Annual Accounts and the Management Report

**CHAIRMAN**

Mr. Antonio Llardén Carratalá

*(Signed the original in Spanish)*

**CHIEF EXECUTIVE OFFICER**

Mr. Marcelino Oreja Arburúa

*(Signed the original in Spanish)*

**BOARD MEMEBERS**

Sociedad Estatal de Participaciones Industriales-SEPI  
(Representada por Mr. Bartolomé Lora Toro)  
*(Signed the original in Spanish)*

Mr. Antonio Hernández Mancha  
*(Signed the original in Spanish)*

Mr. Luis Javier Navarro Vigil  
*(Signed the original in Spanish)*

Ms Ana Palacio Vallelersundi  
*(Signed the original in Spanish)*

Mr. Martí Parellada Sabata  
*(Signed the original in Spanish)*

Mr. Jesús Máximo Pedrosa Ortega  
*(Signed the original in Spanish)*

Mr. Luis García del Río  
*(Signed the original in Spanish)*

Ms. Rosa Rodríguez Diaz  
*(Signed the original in Spanish)*

Mr. Gonzalo Solana González  
*(Signed the original in Spanish)*

Ms. Isabel Tocino Biscarolasaga  
*(Signed the original in Spanish)*

Mr. Luis Valero Artola  
*(Signed the original in Spanish)*

**MANAGEMENT BOARD**

Mr. Rafael Piqueras Bautista  
*(Signed the original in Spanish)*

**Annual Corporate Governance Report For Listed Companies**

**IDENTIFYING DATA OF THE ISSUER**

**ENDING PERIOD** 31/12/2017

**C.I.F.** A-28294726

**SOCIAL DENOMINATION**  
ENAGAS, S.A.

**PLACE OF BUSINESS**

PASEO DE LOS OLMOS N° 19 28005 MADRID



A. Ownership structure

A.1 Complete the following table on the company's share capital.

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390.00	238,734,260	238,734,260

Indicate whether different types of shares exist with different associated rights.

Yes No X

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors.

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
RETAIL OEICS AGGREGATE	0	2,410,274	1.01%
BANK OF AMERICA CORPORATION	0	8,627,588	3.61%
BLACKROCK INC	0	7,652,401	3.21%
LAZARD ASSET MANAGEMENT	0	12,112,916	5.07%
STATE STREET CORPORATION	0	7,180,575	3.01%
FIDELITY INTERNATIONAL LIMITED	0	4,550,822	1.91%

Name or corporate name of indirect shareholder	Through: name or corporate name of the direct owner of the sreholding	Number of voting rights
RETAIL OEICS AGGREGATE	RETAIL OEICS AGGREGATE	2,410,274
BANK OF AMERICA CORPORATION	BANK OF AMERICA CORPORATION	8,627,588
BLACKROCK INC	BLACKROCK INC	7,652,401
LAZARD ASSET MANAGEMENT	LAZARD ASSET MANAGEMENT	12,112,916
STATE STREET CORPORATION	STATE STREET CORPORATION	7,180,575
FIDELITY INTERNATIONAL LIMITED	FIDELITY INTERNATIONAL LIMITED	4,550,822

Indicate the most significant movements in the shareholder structure during the year.

Name or corporate name of indirect shareholder	Date of the operation	Description of the operation
BLACKROCK INC	10/10/2017	Surpassed 3% of share capital
LAZARD ASSET MANAGEMENT	21/12/2017	Surpassed 5% of share capital
STATE STREET CORPORATION	16/06/2017	Surpassed 3% of share capital

A.3 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its Group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR LUIS VALERO ARTOLA	2,000	0	0.00%
MR GONZALO SOLANA GONZÁLEZ	440	0	0.00%
MR MARCELINO OREJA ARBURUA	3,875	0	0.00%
MR ANTONIO LLARDEN CARRATALÁ	56,396	0	0.00%
MR MARTI PARELLADA SABATA	910	0	0.00%
MR LUIS JAVIER NAVARRO VIGIL	1,405	0	0.00%
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11.936.713	0	0.00%
% of total voting rights held by the Board of Directors			5.02%

Complete the following tables on share options held by Directors.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	Equivalent number of shares	% of total voting rights
MR MARCELINO OREJA ARBURUA	27,744	0	27,744	0.01%
MR ANTONIO LLARDEN CARRATALA	69,711	0	69,711	0.03%

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its Group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name  
 BANK OF AMERICA CORPORATION  
 ENAGÁS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 12,234 thousands of euros

Related party name or corporate name  
 SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)  
 ENAGÁS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 16,926 thousands of euros

Related party name or corporate name  
 RETAIL OEICS AGGREGATE  
 ENAGÁS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 3,418 thousands of euros

Related party name or corporate name  
 BLACKROCK INC.  
 ENAGÁS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 4,718 thousands of euros

Related party name or corporate name

FIDELITY INTERNATIONAL LIMITED  
ENAGAS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 6,877 thousands of euros

Related party name or corporate name

STATE STREET CORPORATION  
ENAGAS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 10,182 thousands of euros

Related party name or corporate name

LAZARD ASSET MANAGEMENT  
ENAGAS, S.A.

**TYPE OF RELATIONSHIP:** Corporate

**BRIEF DESCRIPTION:**

Dividends and other benefits paid: 4,269 thousands of euros

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprise Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes No X

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes No X

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

**Not applicable.**

A.7 Indicate whether any individuals or legal entity currently exercise control or could exercise control over the company in accordance with article 4 of the Securities Market Act. If so, identify:

Yes No X

Observations

A.8 Complete the following tables on the company's treasury share.

At year end:

Number of shares held directly	Number of shares held indirectly	% of total share capital
307,643	0	0.13%

(\*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Details of significant changes

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The Ordinary General Shareholders' Meeting held 27 March 2015 adopted the following resolution:

"To authorise and empower the Board of Directors, with power of substitution, for the derivative acquisition of the company's own shares in accordance with article 146 of the Corporate Enterprises Act, in the following terms:

1. The acquisitions may be carried directly by Enagás, S.A. or indirectly by subsidiaries under the same terms as those set out herein.
2. The acquisitions may be carried out through a purchase and sale, exchange or any other transaction permitted by law.
3. The maximum number of shares to be acquired shall be the maximum number permitted by law.
4. The acquisition price shall not be more than 15 percent higher or lower than the average weighted share price of the session prior the acquisition.
5. The authorisation is granted for a maximum of five years from adoption of this resolution.

In accordance with article 146 of the Corporate Enterprises Act, it is hereby expressly stated that the shares acquired pursuant to this authorisation may, in whole or in part, be directly awarded to employees or directors of the company or of companies belong to its Group, or that the purchase is the result of the exercise of employee or director options.

This resolution repeals and leaves without effect by the amount not used the authorisation granted by the General Shareholders' Meeting of 30 April 2010 for the derivative acquisition of treasury shares.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	95.00%

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes X No

## Description of restrictions

Restrictions under law:

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the 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 natural person or legal entity may hold, directly or indirectly, an interest in the parent company (ENAGÁS, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or legal entities that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40% (...)" (continues in Section H."OTHER INFORMATION OF INTEREST": EXPLANATORY NOTE ON SECTION A.10.

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No X

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No X

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

### B. General Shareholders' Meeting

B.1 Indicate whether the quorum required for constitution of the General Shareholders' Meeting differs from the system of minimum quorums established in the Corporate Enterprises Act and specify any such difference.

Yes No X

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Corporate Enterprises Act:

Yes No X

Describe how they differ from the rules established in the Corporate Enterprises Act.

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

Article 18 of the Articles of Association states that:

"The shareholders, when constituted as a duly summoned General Meeting, shall by a majority of votes as determined by law decide upon the matters that fall within the powers of the General Meeting. The General Meeting is responsible for addressing and agreeing upon the following issues: (...) and states in section c) Amendments to the Articles of Association".

Likewise, article 26 states that:

"An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the Articles of Association, issue bonds, remove or restrict the pre-emptive subscription right for new shares, and restructure, merge or split the company, transfer all the assets and liabilities thereof, or move the registered office to outside Spain, if, at the original date and time specified in the notice of meeting, there are present, in person or by proxy, shareholders representing at least fifty percent of voting subscribed capital.

At second call, the attendance or representation of shareholders holding at least twenty-five percent of subscribed capital with voting rights shall be sufficient".

Likewise, article 13.3 of the Regulations of the General Shareholders' Meeting states that:

"However, an absolute majority of shareholders holding at least fifty percent of the subscribed capital with voting rights is required to validly adopt resolutions to increase or decrease capital, make any other amendment to the Articles of Association, issue bonds, eliminate or restrict pre-emptive subscription rights for new shares, transform, merge, spin off or globally assign assets and liabilities, and transfer the registered office abroad. However, the favourable vote of shareholders representing two-thirds of the share capital present or represented is required when, on second call, shareholders holding at least twenty-five percent of the subscribed capital with voting rights are present and the aforementioned fifty percent threshold is not reached".

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year.

Date of general meeting	Attendance data				total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
18/03/2016	0.15%	42.89%		7.74%	50.87%
31/03/2017	0.15%	39.01%		6.49%	45.65%

B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings:

Yes No X

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

All information on Enagás, S.A.'s Corporate Governance and General Meetings is available to the public on its website ([www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com)).

The links to this information can be found easily through the company's web browser and are as follows:

- In Spanish:
  - i) Página principal/Accionistas e Inversores/Gobierno Corporativo:
    - Junta General de Accionistas.
    - Política de Gobierno Corporativo.
    - Informe Anual de Gobierno Corporativo.
  - ii) Página principal/Sostenibilidad/Gobierno Corporativo.
- In English:
  - i) Home/Investors Relations/Corporate Governance:
    - General Shareholders ' Meeting.
    - Corporate Governance Policy.
    - Annual Report on Corporate Governance.
  - ii) Home/Sustainability/Corporate Governance.

## C. Company management structure

### C.1 Board of Directors

C.1.1 List the maximum and minimum number of Directors included in the Articles of Association.

Maximum number of Directors	14
Minimum number of Directors	6

C.1.2 Complete the following table with Board members' details.

Name or corporate name of Director	Representation	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR LUIS VALORE ARTOLA		Independent	DIRECTOR	28/04/2014	28/04/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ANA PALACIO VALLELERSUNDI		Independent	BOARD MEMBER	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR GONZALO SOLANA GONZALEZ		Independent	COORDINATOR INDEPENDENT	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR ANTONIO HERNÁNDEZ MANCHA		Independent	DIRECTOR	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR MARCELINO OREJA ARBURÚA		Executive	CHIEF EXECUTIVE OFFICER	17/09/2012	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR JESÚS MÁXIMO PEDROSA ORTEGA		Proprietary	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ISABEL TOCINO BISCAROLASAGA		Independent	DIRECTOR	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR ANTONIO LLARDÉN CARRATALÀ		Executive	CHAIRMAN	22/04/2006	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR MARTÍ PARELLADA SABATA		Other external	DIRECTOR	17/03/2005	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ROSA RODRÍGUEZ DÍAZ		Independent	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR LUIS JAVIER NAVARRO VIGIL		Other external	DIRECTOR	09/07/2002	27/03/2015	VOTE AT GENERAL SHAREHOLDERS'MEETING
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MR BARTOLOMÉ LORA TORO	Dominical	DIRECTOR	25/04/2008	18/03/2016	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR LUIS GARCÍA DEL RÍO		Independent	DIRECTOR	31/03/2017	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
Total number of Directors						13

Indicate any board members who left during this period.

Name or corporate name of director	Status of director upon resignation	Date of departure
MR RAMON PÉREZ SIMARRO	INDEPENDENT	31/03/2017

C.1.3 Complete the following tables on board members and their respective categories.

#### EXECUTIVE DIRECTORS

Name or corporate name of Director	Position held in the company	
MR MARCELINO OREJA ARBURÚA	CHIEF EXECUTIVE OFFICER	
MR ANTONIO LLARDÉN CARRATALÀ	CHAIRMAN	
Total number of Executive Directors		2
% of the Board		15.38%



### EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Name or corporate name of significant shareholder represented or proposing appointment
MR JESÚS MÁXIMO PEDROSA ORTEGA	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Total number of Executive Directors	2
% of the Board	15.38%

### INDEPENDENT EXTERNAL DIRECTORS

#### Name or corporate name of Director

MR LUIS VARELO ARTOLA

#### Profile:

- Trade Technical Expert and State Economist.
- Independent member of the Board of Directors of Banco Cetelem of Grupo BNP
- Former General Secretary of the Ministry of Industry, Energy and Tourism.
- Former General Manager of the Spanish Association of Automobile and Truck Manufacturer's (ANFAC).
- Former member of the Management Committee of the Spanish Confederation of Employers' Organisations (CEOE).
- Former Director of Operadora del Mercado Eléctrico (OMEL).
- Former Business Director of Banco Saudí Español.
- Former Manager of Spanish Foreign Investment Services.
- Former Commercial Director in the Republic of South Africa.

#### Name or corporate name of Director

MS ANA PALACIO VALLELERSUNDI

#### Profile:

- Lawyer, founder of Palacio & Asociados law firm.
- Lead Independent Director of Enagás, Director of Pharmamar and Director of AEE Power.
- Elective Director of the Spanish Council of State.
- Member of Investcorp's International Advisory Committee and Member of the Chérifien des Phosphates Offices.
- Member of IE Business School's Governing Board.
- Member of the the Executive Board of the Atlantic Council of the United States Member of the External Advisor Council of Energy Future Initiative and of the Advisor Council of the Sandra Day O'Connor Justice Prize and Member of the Patronage of Human Science Institute.

- Member of the governing bodies of a number of research centres and public institutions: el Conseil d'Orientation et de Réflexion de l'Assurance de France (CORA), the MD Anderson Cancer Center, and the Science Board of Real Instituto Elcano.
- Guest lecturer at Edmund A. Walsh School of Foreign Service at Georgetown University.
- Regular contributor of "Project Syndicate", among other media.
- Regular participant as panellist in international conferences and forums; in the energy sector, among others: the Istanbul G-20 International Energy Forum, the Atlantic Council Energy & Economic Summit and the Schlessinger Awards Energy Security Conference.
- Holder of equivalent master's degrees in law, political science and sociology.
- Honorary doctorate in humanities from Georgetown University and winner of the 2016 Sandra Day O'Connor Justice Prize granted the title of Officier de la Légion d'Honneur by the Republic of France.
- Member of the European advisory council of The European House - Ambrosetti (2015-2016)
- Coordinator of the Trans-European Transport Network (2014).
- Member of the Advisory Group of Foreign Affairs and Security (2010-2014) and of the Committee for the Appointment of Judges and Advocates-General of the European Union Court of Justice (2010-2013).
- Adviser to the European Commission on justice, fundamental rights and citizenship (2010-2012).

Continues in the explanatory notes.

**Name or corporate name of Director**

MR GONZALO SOLANA GONZÁLEZ

**Profile:**

- Director of the Nebrija Santander Chair in International Business Management.
- Professor of international economics at a number of universities.
- Founding partner of the law firm Huerta & Solana specialising in competition law and regulations.
- Independent Director of OMIClear, Chairman of the Audit Committee and Deputy Chairman of the Risk Committee.
- Former President of the Tribunal for the Defence of Competition (2000-2005).
- Deputy President and Director of Analysis and Strategy of the High Council of Chambers of Commerce (2006-2011) and Director of Study Services at the High Council of Chambers of Commerce (1986-2000).
- Former Board Member of the National Institute of Statistics (1986-2000 and 2006-2011) and Chairman of the Regional Statistics Committee of the INE.
- Economist at the Institute for Economic Studies (1981-1986).
- Professor of Applied Economics at the University of San Pablo CEU and University of Deusto.

**Name or corporate name of Director**

MR ANTONIO HERNÁNDEZ MANCHA

**Profile:**

- Public prosecutor.
- Member of the Court of Arbitration of Madrid's Chamber of Commerce and Industry.
- Founding President and Sole Director of Apple Energy Group Iberia, S.L.
- Member of C.I.M.A. (Civil and Mercantile Arbitration Court)
- Member of the Advisory Committee of M&A Arcano.
- Member of the Board of Directors of Testa Residencial SOCIMI, S.A.U., effective as of 20 October 2016.
- Former Vice President of NAP de las Américas Madrid, S.A.
- Former Chief Executive Officer of NAP de África Occidental e Islas Canarias, S.A.

**Name or corporate name of Director**

MS ISABEL TOCINO BISCAROLASAGA

**Profile:**

- President of Banco Pastor.
- Vice President of Santander Spain.
- Elective Councilor of the State Council of the Kingdom of Spain.
- Independent Director of ENCE.
- Member of the Spanish Royal Academy of Doctors.
- Former Spanish Minister for the Environment (1996-2000).
- Former Chairwoman for Spain and Portugal and former Vice-Chairwoman of Siebel (subsequently acquired by Oracle).
- Former legal adviser to the Nuclear Energy Board (currently CIEMAT).

**Name or corporate name of Director**

MS ROSA RODRÍGUEZ DÍAZ

**Profile:**

- Doctorate in Economics and Business Administration.
- In her capacity as Tenured Professor of the Department of Financial Economics and Accounting of the University of Las Palmas de Gran Canaria, has financial and accounting knowledge.
- Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands.

- Former Vice-President of Gran Canaria’s Cabildo Council.
- Former member of the Board of Directors of the collecting company of the City of Las Palmas of Gran Canaria, ERELPA, S.A., (1999-2003).
- Former member of the Board of Directors of EMALSA, S.A. (1999-2003).
- Former President of the autonomous collection agency dependent on the Cabildo de Gran Canaria VALORA GESTIÓN TRIBUTARIA (2003-2007 and 2011-2012).
- Former member of the Board of Administration of INSULAR SERVICE OF MILK SUPPLY, S.A. (SIALSA), (2003-2007).
- Former member of the Board of Directors of the SOCIETY OF ECONOMIC PROMOTION OF GRAN CANARIA (SPEGC), exercising mainly the functions of economic and financial control (2003-2007) and vice president (2011-2012).
- Former member of the Board of Directors of the Sociedad de Avales de Canarias S.G.R.-SOGAPYME (2003-2007).
- Former Vice President of the Board of Directors of INSULAR CAJA DE AHORROS DE CANARIAS (2004-2007).
- Former member of the Governing Council of the University of Las Palmas de Gran Canaria and member, among others, from the Economic Commission, (2003-2007).
- Former member of the Commission for the Plenary of Budgets, Economy and Finance of the Parliament of the Canary Islands in its VII Legislature (2007-2010).

**Name or corporate name of Director**

MR LUIS GARCIA DEL RIO

**Profile:**

- Former Public prosecutor.
- Former Director of internal law assistance of Repsol Butano SA and former secretary of its Board (2003-2005).
- Former Director of regulations regarding vice presidency of exploration and production and natural gas of Grupo Repsol (2005-2008)
- Fomer Director of YPF,SA (independent director)
- Legal arbitrator and lawyer in exercise (Partner of DRL Lawyers).

Total number of Independent Directorss	7
% of the Board	53.85%

List any Independent Directors who receives from the company or Group any amount or payment other than standard Director remuneration or who maintains or has maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, Director or senior manager of an entity which maintains or has maintained the said relationship.

N/A

If applicable, include a statement from the board detailing the reasons why the said Director may carry on his duties as an Independent Director.

## OTHER EXTERNAL DIRECTORS

Identify all Other External Directors and explain why these cannot be considered Proprietary or Independent Directors and detail their relationships with the company, its executives or shareholders:

### Name or corporate name of Director

MR LUIS JAVIER NAVARRO VIGIL

Company, executive or shareholder with whom the relationship is maintained

TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.

### Reasons:

MR LUIS JAVIER NAVARRO VIGIL, Director of Enagás, was appointed, at the proposal of Enagás, as Director of the Mexican companies TLA, S. DE R.L. and TLA Servicios S. de R.L. de C.V. In this respect, Enagás entered into the related service level agreements with Newcomer 2000, S.L.U., the company through which MR LUIS JAVIER NAVARRO VIGIL provided his services to Enagás.

This is why it has been considered appropriate to include MR LUIS JAVIER NAVARRO VIGIL in the category of "Other External Director", pursuant to the definition laid down in the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás.

### Name or corporate name of Director

MR MARTÍ PARELLADA SABATA

Company, executive or shareholder with whom the relationship is maintained

ENAGÁS, S.A.

### Reasons:

For having been a Director of the Company for a continuous period of more than 12 years.

It is the practice of the Board of Directors of Enagás not to propose to the General Shareholders' Meeting the re-election of those Independent Directors who, because they were directors for a continuous period of more than 12 years, would lose with a new re-election the category of Independent Members pursuant to article 529 duodecies . 4 i) of the Consolidated Text of the Capital Companies Act. However, nothing prevents, in accordance with the Law, the Articles of Association and the Rules of Organization and Functioning of the Board of Directors of Enagás, SA, to which an Independent Director may be re-elected even if he or she has been a Director for a continuous period of 12 years, if any. reasons that justify it sufficiently and the structure of the Board as a whole continues to respond to the good governance policy assumed by the Company that the majority of the members of the Board of Directors belong to the category of Independents. In such case and in accordance with Article 529 duodecies of the Consolidated Text of the Capital Companies Act and Article 9 of the Regulations for the Organization and Functioning of the Board of Directors of Enagás, the Director may not be classified as Independent and will become part of the Board of Directors. to the category of "other external directors" in accordance with article 3.2 b3 of the Regulations for the Organization and Functioning of the Board of Directors.

In the specific case of the Director Mr. Martí Parellada Sabata, the Board, with the favorable report of the Appointments, Remuneration and Corporate Social Responsibility Committee, appreciated the concurrence of reasons that justify, in the interest of the Company, its permanence in the Board. of Administration of Enagás. In his capacity as Professor of Applied Economics, he brings to the Board of Directors a vision of the general environment in which the Company carries out its activities, thus completing the skills map of the Board of Directors as a whole and from a perspective that at the moment does not they are covered by other members of the same. His professional experience is coupled with his deep knowledge of the business and activities of the Company, to which he adds rigor in the exercise of the position of Director.

Total number of other external directors ..... 2

% of the Board	15.38%
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List any changes in the category of each Director which have occurred during the year.

Name or corporate name of director	Date of the change	Former category	Actual category
MR MARTÍ PARELLADA SABATA	31/03/2017	Independent	Other external

C.1.4 Complete the following table with information regarding the number of female directors over the last 4 financial years, and their characteristics:

	Number of female directors				% total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	3	3	3	3	37.50%	37.50%	37.50%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>23.08%</b>	<b>23.08%</b>	<b>23.08%</b>	<b>20.00%</b>

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female Directors on the board to guarantee an even balance between men and women.

#### Explanation of measures

The Policy for the Selection of Directors, approved by the Board of Directors on September 19, 2016, establishes that in the procedure for the selection of new Directors it should be ensured that the proposals for appointment or re-election promote diversity in the Council, so they should be oriented to a preferential incorporation of women into Council and of persons who, because of their nationality or experience, have an international professional projection, in accordance with the strategy of the Society. The proposals for the appointment or re-election of Directors will promote the objective that in the year 2020 the number of female directors represents at least 30% of the total number of members.

Currently, THREE (3) of the THIRTEEN (13) members of the Board of Directors of Enagás are women: DOÑA ROSA RODRÍGUEZ DÍAZ, DOÑA ANA PALACIO VALLELERSUNDI and DOÑA ISABEL TOCINO BISCAROLASAGA. Further, DOÑA ROSA RODRÍGUEZ DÍAZ is part of the Audit and Compliance Committee, DOÑA ISABEL TOCINO BISCAROLASAGA is president of the Audit and Compliance Committee and DOÑA ANA PALACIO VALLELERSUNDI is Independent Director Coordinator in addition to president of the Appointments, Remuneration and CSR Committee.

C.1.6 Explain the measures taken, if applicable, by the Appointments Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female Directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

#### Explanation of measures

In order to select Directors, the Appointments, Remuneration and CSR Committee adheres to the provisions of the Director Selection Policy, approved by the Board of Directors at the request of this Committee on 19 September 2016. In application of this policy, the selection of a new Director takes into account at least the following criteria:

Suitable professional knowledge and experience. Appointments are limited to persons of recognised prestige and who possess knowledge and experience suited to the exercise of their functions.

Requirements derived from the Hydrocarbons Sector Law. Candidates must be able to satisfy the independence requirements demanded by Enagás' appointment as independent gas transmission network manager.

Requirements for Independent Directors. In addition to the previous criteria, which shall be applied to all Directors, regardless of their category, the persons selected in the category of Independent Directors must

meet the requirements for independence under the provisions of the applicable law at all times, and the additional conditions for independence, as the case may be, stipulated in the company's internal regulations.

Commitment to fulfilling the duties and obligations of Directors. Proposals for re-election of current members of the Board of Directors shall take into account the commitment demonstrated by the Directors during the year in which they held office, in fulfilling the duty of diligence and the duty of loyalty, and all the regulations to which, in their condition of Directors and, where applicable, as shareholders or high-ranking member of the company, they are subject under the Internal Code of Conduct in Matters Relating to Securities Markets, the Enagás Group Code of Ethics, the Code of Conduct of the Technical Manager of the Spanish Gas System and other laws or procedures derived from their application. Likewise, it will be judged whether their actions in the exercising of their office has been in good faith and in the best company's interest.

The Board of Directors shall ensure that the nominations encourage diversity within the Board, whereby they must focus on preferably incorporating women and people who due to their nationality or experience have an international professional profile, in accordance with the company's new strategy. The nominations for appointment or re-election shall pursue the goal of having at least 30% of total board places occupied by women directors by the year 2020.

Enagás Directors selection processes shall at all times take into account any other conditions, where applicable, determined by the company's Appointments, Remuneration and CSR Committee and the applicable laws.

In addition, for the presentation of the proposed candidates, the Appointments, Remuneration and CSR Committee receives support from executive recruitment and development firms of recognised renown.

When, despite the measures taken, there are few or no female Directors, explain the reasons.

#### Explanation of measures

Enagás is aware that it must continue to encourage and facilitate the presence of women in the event of any vacancy arising on the Board, particularly for Independent Directors. In this regard, Enagás complies with article 8 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors, which prescribes that selection procedures must be free of any implied bias against women candidates, and that the company shall seek out and include women with the target profile among the candidates for Board places.

At present, THREE (3) of the THIRTEEN (13) members of the Board of Directors of Enagás are women: MS ROSA RODRÍGUEZ DÍAZ, MS ANA PALACIO VALLELERSUNDI and MS ISABEL TOCINO BISCAROLASAGA. In addition,

MS ROSA RODRÍGUEZ DÍAZ is a member of the Audit and Compliance Committee, MS ISABEL TOCINO BISCAROLASAGA is Chair of the Appointments, Remuneration and CSR Committee and MS ANA PALACIO VALLELERSUNDI is Lead Independent Director and member of the Appointments, Remuneration and CSR Committee.

C.1.6.bis Explain the Appointments Committee's conclusions on the checks carried out to ensure that the director selection policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020.

#### Explanation of measures

The report of the Nominating, Compensation and CSR Committee dated February 19, 2018, justifying the Proposed appointment and re-election of directors for the JGA 2018 contains:

"The Commission considers that thirteen members is an adequate number for the proper functioning of the Council, therefore proposes that this number of Directors be maintained.

After the proposed appointment and re-election, the Council maintains a majority of independent members. From its thirteen members, seven will have the status of Independent Directors and the presence of three Directors will be maintained of women in the Board of Directors who, in addition, perform significant functions in the Council: D<sup>a</sup> Ana Palacio Vallelersundi is an Independent Director Coordinator and President of the Appointments Committee, Remuneration and Corporate Social Responsibility D<sup>a</sup>. Isabel Tocino Biscalorasaga, chairs the Appointments Committee, Remuneration and Corporate Social Responsibility; and Ms. Rosa Rodriguez Díaz, is a member of the Audit and Fulfillment.

Since 2012, the Company has separated the positions of Chairman of the Board of Directors and Chief Executive Officer and since 2010 he has an Independent Coordinating Director, since it keeps in the person of D<sup>a</sup>. Ana Palacio Vallelersundi as an added guarantee for the proper functioning of the Council. The internal structure guarantees that all the functions (Internal Audit, Legal Advice and Regulatory Compliance ...) that favor the control that the Board of Management must exercise respect for executive and business functions in charge of the Chief Executive Officer. The necessary independence being assigned organically and functionally, through the Secretary of the Council, to the President of the Board of Directors and the Board itself. "

C.1.7 Explain how shareholders with significant holdings are represented on the board.

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is currently the only shareholder with a significant holding that has a seat on the Board of Directors.

Moreover, MR JESÚS MÁXIMO PEDROSA ORTEGA was appointed, at the proposal of SEPI, as a Proprietary Director for the four-year term provided for in the Articles of Association at the General Shareholders' Meeting held on 24 April 2013. He was reappointed for said position for the statutory term of four years at the General Shareholder's Meeting held on 31 March 2017.

C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors. If so, explain why these requests have not been entertained:

**Yes                      No                      X**

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

**Name or corporate name of director:**

MR MARCELINO OREJA ARBURÚA

**BRIEF DESCRIPTION:**

Pursuant to the resolution passed by the Board of Directors of Enagás, S.A. on 25 March 2014, MR MARCELINO OREJA ARBURÚA was delegated 34 joint and several powers and 13 joint powers. These powers are those which 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 delegated to the Chief Executive Officer, MR MARCELINO OREJA ARBURÚA, by Enagás' Board of Directors, were granted in the public deed dated 28 May 2014 and executed before the Notary Public of Madrid Mr Pedro de la Herrán Matorras, with number 1,306 in his notarial archive and is recorded in Volume 32,018, Book 0, File 5, Section 8; Sheet M-6113; Entry 777 of the Madrid Companies Register.

Further details on the powers delegated by the Board of Directors are provided in section H) "OTHER INFORMATION OF INTEREST" (EXPLANATORY NOTE ON SECTION C.1.10 of this Report).

C.1.11 List the Directors, if any, who hold office as Directors or executives in other companies belonging to the listed company's group:

Name or corporate name of Director	Corporate name of the Group company	Position	Do they have executive duties?
MR MARCELINO OREJA ARBURÚA	COMPAÑÍA TRANSPORTITS DE GAS GANARIAS, S.A.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	ENAGÁS CHILE, S.P.A.	BOARD DELEGATE	NO



MR MARCELINO OREJA ARBURUA	ENAGÁS EMPRENDE, S.L.U.	JOINT DIRECTOR	YES
MR MARCELINO OREJA ARBURUA	ENAGÁS TRANSPORTE DEL NORTE, S.L.	CHAIRMAN	YES
MR. ANTONIO LLARDÉN CARRATALÁ	ENAGÁS GTS, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR. ANTONIO LLARDÉN CARRATALÁ	ENAGÁS TRANSPORTE, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR LUIS JAVIER NAVARRO VIGIL	TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.	DIRECTOR	NO
MR LUIS JAVIER NAVARRO VIGIL	TLA SERVICIOS, S. DE R.L. DE C.V.	DIRECTOR	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of Director	Corporate name of the Group company	Position
MS ANA PALACIO VALLELERSUNDI	PHARMAMAR, S.A.	DIRECTOR
MS ISABEL TOCINO BISCAROLASAGA	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its Directors may sit.

Yes X No

Explanation of rules

Under Article 35 of the Articles of Association the following cannot be Directors or, if applicable, natural person representatives of a legal person Director:

- Natural or legal persons who hold the post of Director in more than 5 (five) companies whose shares are admitted to trading on national or foreign markets.
- Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the company or its Group.

C.1.14. Section revoked

C.1.15 List the total remuneration paid to the Board of Directors in the year.

Board remunerations (*)	4,184
Cumulative amount of rights of current Directors in pension scheme (*)	2,701
Cumulative amount of rights of former Directors in pension scheme (*)	0

(\*) Thousands of euros

C.1.16 List any members of senior management who are not Executive Directors and indicate total remuneration paid to them during the year:

Name or corporate name	Position
MR DIEGO ANTONIO VELA LLANES	General Manager Technical System
MR ISIDRO DEL VALLE SANTÍN	Director of Internal Audit
MR CLAUDIO PEDRO RODRIGUEZ SUAREZ	General Manager of Infrastructures
MR JESUS LUIS SALDAÑA FERNÁNDEZ	General Manager Business Development
MR JUAN ANDRÉS DIEZ DE ULZURRUN MORENO	General Manager Engineering
MR FRANCISCO BORJA GARCÍA-ALARCON ALTAMIRANO	Chief Financial Officer
MS FELISA MARTÍN VILLAN	General Manager Communications and Institutional Relations
MR RAFAEL PIQUERAS BAUTISTA	General Secretary
MR JAVIER PERERA DE GREGORIO	General Resources Manager
DOÑA MARÍA SALVADORES SICILIA	Strategy Director
<b>Total remuneration received by senior management (thousand of euros)</b>	<b>4,340</b>

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any changes have been made to the board regulations during the year:

Yes No X

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies and the processes and criteria to be followed for each of these procedures.

Appointment of Directors:

Pursuant to article 8 of the Regulations of Enagás' Board Regulations:

- 1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions of the Ley de Sociedades de Capital (the "Corporate Enterprises Act") and the company's Articles of Association.
- 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 Articles of Association. The Appointments, Remuneration and Social Corporate Responsibility Committee is responsible for proposing the appointment of Independent Directors. The proposals for the appointment or re-election of Non-independent 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, Remuneration and Social Corporate Responsibility Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes. Proposals shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board. The foregoing will also be applicable to natural persons appointed as representatives of a legal person Director. The proposal for a natural-person representative must be submitted to the Appointments, Remuneration and Social Corporate Responsibility Committee.
- 3.- The Board of Directors must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge, that do not suffer from implicit biases that entail any discrimination and, in particular, that facilitate the selection of female directors.

(Continues in section H) OTHER INFORMATION OF INTEREST.- EXPLANATORY NOTE ON SECTION C.1.19).

C.1.20 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

#### Description of amendments

The annual evaluation of the Board has paid special attention to those key aspects with respect to which the Directors expressed interest or some concern in the evaluation of previous years. The areas analyzed were the following:

Composition and structure of the Board and its Committees, functioning and debate within the Board, leadership, personal contribution, global assessment and an open question aimed at offering the Director the opportunity to provide more direct and subjective feedback.

The evaluation has resulted in a series of positive issues and certain areas for improvement. The Directors have considered very positively, among other issues, the open and effective communication between the Board and the Management of the company as well as the relevant and useful expertise and knowledge of the Directors who have recently joined the Board.

Likewise, the Directors value the efforts made in order to supervise the strategic plan, the supervision of risks

and the internationalization of the company. Training plans in general and lunches / presentations with Personalities of the sector aimed at strengthening the skills of the Directors and their performance have also been valued positively by the Directors, as well as the training received on regulation.

The company takes into account every year the result of the evaluation of the Board in order to improve its internal functioning, deliberation and decision making. It should be noted that recently it has been restructured the agenda of the Board to ensure adequate discussion of the priority issues as well as the implementation of an annual training program aimed at reinforcing the skills of Directors

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board, assisted, if applicable, by an external adviser, concerning diversity in its composition and skills, the functioning and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

The Board evaluation process began via a resolution by the Appointments, Remuneration and CSR Committee appointing Morrow Sodali as an independent expert, based on its renowned solvency and prestige among international investors, particularly those with shareholdings in Enagás.

Morrow Soldali sent a questionnaire to each Director and conducted interviews with several key Directors, who issued their opinions on a series of questions related to the composition and structure of the Board and its committees, on the performance of the Board and its committees, on the relations and procedures of the Board and its committees, and on implementation of improvement plans.

C.1.20.ter Explain, if applicable, the business relationship the adviser or any group company maintains with the company or any group company.

Enagás does not have any direct contractual relationship (nor has had it in recent years) with SODALI other than the independent evaluation of the Board. However, Enagás engages Santander Global Corporate Banking for a variety of services related to its General Shareholders' Meeting which, in turn, includes certain services that this firm contracts with SODALI regarding advisory on the relations with international investors and proxy advisers.

C.1.21 Indicate the cases in which directors must resign.

In accordance with the Good Governance recommendations, articles 12.2 and 12.4 of the Rules Regulations of the Organisation and Functioning of the Board of Directors stipulate that:

2.- Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:

- a) When they are affected by instances of incompatibility or prohibitions laid down in Law, the Articles of Association, and in 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 damage its credibility and reputation. Once a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the Board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign.
- d) When the reason for which they were appointed as Directors no longer exists.
- e) When Independent Directors cease to meet the conditions required under article 9.
- f) When the shareholder represented by a Significant-Shareholder Appointed Directors sells its entire interest. They shall also do so, in the appropriate number, when that shareholder reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

Should the Board of Directors not deem it advisable to have a Director tender their 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 their new circumstances.

When a Director gives up his place before his tenure expires, through resignation or otherwise, he shall state his reasons in a letter to be sent to all members of the Board of Directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

4.- After a Director has been removed from their post, they may not work for a competitor company for a period of two years, unless the Board of Directors exempts them from this obligation or shortens its duration.

C.1.22. Section revoked.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

If applicable, describe the differences.

**Yes**                      **No**                      X

C.1.24 Indicate whether there are any specific requirements other than those relating to the Directors, to be appointed Chairman.

**Yes**                      **No**                      X

C.1.25 Indicate whether the Chairman has the casting vote:

**Yes**                      **No**                      X

C.1.26 Indicate whether the Articles of Association or the board regulations set any age limit for Directors:

**Yes**                      **No**                      X

C.1.27 Indicate whether the Articles of Association or the Board regulations set a limited term of office for Independent Directors different to the one established in the regulations:

**Yes**                      X                      **No**

**Maximum number of years in office** ..... 12

C.1.28 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

According to article 39 of the Articles of Association, the Board of Directors' meeting shall be validly constituted when one half of the membership plus one member are in attendance or represented at it. The Directors must attend the meetings of the Board in person. Without prejudice to the foregoing, Directors may grant a proxy to another Director. Non-Executive Directors may only grant a proxy to other Non-Executive Directors.

In addition, according to article 7.3 of the Board Regulations, Directors must attend the meetings of the Board in person. Without prejudice to the foregoing, Directors must grant a proxy to another Director. Non-Executive Directors may only grant a proxy to other Non-Executive Directors. Proxies for the representation of absent Directors may be granted by any means, with a telegram, facsimile or email addressed to the Chairman or Secretary of the Board being valid.

C.1.29 Indicate the number of board meetings held during the year. Indicate, where appropriate, how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

**Number of Board meetings** ..... 11

<b>Number of Board meetings held without the Chairman's attendance</b>	<b>0</b>
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If the Chairman is an Executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the Lead Director.

<b>Number of meetings</b>	<b>0</b>
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Indicate the number of meetings of the various board committees held during the year.

Committee	No. of meetings
<b>AUDIT AND COMPLIANCE COMMITTEE</b>	<b>7</b>
<b>APPOINTMENTS, REMUNERATIONS AND CSR COMMITTEE</b>	<b>5</b>

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

<b>Number of meetings with all members present</b>	<b>9</b>
<b>% of attendance of the total votes cast during the year</b>	<b>82.00%</b>

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

**Yes    X    No**

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the Board.

Name	Position
<b>MR FRANCISCO BORJA GARCÍA-ALARCON ALTAMIRANO</b>	<b>CHIEF FINANCIAL OFFICER</b>
<b>MR ANTONIO LLARDEN CARRATALA</b>	<b>CHAIRMAN</b>

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The Board of Directors shall see to it that the Financial Statements and the Directors' Report provide a true and fair view of the company's equity, financial position and results of operations, in accordance with the law.

The Board of Directors shall ensure that financial statements are presented in such a way that there are no grounds for qualifications by the company's Accounts Auditor, by taking into account all comments or recommendations that the Audit and Compliance Committee may have made previously in its report.

As a committee delegated by the Board, the Audit and Compliance Committee is assigned certain competences that are effective mechanisms to prevent the financial statements compiled by the Auditor from being presented with qualifications in the audit report, according to Article 7 of the applicable regulation:

- Overseeing the preparation and presentation of financial information on the company and the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
- Examining the information on activities and results of the Company which is prepared and published periodically in accordance with the prevailing regulations relating to the securities market, seeking to ensure transparency and exactness in the information.
- Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
- Informing the Board of Directors on the annual financial statements prior to their preparation, as well as

on financial information which the Company must periodically disclose publicly.

- e) Ensuring that the Board of Directors endeavours to present the financial statements in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
- f) Assessing any proposals made by senior managers regarding changes in accounting practices.
- g) Liaising with the External Accounts Auditor to obtain information on issues related to the procedure for auditing financial statements, and on potential safeguards to adopt and pre-empt conflicts that may arise.
- h) Reviewing the content of audits, limited review reports of interim financial statements and other required reports of statutory auditors prior to their issue in order to prevent qualifications.

During the financial year, the Audit and Compliance Committee shall meet with the Auditor quarterly in order to obtain their conclusions regarding the quarterly revision prior to the publication of results. Likewise, interim condensed consolidated financial statements are subject to a limited revision by the Accounts Auditor with the issuance of the corresponding report.

The competences of the Audit and Compliance Committee are designed to minimise the impact of any accounting aspect that becomes evident throughout the financial year, and allows the members of the Board of Directors and the Audit and Compliance Committee to be kept up to date on the most relevant aspects of the audit throughout the year.

C.1.33 Is the secretary of the Board also a Director?

Yes                      No                      X

Complete if the Secretary is not also a Director:

Name or corporate name of the Secretary	Representative
MR RAFAEL PIQUERAS BAUTISTA	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The Enagás Code of Ethics serves as a code of conduct for all employees in their professional activities and in relation to all the company's stakeholders. Enagás has the necessary procedures to ensure due diligence in the issues related to this area, as well as an Ethical Compliance Committee, which is a collegiate body to which the Audit and Control Committee delegates management of the notifications and consultations concerning this matter.

Compliance with the Code of Ethics is mandatory for all employees, managers and administrators of Enagás, as well as its suppliers, contractors and collaborators or business partners in their spheres of the company. Affiliates have an ethics and compliance model that is appropriate for the environment they operate in.

The Enagás Audit and Compliance Committee, in accordance with the provisions of Article 7 of the applicable regulation, shall safeguard the independence of the External Accounts Auditor:

- a) Establish an appropriate relationship with the External Auditors in order to receive information on those questions which may represent a threat to their independence. Specifically, the discrepancies that may arise between the auditor of accounts and Company management, for their examination by the Committee, and any other discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit, and finally reaching a conclusion with respect to the system's reliability.

- b) Receive those other communications provided for in audit legislation and audit standards.
- c) Proceed with the authorization of services other than those prohibited, in accordance with prevailing regulations..
- d) By ensuring that the company and External Accounts Auditor adhere to the current laws regarding auditor independence.
- e) Ensuring that the fees of the External Accounts Auditor do not threaten their quality and independence, and are not based on any form of contingency.
- f) In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
- g) It shall receive an annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to them, in conformity with audit regulations.
- h) Anually report, prior to the issuance of the audit report, the Audit and Compliance Committee shall issue a report in which an opinion is expressed on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered contained in it that could comprise the independence of the Accounts Auditor, and it shall be published on the Corporate website sufficiently in advance of the date of the Ordinary General Shareholders' Meeting.
- i) Establishing a maximum term of auditor engagement, ensuring a gradual rotation with the main audit partners.

In relation to the mechanisms set out to safeguard the independence of financial analysts, investment banks and rating agencies. Communication and Contact Policy with Shareholders, Institutional Investors and Proxy Advisers, approved by the Board in 2015, sets out the framework of action for the company's relationship with shareholders, analysts, investors and proxy advisers, with the application of the principles of good governance and corporate values, such as transparent reporting, continuity, accessibility and immediacy, the fostering of shareholder trust, protection of their rights and encouraging their participation, equal treatment and non-discrimination, and compliance with the laws in force, etc.

In line with Enagás' Corporate Governance System, the Board of Directors has put in place systems allowing for regular information exchange with shareholders on topics such as investment strategy, assessment of performance figures, the composition of the Board of Directors and management efficiency. Under no circumstances can this information create situations of privilege or attribute special advantages with regard to the other shareholders. In addition, within the scope of its activities the Finance Department provides investment banks with the information they need.

To this end, Enagás has an Investor Relations Area, to permanently deal with enquiries or suggestions from analysts and institutional investors, professionals or qualified persons, rating agencies, bondholders, as well as those from socially responsible investors (SRI), by providing a telephone number and email address for this purpose. Shareholders, investors and analysts can avail themselves of full and updated information via the following channels: the Investor Relations Department and the Shareholder Information Office.

As stipulated in article 5 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, the Board shall adopt and execute all acts and measures required to ensure transparency of the company with regard to the financial markets, uphold the proper formation of prices for the company's and its subsidiaries' shares, and perform all functions attending the company's status as a listed company pursuant to current laws and regulations.

Last, likewise, article 7 section f ) of the Enagás Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, this Committee is responsible for assessing compliance with the Internal Code of Conduct in Matters Relating to Securities Markets, the company's governance regulations in general,

and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.

It also assists with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

**Yes**                      **No**                      X

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its Group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its Group.

**Yes**                      **No**                      X

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

**Yes**                      **No**                      X

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its Group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	2	2
<b>Number of years audited current audit firm/ Number of years the company's financial statements have been audited (%)</b>	4.00%	4.00%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

**Yes**                      X                      **No**

**Procedures**

Article 15 of the Regulations of the Board stipulates that Directors shall further be entitled to propose to the Board of Directors the engagement, at the company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to such performance.

The proposal must be communicated to the Chairman of the Board via the Secretary of the Board. The Board of Directors may withhold its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost (disproportionate in relation to the problem and assets and revenues of the company) or believes that such technical assistance can be adequately provided by experts and technicians from within the company.

The company shall organise induction programmes for new Directors to acquaint them rapidly with the workings of the company and its corporate governance rules. It shall also offer Directors refresher courses when circumstances so dictate.

C.1.41 Indicate, and give details if any, whether there are procedures for Directors to receive the information



they need in sufficient time to prepare for meetings of the governing bodies.

Yes      X      No

Procedures

Article 6 of the Board Regulations establishes that:

1.- The Board of Directors shall meet at least once every two months and, in any case eight times a year, and on the motion of the Chairman, whenever the Chairman deems it fit for the proper running of the company.

A call must be issued when so requested by a majority of the Directors, as set forth in article 39 of the Articles of Association.

Directors who represent at least one third of the members of the Board of Directors may call the meeting, stating its agenda, to be held in the locality where the registered office is located, if they have requested the Chairman to convene the meeting, and the meeting has not been called within one month without reasonable cause.

Except in cases of where the Board has been constituted or has been convened exceptionally on account of urgent circumstances, the Directors must have the requisite information at their disposal sufficiently in advance to be able to deliberate and adopt resolutions on the business to be transacted. To this end, the Agenda of the meetings shall clearly indicate those points on which the Board of Directors must take a decision or resolution. The Chairman of the Board of Directors, in collaboration with the Secretary, must ensure that this obligation to provide information is fulfilled.

In those cases in which, exceptionally, for reasons of urgency, the Chairman wishes to submit to the approval of the Board decisions or resolutions not appearing in the Agenda, this shall require the express prior consent of the majority of the Directors present at the meeting, which will be duly recorded in the minutes.

Ordinary meetings of the Board shall transact general business relating to the Group's performance, earnings, balance sheet, investments, the company's cash position and how it compares to the adopted budget, the business referred to in article 5, if applicable, and the business listed on the agenda, to be drawn up pursuant to these Board Regulations.

At these regular meetings the Board shall receive timely information on the movements of the shareholders and of the opinion that significant shareholders, investors and rating agencies hold regarding the company and its Group. Similarly, the Board of Directors shall receive timely information on the main operational achievements and difficulties and any foreseeable circumstances which may prove critical for the company's affairs, and shall consider the course of action proposed by company management in response.

2.- Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any channel, and shall specify the meeting venue and agenda. The Chairman shall call the Board to meet when so requested by the Lead Independent Director in accordance with article 18 of these Board Regulations.

The notice of meeting, which other than in exceptional circumstances shall be issued at least three days in advance of the intended date of the meeting, shall contain all information and documents thought appropriate or relevant for Directors to be properly informed. Directors shall further be furnished with the minutes of the previous meeting, whether or not such minutes have been adopted.

The power to set the agenda of a meeting rests with the Chairman, but any Director may request in advance of the calling of such meeting that there be added to the agenda any items which in his/her view ought to be addressed by the Board.

The Board shall be properly constituted without need of prior notice if, all Directors being present in person or by proxy, the Directors unanimously consent to the holding of the meeting.

3.- Board Meetings shall ordinarily be held at the registered office, but may also be held at any other venue

determined by the Chairman of the Board and specified in the notice of meeting.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging Directors to inform the board of any circumstances that might harm the Organisation's name or reputation, tendering their resignation as the case may be.

Yes X No

Details of rules

Pursuant to Good Corporate Governance recommendations, article 12 of the Board Regulations establishes that Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, when, inter alia, they may put the interests of the company at risk or damage its credibility and reputation. Once a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign.

When a Director gives up his place before his tenure expires, through resignation or otherwise, he shall state his reasons in a letter to be sent to all members of the Board of Directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

C.1.43 Indicate whether any Director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Corporate Enterprises Act:

Yes X No

**Name of the director:**

DON ANTONIO LLARDÉN CARRATALÁ

**Criminal Cause:**

Subject Caixa Catalunya.

**Observations:**

Pending conclusion of oral trial.

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Yes X No

**Decision taken / action taken:**

That this situation does not jeopardize the interests of the Company or harm its credit or reputation, and that the Appointments, Remuneration and Corporate Responsibility Committee continue monitoring of this matter giving timely account of it to the Board in plenary session.

**Reasoned explanation:**

In accordance with the provisions of the Regulations for the Organization and Functioning of the Board of Administration of the Company, the Chairman of its Board of Directors has kept punctually informed the Nominating, Compensation and Corporate Social Responsibility Committee and Board of Directors of all the incidents of a judicial procedure that affects more than 40 people who, as is their case, were part of the day of

the Caixa Board of Directors Catalunya, position in which it ceased in 2011, and that as of the date of this report is pending of holding oral trial.

After the monitoring and timely assessment of the situation, the Appointments, Remuneration Committee and Corporate Social Responsibility and the Board of Directors have concluded: i) that this situation does not jeopardize the interests of the Company or harm its credit or reputation, and ii) that the Commission of Appointments, Remuneration and Corporate Responsibility continue to follow up on this matter giving timely account of it to the Board in full.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Enagás does not have such significant agreements

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	11
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**Type of beneficiary**

Executive Directors and Senior Management

**Description of the agreement:**

The company has an agreement with the Executive Chairman, the Chief Executive Officer and NINE (9) 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, court 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.

The termination benefits to which the Executive Chairman and Chief Executive Officer are entitled are equivalent to two years of their fixed and variable remuneration.

The termination benefits to which the NINE (9) Officers are entitled depend on their length of service at the company and their age.

All such contracts have been approved by the Board of Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its Group.

	Board of Directors	General Shareholders’ Meeting
Body authorizing clauses	Yes	No
Is the General Shareholders’ Meeting informed of such clauses?		X

## C.2 Board committees

C.2.1 Give details of all the Board committees, their members and the proportion of Proprietary and Independent Directors.

### AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Category
MS ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
MS ROSA RODRÍGUEZ DÍAZ	Member	Independent
MR LUIS VALERO ARTOLA	Member	Independent
MR MARTI PARELLADA SABATA	Member	Independent
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Member	Proprietary
% of Proprietary Directors		20.00%
% of Independent Directors		60.00%
% of other External Directors		20.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The Audit and Compliance Committee is governed by applicable legislation, the Articles of Association, and the Rules of Organisation and Functioning of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 21 December 2015, and the Regulations of the Audit and Compliance Committee, the latest amendment of which was approved by the Board of Directors on 21 December 2015.

The Audit and Compliance Committee comprises five (5) members, which is within the limits established in article 44 of the Articles of Association, article 26 of the Board Regulations, and article 3 of the Audit and Compliance Committee Regulations, which set a minimum of three (3) and maximum of five (5) members, appointed by the Board of Directors based, in particular, on their knowledge and experience on accounting, auditing and risk management. Overall, the members of the Audit and Compliance Committee shall have the pertinent technical knowledge of the gas industry.

No executive Director may sit on the Audit and Compliance Committee and the majority of its members must be independent. Four (3) of the Committee's members are independent and we highlight that the President of the Comision and we highlight that the President of the Committee, MS. DOÑA ISABEL TOCINO BISCAROLASAGA, is the only independent director and (1), SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is a Proprietary Director.

MR MARTÍ PARELLADA SABATA, an Independent Director, External Director was appointed Chairman of the Audit and Compliance Committee on 19 May 2015 by the Board of Directors of Enagás based on his knowledge and experience on accounting, auditing or both, as provided for in articles 44 of the Articles of Association and 26 of the Board Regulations.

According to article 3 of the Audit and Compliance Committee Regulations, the Committee Chairman shall be selected from among the Independent Directors by the Board of Directors, and shall not have a casting vote.

As established in article 4 of the Committee Regulations, the term of a Committee member shall be the same as the term of office for a Director. A member of the Audit and Compliance Committee shall vacate that office if he loses his status as Director of the company or if so decided by the Board of Directors. The foregoing notwithstanding the Committee Chairman shall be replaced every four (4) years. A former Chairman may be re-elected after the lapse of one year from his vacating office. The foregoing shall be without prejudice to an outgoing Chairman remaining on the Committee if so resolved by the Board of Directors on adequately reasoned grounds.

The remuneration of Committee members, as provided for in article 5 of the Committee Regulations, will be approved as established in the Articles of Association and the Board Regulations for the setting of remuneration to Directors, subject to the same requirements of public disclosure.

In the exercise of his office, a member of this Committee shall, according to article 6 of the Committee regulations, be under the same duties and subject to the same principles of action as those prescribed for

Directors in the Articles of Association, the Board Regulations and current legislation.

In keeping with article 8 of the Committee Regulations, this Committee must meet at least four (4) times a year and the Chairman shall call as many further meetings as they believe are required for the Committee to discharge its duties.

In 2017, the Audit and Compliance Committee met seven times.

Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director.

Any company employee or Manager of the company deemed relevant may be called to attend the Committee meetings, even ordering their appearance without the presence of another senior officer.

The main purposes of the Committee are to evaluate the company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct and the legislation in force in the area of their competence.

To achieve these objectives, the Audit and Compliance Committee, in addition to the functions established by law for this committee, shall carry out those detailed in Appendix I (Explanatory notes) to this Report.

Identify the Director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years said Director has been Chairman.

Name of Director	MR MARTÍ PARELLADA SABATA
Number of years as Chairman	0

#### APPOINTMENTS, REMUNERATION AND CSR COMMITTEE

Name	Position	Category
MS ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
MS ANA PALACIO VALLELERSUNDI	Member	Independent
MR ANTONIO HERNÁNDEZ MANCHA	Member	Independent
MR JESÚS MÁXIMO PEDROSA ORTEGA	Member	Proprietary
MR LUIS JAVIER NAVARRO VIGIL	Member	Other External
MR RAMÓN PÉREZ SIMARRO	Member	Independent
% of Proprietary Directors		16.67%
% of Independent Directors		66.67%
% of other External Directors		16.67%

**Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.**

The Appointments, Remuneration and Corporate Social Responsibility (CSR) Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations, as amended by the Board of Directors at its meeting of 21 December 2015.

The Appointments, Remunerations and CSR Committee is composed of six (6) Directors, appointed by the Board of Directors, which is within the limits established in the Articles of Associations and the Board Regulations, which set a minimum of three (3) and maximum of six (6) Directors. It consists of six (6) Directors, of which four (4) are Independent Directors, including the Chairman, one (1) is a Proprietary Director and one (1) is an Other External Director.

Article 25 of the Board Regulations stipulates that members of this Committee shall be selected by the Board of Directors, which shall ensure that they have the necessary knowledge, competencies and experience to perform their tasks.

A majority of the members of the Appointments, Remuneration and CSR Committee must be Independent

Directors. Executive Directors may not sit on the Committee, although they may be present if so expressly decided by the Committee.

The Committee Chairman shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

The Committee Chairman is an Independent Director, as provided for in the Board Regulations. Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments, Remuneration and CSR Committee must meet at least four (4) times a year. In 2017, the Enagás Committee met four (5) times.

In addition, meetings shall be called by its Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel of the company and its Group, as deemed necessary in the execution of its duties. Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director.

The duties of the Appointments, Remuneration and CSR Committee are set out in article 45 of the Articles of Association and expanded in article 25 of the Regulations of the Board of Directors. For more information see Appendix I ("Explanatory notes") to this Report.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female Directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
<b>AUDIT AND COMPLIANCE COMMITTEE</b>	2	40.00%	1	20.00%	1	20.00%	1	20.00%
<b>APPOINTMENTS, REMUNERATION AND CSR COMMITTEE</b>	1	16.67%	2	33.33%	1	20.00%	1	16.67%

C.2.3 Section revoked.

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the Board Committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. In addition, indicate whether on a voluntary basis any of the Board Committees has produced an activity report.

The Regulations of the Audit and Compliance Committee are available for consultation at the headquarters of Enagás and on its website at [www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com). The latest amendment to these regulations was approved by the Board of Directors of Enagás, S.A at its meeting of 21 December 2015 to adapt to good governance recommendations and Law 22/2015, of 20 July on Auditing. The Appointments, Remuneration and CSR Committee prepared a report on the Audit and Compliance Committee's activities in 2017, which will be published on the website sufficiently in advance of the General Shareholders' Meeting and is included in this Report in Appendix II.

The Appointments, Remuneration and CSR Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations. The Articles of Association and the Board Regulations are available for consultation at the headquarters of Enagás and on its website ([www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com)).

C.2.6. Section revoked.

## D Related party and intragroup transactions

D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

### Procedures for approving related party transactions

In accordance with the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A.:

1.- It will be the responsibility of the Board of Directors to identify and approve, pursuant to a report from the Audit and Compliance Committee, transactions carried out by the company or the companies in its Group with Directors under the terms set forth in Articles 229 and 230 of the Corporate Enterprises Act, or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the boards of other companies belonging to the Group or with persons associated with them. The affected Directors or those who represent or are related to the affected shareholders must refrain from participating in deliberating and voting on the resolution in question.

The aforementioned transactions shall be assessed from the point of view of equal treatment and on an arm's length basis, and shall be disclosed in the Annual Corporate Governance Report and in the company's regular public reporting as provided in applicable laws and regulations.

2.- The approval provided in the previous paragraph shall not be required, however, for transactions that simultaneously comply with the three following conditions:

- a) they are governed by standard form contracts applied on an across-the-board basis to a large number of customers;
- b) they go through at market prices, generally set by the person supplying the goods or services; and
- c) their amount does not exceed 1% of the company's annual revenues.

3.- If the conditions provided in the paragraph above are met, the affected parties shall not be under a duty to report said transactions.

4.- In the event of duly documented, urgent reasons, related party transactions may be authorised, as applicable, by delegated bodies and persons, who must be ratified at the first meeting of the Board of Directors held after the decision is adopted.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its Group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
<b>BANK OF AMERICA CORPORATION</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	12,234
<b>RETAIL OEICS AGGREGATE</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,418
<b>BLACKROCK INC</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,718
<b>FIDELITY INTERNATIONAL LIMITED</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	6,877
<b>STATE STREET CORPORATION</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	10,182
<b>LAZARD ASSET MANAGEMENT</b>	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,269

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or Directors.

Name or corporate name of manager or Director	Name or corporate name of related party	Relationship	Type of transaction	Amount (in thousands of euros)
<b>SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)</b>	ENAGÁS, S.A	Director	Dividends and other benefits paid	16,926

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the Group company:

**ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV**

**Amount (in thousands of euros): 3,439**

**Brief description of the transaction:** Financial revenue on the loan.

Corporate name of the Group company:

**GASODUCTO DE MORELOS SAPI DE CV**

**Amount (in thousands of euros): 2,640**

**Brief description of the transaction:** Financial revenue on the loan.

Corporate name of the Group company:

**PLANTA DE REGASIFICACIÓN DE SAGUNTO, S.A. (SAGGAS)**

**Amount (in thousands of euros): 277**

**Brief description of the transaction:** Financial revenue on the loan.

Corporate name of the Group company:

**TRANS ADRIATIC PIPELINE AG**

**Amount (in thousands of euros): 4,234**

**Brief description of the transaction:** Financial revenue on the loan.

Corporate name of the Group company:

**GASODUCTO DE MORELOS SAPI DE CV**

**Amount (in thousands of euros): 8,376**

**Brief description of the transaction:** Guarantees and sureties extended.

Corporate name of the Group company:

**SWEDEGAS, AB**

**Amount (in thousands of euros): 24,131**

**Brief description of the transaction:** Guarantee commitment.

Corporate name of the Group company:

**TRANS ADRIATIC PIPELINE AG**

**Amount (in thousands of euros): 68,800**

**Brief description of the transaction:** Investment commitments acquired.

Corporate name of the Group company:

**BAHÍA DE BISKAIJA GAS, S.L.**

**Amount (in thousands of euros) 14**

**Brief description of the transaction:** Profit from sales of assets

Corporate name of the Group company:

**MIBGAS, S.A.**

**Amount (in thousands of euros) 21,620**



## **Brief description of the transaction: Purchase of operational gas**

D.5 Indicate the amount from related party transactions.

139,134 (in thousands of euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its Group, and its Directors, management or significant shareholders.

Article 13 of the Board Regulations states that Directors shall perform their positions with the loyalty of a reliable representative, acting in good faith and in the best interest of the company. In particular, the duty of loyalty requires that Directors:

[...]

- c) Refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as Director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.
- d) Perform their functions according to the principle of personal responsibility with freedom of judgement or judgement and independence relating to instructions from and links with third parties.
- e) Adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the company.

In particular, the obligation to avoid conflicts of interest referred to in the preceding paragraph requires that Directors refrain from:

- a) Conducting transactions with the company, except for routine transactions carried out under standard conditions for the customers and having little import, which are understood to be those that are not required to be reported in order to express a true and fair view of the equity, the financial position and results of the entity.
- b) Using the name of the company or invoking their position as director to improperly influence the conducting of private transactions.
- c) Using the corporate assets, including the company's confidential information, for private purposes.
- d) Taking advantage of the company's business opportunities.
- e) Obtaining benefits and remunerations from third parties other than the company and its group associated with the performance of their duties, except for acts of mere courtesy.
- f) Conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the company or which, in any other manner, place them in permanent conflict with the company's interests.

The above provisions will also be applicable if the beneficiary of prohibited acts or activities is a person related to the Director.

In any event, Directors must inform the other Directors and the Board of Directors of any direct or indirect situation of conflict that they or persons related to them make have with the company's interests.

Direct and indirect conflicts of interest in Directors become involved shall be disclosed in the Annual Report.

In addition, concerning transactions carried out with related parties, the company must adopt the following measures:

- a) Report them twice a year to the CNMV and include them in the Annual Report in the Corporate Governance section.
- b) Submit them in a draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Appointments, Remuneration and CSR Committee, and assess whether they satisfy market criteria

All those described as being subject to this Internal Code of Conduct must:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal assets and liabilities or any other reason. Communications must be made within fifteen (15) days and, in any case, before the decision that may be affected by the potential conflict of interest is taken.
- Keep the information updated, taking into account any modification or cessation of previously reported situations as well as the emergence of new conflicts of interest.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the company.

The Audit and Compliance Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 26 of the Board Regulations, is assigned the following duties:

- a) To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
- b) To report to the Board of Directors on any related party transactions before authorisation thereof. Under no circumstances shall the Board of Directors authorise any transaction which has not been issued a favourable report from the Appointments, Remuneration and CSR Committee as outlined in article 14 bis of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., except for those transactions which meet the three conditions stipulated in article 14 bis.
- c) To report to the Board of Directors on measures to be taken in the event of breach of these Rules and Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and CSR Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

**D.7 Is more than one Group company listed in Spain?**

**Yes                      No                      X**

Identify the listed subsidiaries in Spain:

**Listed subsidiary**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies;

**Define business dealings between the parent and listed subsidiary, as well as between the subsidiary and other Group companies**

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other Group companies.

**Mechanisms to resolve possible conflicts of interest**

## Risk control and management systems

### E.1 Describe the risk management system in place at the company, including fiscal risks.

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 you to adapt to the complexity of your business activity in a competitive environment globalized, in a complex economic context, where the materialization of risks is faster and with a contagious effect evident. The model is based on the following aspects:

- The establishment of a risk appetite framework that is consistent with the stated business targets and the market context within which the company carries out its activities (see details in section E.4);
- The consideration of standard risk typologies to which the company is exposed (see details in section E.3);
- The existence of governance bodies with responsibilities for overseeing the company's level of risk (see section E.2);
- The segregation and independence of the functions of risk control and management at the company, on three lines of "defence";
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The risk control and management function is articulated around three lines of defence, with differentiated roles and responsibilities, as follows:

- 1st line of defence: made up from the organisational units which assume the risks in the ordinary course of their activities. They own and are responsible for identifying the risks.
- 2nd line of defence: the Risk Department, in charge mainly of ensuring that the risk control and management system works correctly, defining the regulatory framework and approach, and performing periodic monitoring and overall control of the company's risks.
- 3rd line of defence: the Internal Audit Department, in charge of supervising the efficiency of the risk controls in place.

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.

Enagás has established a regulatory framework for risk through the "Risk Control and Management Policy" and the "General Regulations for Risk Control and Management" setting out the basic principles governing the risk function and identifying the roles of the various decision-making bodies and the constituent parts of the risk management system.

According to the nature of the events and the triggers, monitored risks are classified as: strategic and business risks, operational and technological risks, credit and counterparty risks, financial and fiscal risks, criminal liability risks, reputational risks and compliance and model risks.

### E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

The main bodies responsible for the Risk Management System and their main functions are:

### **Board of Directors**

The Enagás Group Board of Directors is responsible for approving the risk control and management policy. Other responsibilities with respect to risks are delegated in the Audit and Compliance Committee.

#### *Audit and Compliance Committee*

The mission of the Audit and Compliance Committee is to assist the Board of Directors in all matters related to the company's risks. Its functions related to risk control and management are:

- To oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the company's internal policy. To submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them.
- To assess the company's risks and examine the analyses of risks, the types of which are set out in the internal risk policies, that affect the business. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- To disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

### **Risk Committee**

The Enagás Group's Risk Committee is an executive governance body that assists the Management Committee on all matters related to the company's risks. It coordinates the set of strategic and operational activities to maximise the profitability of the business with certain degrees of uncertainty. Part of the duties of this committee are:

- To oversee compliance with risk regulations, proposing the actions it considers necessary in the event of any breach.
- To establish the risk principles and overall strategy, promoting the integration of the risk management function at all levels and areas of Enagás' business through a common risk culture aligned with the company's objectives.
- To approve risk-measurement approaches, ensuring consistent metrics in order to consolidate the overall risk level.
- To approval the company's overall risk limits and/or thresholds, and, where appropriate, those of the business units and/or corporate departments.
- To supervise that risk remains within levels that the company is willing to accept and that are aligned with its strategy and objectives.
- To regularly review the level of exposure to risk: i) analyse overall risk exposure and exposure of the various businesses and departments, and verify, by risk typology, that the level of risk exposure is below the level of acceptable risk; ii) review the corrective actions proposed by the business units and/or corporate departments to address potential breaches of the established limits.
- To report to and advise the Management Committee on matters related to the company's risks.

### **Risk Department**

The corporate Risk Department is in charge of the overall management of all regulations related to risk, supervising that risk management is applied correctly, disclosed, monitored and improved continuously so that it is aligned with the business needs at all times.

Part of their duties are:

To ensure that the risk control and management systems are functioning correctly. To define the framework of rules and methodologies for the identification, measurement and management of the main risks affecting the company.

- Ensure the proper functioning of risk control and management systems. Define the normative and methodological framework that allows identify, quantify and manage the important risks that affect the company.
- Participate actively in the preparation of risk strategies and in key decisions about their management. To analyse, from a risk perspective, the main risks and participate in the decisions that affect them.
- To supervise that the risk control and management actions proposed by the business units are mitigating risks effectively in the frame of the policy and strategy drawn up.
- To propose to the Risk Committee the company's risk appetite and tolerance, and the structure of the related limits.
- To monitor and control all the company's risks, validating the measurements made by the business units and/or departments.
- To advise the company's departments in risk assessment.
- To propose a global and consistent view of the company's risk through an internal information and control system.
- To disclose the Group's risks and report on the key matters relating to risk to the senior management and Governing Bodies.

### ***Business and corporate units***

These are the various business and corporate units that assume risk in the ordinary course of their activities. Part of their duties are:

- To identify risks in their activity on a regular and systematic basis through the year.
- To assess and measure risks following the established identification and assessment approaches.
- To define risk-management and risk-mitigation and impact control actions in accordance with the defined strategy and the nature of the risks.
- To pass down risk limits and thresholds to lower levels.

### **E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its targets.**

The main risks affecting the Enagás Group in the development of its business can be classified as follows:

#### ***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 Enagás Group's activities are mainly exposed to the following risks:

- Changes in the regulatory framework.

- Evolution of demand, with short, medium and long-term effects, associated with weather conditions, the competitiveness of natural gas with other energy sources, evolution of the economy, etc.
- Permits and administrative approvals.
- Delays and cost over-runs in the execution of infrastructure projects.
- Etc.

### ***Operational and Technological Risks:***

Operation of the Enagás Group's infrastructures may give rise to losses of value or earnings resulting from inadequate or failed internal processes, human error or other external factors.

The main operational and technological risks to which the Enagás Group is exposed are:

- Industrial risks (conditioned by the nature of the fluid being handled), those related to incidents during the operation of transmission infrastructures, regasification plants and underground storage facilities, which may involve large-scale damage.
- Internal and/or external fraud.
- Cybersecurity (economic fraud, espionage, activism and terrorism).

### ***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 accrue interest at fixed rates, and the future cash flows from assets and liabilities that accrue interest at floating rates.

Exchange rate fluctuations may affect positions held with regard to debt denominated in foreign currency, certain payments for services and the purchase of capital goods 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. This risk affects the Enagás Group, both owing to its international operations, fundamentally in Latin America, and intragroup loans in currencies other than the euro, mainly the US dollar.

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.

As regards the execution of large projects, Enagás Group is exposed to uncertainties owing to the effective procurement of finance in conditions similar to those forecast in its business plans. On certain occasions this financial risk may be associated with other risks arising from the agreement terms that set out the conditions of service (which may even lead to the cancellation of the concession agreement).

It is also exposed to potential changes in legal frameworks for taxation and uncertainty arising from the possible different interpretations of prevailing tax laws, which could have a negative impact on results.

### ***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.

### **Reputational Risks:**

Reputational risk refers to any action, event or circumstance that could have a harmful effect on the company's reputation among its stakeholders.

### **Criminal Liability Risks:**

The amendments made to the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this regard, Enagás could be held liable in Spain for certain crimes committed by its directors, officers and staff in the interest of the company. To prevent this risk from materialising, Enagás has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the company.

Likewise, as a result of the company's international activity, the Model has been broadened to cover the requirements of Mexican criminal law and US anti-corruption measures.

### **Compliance and Model Risks:**

The Enagás Group is exposed to compliance risks, which comprises the costs associated with possible sanctions owing to infringement of laws or sanctions derived from the materialisation of operational events, conducting of improper business practices, non-compliance with internal policies and procedures and/or the incorrect use of models.

#### **E.4 Identify if the company has a risk tolerance level, including fiscal.**

The Enagás Group Risk Management and Control Model defines the risk appetite framework, which corresponds to the maximum level of risk the company is willing to take on in order to meet its objectives, and which is expressed by means of risk limits. The level of risk tolerance is the result of the deviation in the level of risk the company takes on at a specific moment in relation to the defined risk appetite.

The Enagás Group has defined a set of limits for the main types of risk that the company may present (strategic risks and business, operational, technological, financial and tax-related, credit and counterparty, and criminal liability risks), with the establishment of the maximum acceptable level of risk, which is updated yearly by the Risk Committee. These limits are specified by a set of indicators that are regularly monitored throughout the year.

#### **E.5 Identify any risks, including fiscal, which have occurred during the year.**

The company had a medium-low risk profile over the course of 2017, similar to that of 2016, partly due to the existence of corporate risk control and management systems. This allowed certain risks to be eliminated from the company's inventory, without their having any negative impact.

Risks that materialised with a negative impact on the company in 2017 related to its heavy exposure to regulatory risk, as certain regulatory developments had a negative impact on the company. Likewise, certain risks materialised, such as in the case of incidents relating to infrastructure and systems involving small economic amounts, as a result of circumstances arising out of transactions carried out and business operations.

In relation to credit risk, certain specific credit events have materialized, whose net impact on the company has been substantially reduced by the guarantee schemes and contractual clauses that protect corporate interests.

#### **E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including fiscal.**

A series of control activities defined by each of the business units and corporate departments are associated with the main risks identified by the company to ensure that it can respond adequately and in a timely manner. The Audit and Compliance Committee and the Risk Committee oversee the implementation of these control activities and monitor the action plans.

The type of controls in place vary considerably depending on the nature of the risk. For instance:

- Regarding regulatory risks, controls and mitigating actions include, inter alia, ongoing cooperation with (domestic and European) regulators and public administrations.
- Regarding infrastructure operation (e.g. damage, incidents), risks are mitigated through the design of maintenance and continuous improvement plans, the definition and monitoring of quality indicators, and control systems and alerts, which ensure service continuity and quality, among others.
- Regarding risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- Credit and counterparty risks are mitigated via establishment of guarantee mechanisms, in accordance with specific regulatory requirements, such as continuous monitoring of the main counterparties' credit profiles.
- To prevent criminal liability risk from materialising, the Enagás Group has approved a Criminal Prevention Model (reviewed in 2016) and has implemented the measures needed to prevent corporate crime and the avoid liability for the company. The finance risks of international projects are handled through a steady and ongoing relationship with the different financial institutions and advisers, and through the continuous monitoring of market conditions.

## **F. Internal control over financial reporting (ICFR)**

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management systems at the company.

### **F.1 The entity's control environment**

Specify at least the following components with a description of their main characteristics:

F1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

As part of the ICFR responsibilities at Enagás, S.A. and Subsidiaries (hereinafter the "Group"), the following bodies and/or functions develop, maintain and oversee the preparation of Group financial information:

#### **Board of Directors**

Pursuant to article 5 b) of the Rules and Regulations of the Organisation and Functioning of the Board of Directors, the Board of Directors is responsible for "the determination of the company's tax strategy and of its risk control and management policy, including regarding tax risks, and the oversight of its internal formation and control systems", and is ultimately responsible for guaranteeing an internal control environment conducive to complete, reliable and timely financial reporting.

Pursuant to article 26 of the same regulations, the Audit and Compliance Committee has been delegated the duty of overseeing the internal formation and control systems.

#### **Audit and Compliance Committee**

The Audit and Compliance Committee is responsible for "overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles". It must also "report to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information", according to article 7 a) of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A and Subsidiaries.

Likewise, article 44 of the Consolidated Articles of Association states that the Audit and Compliance Committee is responsible for seeing to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems. In addition to discussing any



significant weaknesses in the internal control system detected in the course of audit with the auditors without impinging on its independence.

To carry out its duty of oversight of the effectiveness of internal control, the Audit and Compliance Committee has the support of an Internal Audit Unit, as established in the General Internal Audit Regulations.

### **Finance Department**

The Finance Department is responsible for designing, implementing and ensuring there is a suitable and efficient ICFR system. The Internal Control over Financial Reporting Unit assists it in these duties, it is key to managing ICFR and has the following tasks:

- Guaranteeing the integrity and internal coherence of the ICFR.
- Monitoring the updating and documentation of the sub-cycles/processes which affect the preparation of financial information (carried out by the people in charge of the sub-cycles/processes).
- Overseeing the updating and maintenance of the ICFR management tools.
- Managing the self-assessment of the ICFR system and monitoring the results.
- Coordinating the ICFR risk assessment and periodically updating the risk map.
- Carrying out an annual evaluation of the requirements to update the document attributing the accounts to ICFR areas, in order to maintain the required standard of financial information.
- Drawing up and updating the Enagás Group Internal Control over Financial Reporting System Manual (ICFR system Manual).
- Updating and disseminating applicable ICFR system regulations, both internal and external.
- Identifying the training needs and organisational/execution needs for courses relating to ICFR or other related issues (these are channelled via the Training School programme included in the Training Plan and Training Programme).
- Monitoring and updating the model for defining scopes.
- Collaborating with the Internal Audit Department, ensuring independence at all times.
- Collaborating in classifying any deficiencies detected during reviews of the ICFR system (material weaknesses, significant deficiencies, insignificant deficiencies).
- Collaborating in implementing corrective measures detected in the reviews of the ICFR.

### **Internal Audit Department**

The Internal Audit Department reports to the Audit and Compliance Committee as per the Internal Audit General Regulations. It is responsible for "assessing and improving the efficiency of risk management processes, internal control and corporate governance".

Its main ICFR duties, which are coordinated by, overseen and supervised by the Audit and Compliance Committee, include:

- Performing tests and assessments of the design, implementation and operational effectiveness of the ICFR system.
- Conducting a series of limited checks on the documentation of cycles and sub-cycles to achieve a preliminary understanding of whether the documentation prepared by Enagás is up to date and to detect which potential control activities should be designed.

- Conducting a series of limited checks to gain a preliminary understanding of the degree of compliance and formalisation of the (manual and automated) controls established by Enagás.
- Verifying the correct implementation of corrective action concerning the ICFR system in accordance with the Internal Annual Audit Plan.

### ***Departments and Business Units involved in preparing financial information***

The people in charge of the sub-cycles/processes involved in the preparation of financial information and whose main duties are:

- Supervising the actions and evaluations carried out for each of the processes for the cycles in the Areas, with the possibility of eventually carrying out tests to confirm the results of specific controls.
- Establishing, monitoring and evaluating the effectiveness of the control activities within the cycles/sub-cycles, mainly concerning communication, allocating responsibilities, delegating competences, segregating duties and managing access to information and other critical resources, developing and modifying the processes (both operational and control) and support systems.
- Coordinating the design, documentation and implementation of ICFR system processes, ensuring objectives to manage all processes in question are met.
- Ensuring that all documentation concerning the process is kept up to date (who, what, how, rules, proof, etc.) as well as that concerning the ICFR system control and risk objectives.
- In the case of amendments or updates to regulations, procedures, instructions etc., the owner of the process shall notify the ICFR Unit.
- Reporting, formally and periodically on the outcome of the self-assessments carried out.
- Collaborating in identifying qualitative factors which may affect the inclusion of this process in the general ICFR model.
- Implementing and promoting the implementation of corrective action in the area of ICFR.

The allocation of ICFR responsibilities is reflected in the positions within the Group's organisational structure, and included in the job analysis and description sheets containing the description of the assigned tasks. Any changes in the allocation of responsibilities are made to the organisational structure and these sheets, as set forth in the company's "Organisational Development and Processes" procedure.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

**Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The design and review of the organisational structure as well as defining clear lines of responsibility falls to the Appointments, Remuneration and Corporate Responsibility Committee as stipulated in article 25 of the Regulations of the Board of Directors of Enagás, S.A.. The Appointments, Remuneration and CSR Committee under article 45 of the Articles of Association, has the following duties and powers [...]: To formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of Senior Management posts in order to achieve improved and more efficient company administration [...].

Likewise, the Corporate Resources and People Department is responsible for designing, implementing and updating the organisational structure. The internal mechanisms used by this department, to clearly define the lines of responsibility, are enumerated in:

- "Job Analysis and Description Sheets"
- The "Human Resources Development Procedure"
- The "Organisational Development and Processes Procedure"

Which, among other issues, establish and develop, in accordance with the company's strategy and business and operating needs, the organisational structure of the departments/units, the overall management model for processes and job descriptions.

The particular features of the ICFR lines of responsibility and authority are regulated by the "Enagás ICFR Manual" as well as various rules and regulations concerning the key governing bodies and Senior Management. Meanwhile, specific ICFR-related responsibilities are considered in the design of the model, aligned with those defined in the Job Analysis and Description Sheets. Versions of the ICFR model are generated periodically to reflect the changes over time in job responsibility.

Also worth noting is the Powers of Attorney and Electronic Signature Certificates Management procedure, which sets out the actions to ensure that responsibilities are given appropriately. The organisational structure is available to all employees on the Intranet in the form of an organisational chart and is regularly updated. In addition, the specific rules and procedures detailing the related responsibilities are published on the Intranet, as stipulated in the General Regulations for Rules and Process Management.

**Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The following documents are available to all employees as part of the Group's Policy on Sustainability and Good Governance and other corporate policies:

#### ***Internal Code of Conduct in Matters Relating to Securities Markets***

As stipulated in article 5 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., the company has an Internal Code of Conduct in matters relating to Securities Markets which was drawn up and approved by the board. These regulations establish the rules for acting in securities markets and mandatory registries, in particular concerning the following:

- Conduct in situations of Privileged or Classified Information, and the handling of such information;
- The trading of Affected Securities of Enagás or companies in its business group;
- Detecting and dealing with conflicts of interest;
- Company relations with related parties;
- The treasury share policy of Enagás and its subsidiaries;
- Generally, compliance with securities market and market abuse regulations.

These regulations are applicable to the members of the Board of Directors of Enagás, to the members of the Board of Directors, where appropriate, of the Management Committee for Subsidiaries and affiliates to Senior Management, as well as managers and other staff involved in securities market operations or with access to privileged or classified company information, including External Advisers, as stipulated in articles 2, 3 and 4. In this regard, upon receiving a copy of the regulations covered, persons must sign a statement acknowledging receipt and declaring that they are aware of their obligations. These regulations are also available on the Corporate website and via Intranet.

The Audit and Compliance Committee is responsible for ensuring compliance with the regulations and the company's general governance rules, and makes suggestions, as necessary, to improve these (Article 7 of the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. And Subsidiaries). The person in

charge of Regulatory Compliance, in coordination with the General Secretariat, will ensure precise and true compliance with the obligations contained therein, with the requirement to regularly report to the Audit and Compliance Committee on the degree of compliance and any incidents detected in relation to its application for evaluation by the Committee, as stipulated by Article 20.1 of the regulations.

### **Enagás Group Code of Ethics**

The "Enagás Group Code of Ethics, approved by the Board of Directors at its meeting of 15 December 2014, is designed to formalise [...] the ethics and compliance model of the company, providing a description of the conduct expected of its employees, managers and directors ("persons") irrespective of their responsibilities and their geographic or functional location [...]."

Moreover, the company "[...] undertakes to inform and train appropriately both the persons at Enagás and third parties so that they are aware of and comply with this Code of Ethics, as well as the regulations, commitments and procedures that implement it. All these receive this Code and expressly confirm their commitment to knowing, complying with and enforcing it [...].": The Code is available on the external website and the Intranet.

The conduct guidelines contained in the document, which are listed below, address issues related to financial reporting:

- Be trustworthy and transparent: "[...] The persons at Enagás ensure the reliability and rigour (they provide accurate, complete, understandable and timely information) of the financial and non-financial information both for internal use and provided to the market, and the accounting policies, control systems and supervisory mechanisms defined are applied so that the relevant information is identified, prepared and communicated in due time and form [...]"
- Expressly reject fraud, corruption and bribery: "In their relationships with third parties, including public authorities, the persons at Enagás can neither offer nor accept gifts or preferential treatment that is of more than a purely symbolic nature or that could be interpreted as an attempt to gain undue influence [...]"

In this regard, in 2013 the Procedures for Managing the Offering and Acceptance of Gifts was approved and in 2015 the Anti-Fraud, Corruption and Bribery Policy was approved.

The Code states that the Audit and Compliance Committee "[...] is responsible for supervising due execution of the ethics and compliance model, which includes measures for supervision and monitoring to prevent irregularities and offences. Enagás has an Ethical Compliance Committee which reports directly to the Audit and Compliance Committee and which will be responsible for supervising the operation of the ethics and compliance model [...]"

### **Code of Conduct of the Technical Manager of the Spanish Gas System**

A Code of Conduct of the Technical Manager of the Spanish Gas System has been drawn up to "[...] guarantee that the functions of the Technical Manager of the Spanish Gas System are carried out independently from the rest of the activities of the Enagás Group, in compliance with the legally established criteria in the Hydrocarbons Sector Law, Law 34/1998 of 7 October [...].": It was approved by the Board of Directors on 15 December 2014.

As set out in the Code: "It is the obligation of Enagás GTS to keep the list of the individuals subject to this Code of Conduct updated at all times and to send each of these a copy of the Code, requiring them to furnish a letter in which they confirm they have received the Code and declare that they know and accept compliance with the obligations they are subject to".

It also provides that: "[...] The Ethical Compliance Committee is entrusted with ensuring compliance with this Code of Conduct and the effectiveness hereof. It will therefore periodically report to the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. on the results of its assessment and on any deficiencies detected. However, the Managing Director of the Technical Manager of the System will address any queries that may be raised by the employees of Enagás GTS regarding the Code of Conduct [...]."

The Ethical Compliance Committee, pursuant to Article 63.4 d) of the Hydrocarbons Sector Law,

shall prepare a report containing the following information:

- The measures adopted to guarantee the segregation of activities.
- The conflicts of interest reported and the measures adopted to resolve them [...].”

This report will be submitted to the Ministry of Industry, Energy and Tourism and to the National Markets and Competition Commission. Moreover, both this report and the Code of Conduct of the Technical Manager of the Spanish Gas System are available on the external website.

### ***Internal Audit Code of Ethics***

A Code of Ethics for Internal Audit was approved in 2017 laying down the ethical culture in the function as an independent activity. It includes:

1. Principles relevant for the profession and practice of the internal audit:
  - Integrity
  - Objectivity and Independence
  - Confidentiality
  - Competence
2. The Rules of Conduct which describe the behaviour expected from all internal auditors. These rules serve to assist with the interpretation of the Principles in their practical application. Their aim is to guide the ethical conduct of internal auditors.

Once a year all internal auditors must sign a declaration stating that they are cognisant of, understand and uphold these rules. This Code of Ethics is available on the Intranet.

**Whistleblowing channel, for reporting any irregularities of a financial or accounting nature to the Audit Committee, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The company has a whistleblowing channel, the Ethics Channel, for consultation and reporting of irregularities or breaches of the Enagás Group Code of Ethics and the Code of Conduct of the Technical Manager of the Spanish Gas System

The Ethical Compliance Committee is responsible for processing consultations and notifications. This Committee shall respond to all reports and periodically prepare a report to be submitted to the Audit and Compliance Committee. However, according to the “Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics”), if the consultation or notification is of a financial or accounting nature or concerns internal control or fraud, it shall be forwarded directly to the Audit and Compliance Committee.

**Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

The Human Resources Development Division, which reports to the Corporate Resources Department, has a “Training School” which manages and plans all the training programmes and other instruction initiatives for all employees included in the Training Plan and Training Programme.

The Resources and People Department, in coordination with the Finance Department and the Internal Audit Department, identifies and analyses the specific training needs of all personnel involved in preparing and reviewing financial reporting, including issues concerning accounting, internal control and risk management.

During 2017, General Financial Management participated in various training activities together with the Internal Audit Department, amongst which the following were included: Updating the ICSFR, Internal Audit of Information Security, Key Issues in Cybersecurity, model for prevention of non-compliance offenses, Risk Assessment, Prevention and Investigation of Fraud, amongst others.

## F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

### **The process exists and is documented**

Identifying risk is one of the core fundamentals in risk analysis with regards to the preparation of financial information. This process follows the COSO 2013 methodological framework (Committee of Sponsoring Organizations of the Treadway Commission), one of its objectives being to contribute to the transactions carried out are recorded faithfully, in accordance with the corresponding accounting framework providing reasonable security in relation to the prevention or detection of errors that could have a significant impact on the information contained in the consolidated annual accounts.

The "Enagás Risk Control and Management Policy" provides a reference in the area of risk identification, as it states the company's policies on how to deal effectively with uncertainty, risks and the associated opportunities, thereby improving its capacity to generate value in order to achieve the aims of the Organisation, which include reliable financial reporting.

The principles and criteria included in the policy were issued by the Enagás Risk Committee. This Committee is charged with defining, approving and updating the basic criteria and principles guiding actions in relation to risk, as set out in "Functioning of the Enagás Risk Committee" procedure.

The principles set out in the "Enagás Risk Control and Management Policy" are articulated in the "General Regulations for Risk Control and Management", providing an organisational and methodological framework that ensures the risk control and management process is implemented appropriately and effectively.

Specific risks related to the company's Internal Control over Financial Reporting System are classified in this framework under the Group's operational risk category. The identification and measurement of these risks are performed as set out in the Internal Control over Financial Reporting System Manual.

### **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

Pursuant to the "ICFR System Manual", the risk identification process covers all financial reporting objectives to ensure the accuracy and completeness of the same. The manual describes the risks related to the financial reporting process as follows:

- **Completeness:** the risk that all transactions, and other circumstances and events are recorded.
- **Rights and obligations:** the risk that all financial information at any given date does not reflect the rights and obligations through the corresponding assets and liabilities in accordance with applicable standards.
- **Existence and occurrence:** the risk that not all transactions, circumstances and events exist and are not all recorded at the appropriate time.
- **Valuation:** the risk that not all transactions, circumstances and events are recorded and valued in conformity with applicable standards.
- **Presentation, disclosure and comparability:** the risk that not all transactions, circumstances and events are classified, presented and disclosed in the financial information in accordance with applicable standards.

- Internal fraud: includes the risk of manipulation of files, software and information, and the risk of unauthorised activities (involving employees) leading to intentional financial statement misstatements; and misappropriation of funds and assets due to inappropriate use of corporate assets.

Periodically, the ICFR Unit fully evaluates all control processes and corresponding specific risks mitigation measures in place, and at the same time, assesses whether new risks need to be added.

**A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.**

The Finance Department operates a management and updating process to identify those companies which should be included in the scope of consolidation. This process is detailed in the Period-End Procedures for Consolidated Financial Statements and Annual Accounts.

In compliance with article 7 of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, the Committee's duties and competencies include "Overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles".

In determining the companies covered by the ICFR scope, the Group considers those in which it has a direct 100% shareholding, and so for all other consolidated companies, the Group includes controls to ensure consistency, validity and reliability of the financial information provided for inclusion in the consolidated financial statements.

**The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The process of identifying risks associated with achieving the financial reporting objectives takes into account the possible effects derived from the materialisation of other types of risks contained in the risk control and management model described in section e) of this document. These effects would arise, as the case may be, through strategic and business risks, operational and technological risks, credit and counterparty risks, financial and fiscal risks, criminal liability risks, reputational risks and compliance and model risks.

**Finally, which of the company's governing bodies is responsible for overseeing the process.**

The Audit and Compliance Committee is responsible for overseeing the preparation and presentation of financial information on the company, and to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information. It also sees to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems, including risks related to the treatment of financial information, according to article 44 of the Consolidated Articles of Association and article 7 of the Regulations of the Audit and Compliance Committee.

### F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

#### ***Procedures for reviewing and authorising financial information to be disclosed to the markets***

The Organisation has the following documents to ensure the reliability of the financial information to be disclosed to the securities markets:

- “The “Manual of Accounting Policies (PGC)” and the “Manual of Accounting Policies (IFRS)”, which establish and provide clear information on the accounting policies required for performing accounting estimates and preparing the company’s Separate and Consolidated Financial Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows.
- “Period-end procedures for the Separate Financial Statements and Annual Accounts” and “Period-end procedures for the Consolidated Financial Statements and Annual Accounts” approved by the Chief Financial Officer establishing the process of preparing, processing, reviewing and authorising the financial information at the closing of accounts by the persons in charge. These also establish the controls of judgements, estimates and evaluations which may materially affect the financial statements.
- “Procedure on the provision of Regular Reports to Securities Market Regulators” which establishes the process to be followed when preparing periodic financial information to be disclosed to the regulated markets regarding interim financial reports, interim management reports and, if applicable, quarterly financial reports.

This also establishes the people in charge of approving this financial information. With regard to the preparation and subsequent disclosure of financial reporting, the Investor Relations Department, the Finance Department, the General Secretariat, the Board of Directors and the Chairman of the Board all play a key role at the various levels within the Organisation in the validation and approval of all financial information.

### **Description of ICFR: Control and Activities**

The Group’s ICFR control structure is based on the five components of the COSO Model (The Committee of Sponsoring Organisations of the Treadway Commission) included in the Internal Control-Integrated Framework report (2013):

1. The control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

Likewise, the recommendations of the report on “Internal Control over Financial Reporting at Listed Companies” prepared by the CNMV’s Internal Control Working Group (ICWG) (2010) are taken into consideration.

In this regard, the ICFR model states a number of key control objectives which, if fully implemented, allow reliability and transparency in preparing financial reporting. Implementation of these objectives is intrinsically tied to the effectiveness of “Control activities” at each stage of their execution.

In this context, the control structure defined is based on two classes of control:

- General controls
- Process controls

### **General Controls**

The General Controls form the basis of the ICFR model. These are interlinked controls that directly affect the Enagás organisational structure and procedures. These are known as the “control environment” in the CNMV and COSO recommendations.

At the end of 2017, there were 41 ICFR general controls in operation. Senior Management is responsible for overseeing these controls, which are split between the following divisions:

- Secretary to the Board of Directors
- General Secretariat



- Gas System Technical Management Department
- Finance Department
- Resources and People Department
- Investor Relations Department
- Risks Department
- Communication and Public Affairs Office

These controls are assessed once a year to incorporate any updates and to identify new control components.

### ***Process controls***

Process controls (control activities) are controls over an organisation's operating processes that are more specific than general controls. These are part of each of the main cycles and sub-cycles comprising the ICFR procedures, guaranteeing the reliability and transparency of Enagás financial reporting. These are factors which mitigate the risks inherent in the financial reporting procedure mentioned above to ensure the established control objectives are met.

These control activities are used throughout all the ICFR model and the eight Areas which affect financial reporting:

- Acquisitions
- Fixed assets
- Inventories
- Income
- Payroll and personnel
- Financial management
- Support services

### ***Financial reporting***

These areas in turn affect a further 30 cycles and 64 subcycles and are formally documented in a corporate IT tool.

These process controls can be classified with the following different characteristic attributes:

#### ***According to their nature:***

- Preventative: Preventing errors or any irregularities which may affect the information, i.e. preventing the impact of financial risks.
- Detective: Identifying errors or irregularities which may affect the financial information, i.e. identifying errors when they arise.
- Corrective: Correcting errors or irregularities which may affect the financial information, i.e. rectifying errors when they arise.
- Directive (Policy): controls based on the corporate policies procedures/instructions; such controls normally require an authorised signature or formal approval.

- According to level of automation:
- Manual: control mechanisms directly executed by people.
- Semi-automated: control mechanisms executed by people and validated by "IT support" or vice-versa.
- Automated: control mechanisms with "IT support".

The quarterly self-assessment process carried out by the ICFR unit allows the Organisation to confirm the validity of the description of these controls by the people responsible, identifying any updates (new process controls, elimination, automation, etc.).

At the end of 2017, there were 271 ICFR process controls, approximately 15% of which were automated.

### ***Operating activities***

In addition to the controls we have mentioned above, when designing the ICFR subcycles a series of operating activities are defined to establish a flow chart showing how these impact financial reporting. Likewise, these activities are included in a corporate IT tool which establishes the models for the ICFR subcycles.

At 31 December 2017 there were 814 operating activities, approximately 12% of which were automated.

F.3.2 Internal control policies and procedures for Information Technology (IT) systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

IT systems play an important role and are configured to support the preparation, processing and extraction of the financial information to be disclosed. This is why they are included in the ICFR actions and configuration.

All actions concerning information systems are regulated in the Cybersecurity Policy which defines the principles to effectively manage information security in the IT systems, as well as the assets involved in the processes.

Based on the principles of this policy, Enagás has designed the General Rules for Management of IT Systems establishing the responsibilities and the relationship between the requesting units and the IT Systems Department.

We also have General Computer Controls (GCCs). These provide a control framework designed to offer a reasonable level of security in IT systems used for financial reports, guaranteeing, to the greatest degree possible, that the information is confidential, available and complete. At 31 December 2016, there were 46 General Computer Controls covering five control areas:

- Management and Planning
- Physical and logical security
- Application development and maintenance
- Infrastructure development and maintenance
- Fraud prevention and detection

Here we would note that within the Infrastructure Development and Maintenance area is the GCC relating to the Business Continuity and Disaster Recovery Plan.

The objectives established within the framework of General Computer Controls help achieve control objectives related to the processing of computer generated information, through the defining, development, implementation and reviewing of control activities such as user and authorisation management, administrator

management, access control, incident management, change management, business continuity, information storage and recovery, operations monitoring, etc.

Integral to the objectives of control of IT systems is the need to establish an appropriate segregation of duties, which is a prerequisite for an ICFR system to function efficiently and effectively. It is therefore of vital importance that there is a clear distinction between who has to execute actions related to the treatment of financial information, and who has to review and/or approve them. For this reason, correctly allocating profiles, both in IT systems and in terms of positions and functions, is critical to the success of the process.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Enagás is particularly vigilant about any activities carried out by third parties which may significantly impact the financial statements to ensure maximum control over key procedures that may be outsourced, and that the activities are carried out to a standard that the Group demands.

The internal rules regulating this can be found in Identification and Treatment Procedures for Service Organisations.

The Group also has the following regulations and internal procedures regulating the contracting process and ensuring quality control of third parties:

- The General Management Regulations pertaining to Supplier Selection and Contracting
- The Purchase Management Procedures
- The Supplier Accreditation Procedure
- The Procedure for Ensuring Supplier Reliability

When the Organisation engages the services of independent experts for appraisal, calculation or valuation services, we request that they certify they are reputable firms in their field and are independent. This helps ensure that the Group's management is able to supervise and take the ultimate decisions on the estimate processes which may impact accounting records.

#### F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Accounting, Consolidation, and Accounting Policy Management, which reports to the Finance Department is responsible for keeping all accounting policies regularly updated and communicating these to all personnel involved in the financial reporting process.

It has therefore drawn up the Accounting Policy Manual (PGC) and the Accounting Policy Manual (IFRS), internal documents which outline all procedures and the accounting policies required for performing accounting estimates and preparing the company's Separate and Consolidated Financial Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows. Those employees involved in the process are informed of any updates to the policies via the Intranet.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the Entity or Group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The preparation, review and approval of all financial information in standard format is regulated by the Period-end procedures for the Individual Financial Statements and Annual Accounts and the "Period-end procedures for the Consolidated Financial Statements and Annual Accounts", as well as the Accounting Policy Manual (PGC) and the Accounting Policy Manual (IFRS), which serve as guides to carrying out these tasks.

Furthermore there is a specific mechanism for the process of preparing the financial statements and accompanying notes, where the Audit and Compliance Committee, as a Board Committee, takes on a special relevance, overseeing this process (e.g. monitoring the supervision work of the Internal Audit unit, being cognisant of the internal control systems as well monitoring the work performed by the external auditor) before the financial statements are certified by the Board of Directors. The functions of the Audit and Compliance Committee in this regard are detailed in article 7 of the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries.

The Group has an IT tool to record and treat all financial information which satisfies the needs of both individual and consolidated reporting.

## F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

In this context, one of Enagás' top priorities is to take a proactive, and thereby preventative role during a phase of constantly overseeing the model, to ensure that the model is updated and aligned with both the business and the best regulatory practices.

Constant analysis of and following up of ICFR, detecting possible flaws and making sure the corresponding improvements and adjustments are achieved by taking the following measures:

- A regular evaluation of the design and effectiveness of current anti-fraud programmes and controls. Its scope and frequency depends on the importance of the associated risk and the demonstrated effectiveness of the controls in place.
- The participation of the Internal Audit Department, through the supervision functions attributed by the ICFR model through the General Internal Audit Regulations, the Enagás Group ICFR Manual and the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries.
- Effective supervision by the Audit and Compliance Committee, relative to overall control of the ICFR model, delegated by the Board of Directors, and instrumented by Internal Audit.
- Reporting on weaknesses found, taking corrective measures to solve them, establishing mechanisms to track them and assigning the necessary resources to achieve them, according to the instructions in the ICFR Manual.
- Finally, once finalised, and subsequent to the implementation of the proposed measures, a design and final validation process will be undertaken, which will eventually be incorporated into the ICFR model.
- Key throughout this oversight process is the function of Internal Audit which, as set out in the General Internal Audit Regulations, is responsible for:
- Collaborating with the Audit and Compliance Committee in fulfilling its duties, particularly with regard to the supervision of the internal control system and the risk control and management process, to relations with the external auditor and to supervision of the financial information preparation process.

- Participating in the review of the Internal Control over Financial Reporting (ICFR) system established by the company for its subsequent certification.

In order to ensure that these objectives are met, there is an Annual Internal Audit Plan, which is overseen and approved by the Audit and Compliance Committee, and includes a review of the ICFR system.

The Group's management conducted an internal assessment of the ICFR system and concluded that the system in place for Enagás, S.A. and Subsidiaries at 31 December 2017 is effective and contains no significant deficiencies.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's Senior Management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 7 of the Regulations of the Audit and Compliance Committee of the Enagás, S.A. Board of Directors details the objectives and functions of the Committee, including ensuring that the auditor, the Internal Audit function and other experts can inform Senior Management and the Board of Directors, of any significant internal control weaknesses encountered during their review of the financial statements or other assignments. These reports are made after each review task has been completed. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Committee is also in charge of supervising compliance with the Internal Code of Conduct in Matters Relating to Securities Markets. The reports on the activities of the Audit and Compliance Committee contain important information about communication procedures and the conclusions reached at the end of each year.

#### F.6 Other relevant information

During 2017, Internal Control over Financial Reporting System was extended through related entity GNL Quintero, S.A. participated by Enagás Group, being 2017 first year in which this entity consolidate globally its financial statements.

#### F.7 External auditor review

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has voluntarily subjected its ICFR to review since 2008. All reviews have been carried out by the auditor of Enagás, S.A. and Subsidiaries.

The report for 2017 is attached.

#### G. Degree of implementation of corporate governance recommendations

This indicates the degree to which the recommendations of the Good Governance Code of publicly traded companies are implemented.

In the case where a recommendation is not implemented or only partially implemented, a detailed explanation of the reasons for this is to be included so that shareholders, investors and the market in general have sufficient information in order to evaluate the company's course of action. General explanations are not acceptable.

**1. The Articles of Association of publicly traded companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

**Cumple                      Explicue   X**

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Act 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No natural person or legal person may hold, directly or indirectly, an interest in the parent company (ENAGÁS, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or legal persons that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not 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 Act 24/1988, dated 28 July, on the Securities Market, 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 proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Act 24/1988, 28 July.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties." Meanwhile, section 3 of Additional Provision 31 of this law states that:

"The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by article 66 of Act 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system".

Meanwhile, article 6 bis of the company's Articles of Association ("Limitations on holdings in share capital") establishes that:

"No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas

sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation.”

**2. When a dominant and subsidiary company are stock market listed, they should provide detailed disclosure on:**

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
- b) The mechanisms in place to resolve possible conflicts of interest.

**Compliant**                      **Partially compliant**                      **Explain**                      **Not applicable**    X

**3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company’s corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

- a) Changes taking place since the previous annual general meeting.
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

**Compliant**    X                      **Partially compliant**                      **Explain**

**4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company’s website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

**Compliant**    X                      **Partially compliant**                      **Explain**

**5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

**Compliant**    X                      **Partially compliant**                      **Explain**

**6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.
- b) Reviews of the operation of the Audit Committee and the Appointments and Remuneration Committee.

- c) Audit Committee report on third-party transactions.
- d) Report on corporate social responsibility policy.

**7. The company should live broadcast its general meetings on the corporate website:**

**Compliant** X **Explain**

**8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content**

**Compliant** X **Partially compliant** **Explain**

**9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.**

**Compliant** X **Partially compliant** **Explain**

**10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

**Compliant** X **Partially compliant** **Explain** **Not applicable**

**11. In the event that a company plans to pay for attendance at the general meeting, it should establish a general, long-term policy in this respect.**

**Compliant** **Partially compliant** **Explain** **Not applicable** X

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact**



of its activities on the broader community and the natural environment.

Compliant X Partially compliant Explain

- 13. The Board of Directors should be of an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Compliant X Explain

- 14. The Board of Directors should approve a Director selection policy that:**

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total Board places occupied by women directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the Director selection policy and set out its findings in the annual corporate governance report.

Compliant X Partially compliant Explain

- 15. Proprietary and Independent Directors should constitute an ample majority on the Board of Directors, while the number of Executive Directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Compliant X Partially compliant Explain

- 16. The percentage of Proprietary Directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant X Explain

- 17. Independent Directors should be at least half of all Board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, Independent Directors should occupy, at least, a third of Board places.

Compliant X Explain

- 18. Companies should disclose the following director particulars on their websites and keep them regularly updated:**

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the Director class to which they belong, in the case of Proprietary Directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a Board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

**Compliant** X    **Partially compliant**    **Explain**

**19. The Annual Corporate Governance Report, with prior verification by the Appointments, Remuneration and CSR Committee is to provide an explanation for the reasons Proprietary Directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors.**

**Compliant**    **Partially compliant**    **Explain**    **Not applicable** X

**20. Proprietary Directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They shall also do so, in the appropriate number, when that shareholder reduces their stake to a level requiring a reduction in the number of its Proprietary Directors**

**Compliant** X    **Partially compliant**    **Explain**    **Not applicable**

**21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.**

The removal of Independent Directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

**Compliant** X    **Explain**

**22. Companies are to stipulate rules obliging Directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.**

Once a Director is indicted or tried for any of the crimes stated in the Corporate Enterprises Act, the Board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign. The Board of Directors is to provide a reasoned account of such events in the Annual Corporate Governance Report.

**Compliant** X    **Partially compliant**    **Explain**

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The Independent Directors and other Directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a Director.

Compliant Partially compliant Explain Not applicable X

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant X Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant X Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.

Compliant X Partially compliant Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Compliant X Partially compliant Explain

28. When Directors or the secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant X Partially compliant Explain Not applicable

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant X Partially compliant Explain

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant X Explain Not applicable

- 31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly reported/recorded in the minutes, of the majority of directors present.

**Compliant** X      **Partially compliant**      **Explain**

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its Group.**

**Compliant** X      **Partially compliant**      **Explain**

- 33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.**

**Compliant** X      **Partially compliant**      **Explain**

- 34. When a Lead Independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or vice chairmen give voice to the concerns of non- executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the chairman's succession plan.**

**Compliant** X      **Partially compliant**      **Explain**      **Not applicable**

- 35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.**

**Compliant** X      **Explain**

- 36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the Board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- d) The performance of the Chairman of the Board of Directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the Chairmen of Board Committees.

The evaluation of Board Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

**Compliant** X    **Partially compliant**    **Explain**

**37. When an executive committee exists, its membership mix by Director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.**

**Compliant**    **Partially compliant**    **Explain**    **Not applicable** X

**38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.**

**Compliant**    **Partially compliant**    **Explain**    **Not applicable** X

**39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by Independent Directors.**

**Compliant** X    **Partially compliant**    **Explain**

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's non-executive chairman or the Chairman of the Audit Committee.**

**Compliant** X    **Partially compliant**    **Explain**

**41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

**Compliant** X    **Partially compliant**    **Explain**    **Not applicable**

**42. The Audit Committee should have the following functions over and above those legally assigned:**

**1. With respect to internal control and reporting systems:**

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that Senior Management is acting on the findings and recommendations of its reports.

- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

**2. With regard to the external auditor:**

- a) In the event of resignation of any external auditor, the Committee should investigate the issues giving rise to the resignation.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the Board in full to inform them of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

**Compliant** X      **Partially compliant**      **Explain**

**43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

**Compliant** X      **Partially compliant**      **Explain**

**44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

**Compliant** X      **Partially compliant**      **Explain**      **Not applicable**

**45. The risk control and management policy should identify at least:**

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of risk events should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

**Compliant** X      **Partially compliant**      **Explain**

**46. That under the direct supervision of the audit committee or, as the case may be, of a specialized committee of the board of directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:**

- a) Ensure the proper functioning of the risk management and control systems and, in particular,

that all important risks affecting the company are identified, managed and quantified adequately.

- b) Actively participate in the preparation of the risk strategy and in important decisions about its management.
- c) Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the board of directors.

**Compliant** X      **Partially compliant**      **Explain**

**47. Members of the Appointments and Remuneration Committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.**

**Compliant** X      **Partially compliant**      **Explain**

**48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.**

The modification of the Articles of Association that the Board of Directors proposed to the AGM 2015 included the modification of its article 45 in the sense of allowing the division of the Appointments, Remuneration and CSR Committee into two separate committees.

The Board of Directors will study the opportunity to separate the current Appointments, Remuneration and CSR Committee into two separate commissions.

**Compliant**      **Explain** X      **Not applicable**

**49. The Appointments, Committee should consult with the company's chairman and Chief Executive Officer, especially on matters relating to Executive Directors.**

**And that any director can request from the appointments committee to take into consideration In case you find them suitable to your judgment, potential candidates to fill vacancies of counselor.**

**Compliant** X      **Partially compliant**      **Explain**

**50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:**

- a) Propose to the Board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) To verify information on remuneration of directors and senior executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

**Compliant** X      **Partially compliant**      **Explain**

**51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to Executive Directors and senior officers.**

**Compliant** X **Partially compliant** **Explain**

**52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) Committees should be chaired by an Independent Director.
- c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be recorded/notified in the minutes and a copy made available to all Board members.

**Compliant** X **Partially compliant** **Explain** **Not applicable**

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:**

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium- sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) To monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
- f) To monitor and assess the processes of liaising with different stakeholders.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

**Compliant** X **Partially compliant** **Explain**



**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct. f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

**Compliant** X      **Partially compliant**      **Explain**

**55. The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.**

**Compliant** X      **Partially compliant**      **Explain**

**56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

**Compliant** X      **Partially compliant**      **Explain**

**57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

**Compliant** X      **Partially compliant**      **Explain**

**58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

**Compliant** X **Partially compliant** **Explain** **Not applicable**

- 59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

**Compliant** X **Partially compliant** **Explain** **Not applicable**

- 60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

**Compliant** X **Partially compliant** **Explain** **Not applicable**

- 61. A major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

**Compliant** X **Partially compliant** **Explain** **Not applicable**

- 62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

**Compliant** **Partially compliant** X **Explain** **Not applicable**

The General Shareholders' Meeting held on 18 March 2016 passed a three-year long-term incentive plan (2016-2018) with payment based on the fulfilment of the objectives and metrics established in the plan. For Executive Directors, this incentive may result, at most, in the delivery of shares representing 150% of their annual remuneration (50% per year). This is the first long-term incentive provided by the company in years and is for a limited amount. When other plans are adopted, the limit proposed in this recommendation (of not transferring shares equivalent to twice their annual fixed remuneration) will be considered.

- 63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.**

**Compliant** X **Partially compliant** **Explain** **Not applicable**

- 64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that said Director has met the predetermined performance criteria.**

**Compliant** X **Partially compliant** **Explain** **Not applicable**

#### **H. Other information of interest**

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or Group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This report includes the following Appendices in an attached document.

APPENDIX I. - Clarification notes.

APPENDIX II.- Report on the Activities of the Audit and Compliance Committee, 2017.

APPENDIX III.- Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2017.

APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2017.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 19 February 2018.

List whether any Directors voted against or abstained from voting on the approval of this Report.

**Yes**                      **No**                      **X**

## H. Other information of interest:

### APPENDIX I.-

## Explanatory notes

### Explanatory notes on section A.2.-

The list of direct and indirect holders of significant stakes set out in section A.2 of this Report includes those significant shareholders who on 31 December 2017 qualified as such in the relevant official register of the Spanish National Securities Market Commission (CNMV). The foregoing is independent of the question of whether or not the issuer received timely notice from any relevant shareholder in pursuance of article 23 of Royal Decree 1362/2007, of 19 October.

In accordance with the notification that Lazard Asset Management had sent to the Official Registry of the CNMV on December 29, 2017, Lazard Asset Management had reported that it held a 5.074% stake in Enagas SA as a custodian and not as a direct owner.

Also, with date after December 31, 2017, Lazard Asset Management informed the CNMV and Enagás, SA that on February 8, 2018, they reduced their participation in the capital of the company, holding 4.63% in the shareholding of Enagas. SA.

### Explanatory note on section A.3.-

The table for this section uses information published in official CNMV records, in accordance with the communication filed by the company's Directors.

### Explanatory note on section A.5.-

Regarding dividends paid by Enagás to the significant shareholders referred to in section A.5 of this Report, note:

On 5 July 2017, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2016 of 7,195 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 5,039 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 12,234 thousands of euros.

On 5 July 2017, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2016 of 9,955 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 6,971 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 16,926 thousands of euros.

On 5 July 2017, Enagás paid **RETAIL.OEICS AGGREGATE** a final dividend for 2016 of 2,010 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 1,408 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 3,418 thousands of euros.

Enagás paid **FIDELITY INTERNATIONAL LTD** 4,219 thousand euros on July 5, 2017, corresponding to the 2016 complementary dividend approved at the General Shareholders Meeting. In addition, in December 2017, an interim dividend corresponding to 2017 was paid, totaling 2,658 thousand euros. Thus, total dividends paid amounted to 6,877 thousand euros.

In December 2017, Enagás paid **BLACKROCK INC** an interim dividend for 2017, amounting to 4,718 thousand euros.

In December 2017, Enagás paid **LAZARD ASSET MANAGEMENT** an interim dividend for 2017, amounting to 4,269 thousand euros.

Enagás also paid **STATE STREET CORPORATION** an amount of 5,989 thousand euros on July 5, 2017, corresponding to a complementary dividend for the year 2016, as approved at the Shareholders General Meeting. In addition, in 2017, an interim dividend for 2017 was paid, in the amount of 4,193 thousand euros. Thus, total dividends paid amounted to 10,182 thousand euros.

## Explanatory notes on section A.7.-

At the date of preparation of this Report, SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), in addition to having a seat on the Board, also had a significant holding (5%) in the share capital of Enagás, S.A.

SEPI cannot exercise control over Enagás, S.A. as it is not in any of the circumstances set out in Article 4 of the Spanish Securities Market Act 24/1988, of 28 July (LMV).

Accordingly, no individual or legal person exercises or could exercise control over Enagás, S.A. in accordance with Article 4 of the LMV.

## Explanatory note on section A.8.-

On 25 May 2016 Enagás finalised the process of acquiring 307,643 of its own shares, which accounts for 0.13% of the total shares in the Group, for a total cost of 8,219 thousands of euros (including associated costs of 8 thousands of euros). This acquisition took place within the framework of the Temporary Share Buy-Back Scheme, whose exclusive aim was to meet the obligations of delivering shares to the Executive Directors and members of the Enagás Group management team under the current remuneration scheme according to the terms and conditions of the 2016–2018 Long-Term Incentive Plan and Remuneration Policy approved at the General Meeting of Shareholders. The shares were purchased in compliance with the conditions set out in Article 5 of Regulation EC/2273/2003 and subject to the terms authorised at the General Meeting of Shareholders held on 18 March 2016. Management of the Temporary Share Buy-Back Scheme was entrusted to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the transaction on behalf of Enagás, S.A. independently and without exercising influence on the process

## Explanatory note on section A.10.-

Further text of section 2 of the thirty-first additional provision of the Hydrocarbons Sector Law 34/1998, of 7 October (LSH):

(...)“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 the Securities Markets Act [Act 24/1988], stakes shall be attributed to one and the same individual or legal person when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or legal person in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of the LMV”.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties.” Meanwhile, section 3 of Additional Provision 31 of this law states that:

“The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by Article 66 of Act 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system”.

## Restrictions under the company's Articles of Association:

In accordance with the aforementioned legal provision, article 6a bis of Enagás, S.A.'s Articles of Association ('Limitations on holdings in share capital') establishes that:

"No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical management of the system, which are regulated businesses under Hydrocarbons legislation".

## Explanatory note on section C.1.3.-

The following is included in the profile given for Ms Ana Palacio Vallelersundi:

- Vice-president and member of the AREVA Executive Committee (2008-2009)
- Senior vice-president and General Director of the World Bank Group (2006-2008)
- Secretary General of the International Center for Settlement of Investment Disputes (2006-2008)
- Member of Parliament, President of the Mixed Parliamentary and Senate Committee for the EU (2004-2006)
- Spain's first woman Minister of Foreign Affairs (2002-2004).
- Member of the Presidium of the Convention for the Future of Europe: participated in the drafting and legal discussions on the European Constitution project (2001-2003).
- Member of the European Parliament, Chair of the Legal Affairs and Internal Market, Citizen Rights, Justice and Internal Affairs Committees, and Chair of the Conference of Committee Chairmen (1994-2002).

## Explanatory note on section C.1.10.-

The Chief Executive Officer, Mr Marcelino Oreja Arburúa, has been delegated the following powers:

### A) Jointly and severally.

1. Collect whatever is payable to him for any reason, in bills, cheques, promissory notes, or by deposit in a bank account, by public or private bodies in the European Union, other international organisations, by central, regional, provincial, local government authorities, executive agencies, government depositaries and, in general, by any private individual or legal entity in the public or private sectors; establish and settle balances, determine the form of payment of amounts owed to the company, grant extensions of deadlines, set payment terms and conditions; cash orders of payment from the central, regional or local government tax authorities, including receiving from central government tax offices or other agencies money in cash or any means that represents it and accept the refund of amounts paid in tax.

2. Represent the company in dealings with third parties, whether natural or legal, public or private, and before all kinds of authorities, public officials, boards and collegiate bodies, chambers, committees, associations, public property registers, companies registers, or public registers of any other kind, trade unions, mutual insurance companies, executive or non-executive agencies, whether autonomous or otherwise, directorates, regional offices of any kind of central, regional, provincial or local government authorities and any other public entities of any level or jurisdiction, whether Spanish or otherwise, whatever their name or nature; exercise any rights, remedies, claims and defences relating to the company; formulate petitions and in connection with all types of proceedings, file claims and appeals of any kind, including motions for reconsideration and appeals for review, in which the company has an interest, either in proceedings initiated by the company or in those of others that directly or indirectly affect the company; file them, take part in the processing of them; formulate and respond to representations, propose and examine evidence; apply for stays and adjournments; discontinue and abandon or in any other way withdraw from them, at any stage of the proceedings; execute and enforce agreements, detachments and return of documents; request and respond to certificates and summonses, be they governmental, notarial or of any other nature; request certificates, depositions and authentic copies; take delivery from public authorities, including post and telegraph offices and customs officers, of all kinds of papers, objects, goods and consignments in general addressed to the company, executing any notarial instruments or documents under hand required for such withdrawal or dispatch.

3. Make formal appearances in representation of the company before courts and tribunals of any branch or level, whether in the civil, criminal, administrative, social or labour or any other jurisdiction, and before any arbitrator or arbitration body, of all levels, both domestic and foreign, whatever their territorial scope, and before any other authority, justice system, prosecutor's office, boards, centres, offices, departments, panels, bodies and officers belonging to the judiciary and the administration of justice, of any branch and level, and before them make sworn or ordinary statements and respond to interrogatories in court under non-determinative oath; initiate, pursue and complete as principal, defendant, partner in joinder of parties, coadjutor or in any other capacity, all types of judicial proceedings before any jurisdiction; file, pursue and waive appeals of any kind, including governmental and administrative appeals, and motions for reconsideration, rehearing, appeals for review to the same or a higher court, applications to the Supreme Court on the ground of manifest injustice of a previous decision, appeals against refusal of leave to appeal, actions to have decisions declared void, appeals on the ground on lack of jurisdiction, actions for enforcement of rights or any other legally permitted ordinary or extraordinary appeals, and the abandonment, discontinuance or any other form of withdrawal from proceedings in which the company has an interest, as well as all kinds of proceedings, including conciliation proceedings, with or without a pre-trial settlement, proceedings of voluntary jurisdiction, governmental, notarial, mortgage and tax proceedings and, accordingly, to bring, respond to and pursue through all their formalities and levels until their conclusion all kinds of actions, claims, complaints, criminal actions, accusations, pleas and defences, and exercise any other causes of action, ratifying them whenever personal ratification is required; choose venues and submit implicitly or explicitly to jurisdictions; give evidence as a legal representative at any of the aforementioned proceedings, petition for stays of proceedings; make, request, receive and comply with summonses, notifications, citations and service of process; apply for joinders, attachments, cancellations, enforcements, dispossessions, filings, auctions of assets, statements and assessments of costs; raise issues of jurisdiction and preliminary issues; challenge witnesses; furnish and challenge evidence, waive evidence and the transfer of proceedings to another court; agree to favourable rulings; provide and withdraw payment bonds and deposits as and when required by the court; provide sureties, make judicial deposits and, in both cases, request they be refunded as and when appropriate, and execute and enforce court rulings.

4. Attend, speak and vote at meetings that are held in bankruptcy proceedings, whether fault-based or otherwise, and in temporary receivership proceedings and arrangements with creditors while they remain in force, approve and challenge creditors' claims and their ranking, appoint and accept appointments as receivers

5. and administrators, appoint representatives; accept and reject debtors' proposals and appoint members of conciliation bodies.

6. Confer powers on court representatives and counsel, freely chosen by him, with general powers for litigation and special powers freely established in each case, including those of responding to interrogatories in court, reaffirming positions, withdrawing and abandoning actions, signing such public or private documents as may be necessary for the exercise of such powers.

7. Enter into contracts of any kind with central, regional, provincial and local government authorities and executive agencies and, in general, with any private individual or legal entity in the public or private sectors, including contracts for works, supplies and services (excluding regasification, gas transmission and storage, and gas supply contracts); arrange auctions, calls for bids, competitive tendering, direct procurement or any other legal form of procurement; sign proposals and procurement specifications, award contracts and accept contract awards, sign the related contracts and any public and private documents that may be required for their formalisation, fulfilment or performance and discharge.
8. Take the necessary steps to establish arrangements with central, regional, provincial and local government authorities and their agencies concerning all kinds of public prices, levies, whether they be charges, taxes or rates, that affect the company, agree to such arrangements and for this purpose approve, agree to and sign any covenant, contract or accord referring thereto.
9. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of goods and real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel, fully or partially, payment bonds, pledges and other security interests in favour of third parties.
10. Lease property as the lessor or lessee thereof.
11. Enter into finance lease agreements, subject to such terms and conditions as he may freely determine.
12. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel mortgages, easements and other rights in rem over real estate, whether of common law or foral law [administrative law particular to the Basque Country and Navarre], and also prohibitions, conditions and all kinds of restrictions on real estate; provide real estate collateral guarantees in favour of third parties.
13. File declarations of construction and cultivation, definition and demarcation of boundaries, grouping together, aggregation, segregation and division of property, and organise buildings under condominium arrangements.
14. Apply for official franchises and authorisations, permits and licences, and complete all the formalities to obtain them, and to renew, amend or cancel them as may be necessary or appropriate.
15. Negotiate and establish with owners affected by future gas installations, whether or not there are compulsory purchase proceedings pending, the imposition of rights of way for pipelines and ancillary components and the purchase of land on which to install gas distribution and regulation chambers or other components that depend on or belong to the networks of the company granting the power of attorney, arranging for this purpose such mutually agreed transactions, clauses and prices that he considers to be fair, and signing public and private documents of any kind, regardless of the amount involved, and cancel rights of way fully or partially.
16. Initiate any proceedings for compulsory purchase in which the company has an interest, make formal appearances thereat and make the representations that he considers appropriate, request and conduct expert appraisals, request and receive compensation and, in general, participate in such proceedings in all formalities and appeals related thereto without limitation, executing and signing for the purpose public or private documents of any kind.
17. With regard to proceedings for compulsory purchase, imposition of rights of way and temporary occupation governed by the Law and Regulations on Compulsory Purchase that are instituted by the company granting power of attorney for the construction of gas pipelines, networks and branches and ancillary installations, they may:
  - a) Formulate requests and petitions, request and respond to certificates and summonses of all kinds, request affidavits, certificates and certified copies in which the company has an interest, in dealings with private individuals and legal entities in the public or private sectors, without any exception.
  - b) Make and withdraw deposits of any kind, including cash, at public entity depositaries of any kind and those held by private individuals or legal entities, at any of their offices and agencies.
  - c) Attend the drawing up of official records of facts and events prior to and after the completion of compulsory purchase actions.



- d) Group together, aggregate, segregate and divide real estate, making the filings relating thereto with the relevant Property Registers.
  - e) Arrange for the imposition of rights of way and title restrictions and for the acquisition and occupation by mutual agreement of property and rights affected by the laying of gas pipelines, their networks and branches and ancillary installations, fixing prices and conditions.
  - f) Discharge or redeem any charges or liens affecting the properties, fixing the price and conditions of such redemption.
  - g) Authorise and as appropriate empower by granting power of attorney to such persons as he considers appropriate to represent the company at the official recording of facts and events prior to and at the time of the occupation of properties affected by compulsory purchase proceedings.
  - h) Enter into contracts with any private individuals or legal entities in the public or private sectors for the long- term provision of services of regasification, transmission and storage, procurement of points of entry to the company's gas system, gas supply and any other contract for the provision of services connected with the gas business and ancillary activities.
  - i) Enter into contracts with any private individuals or legal entities in the public or private sectors for the short- term provision of services of regasification, transmission and storage, procurement of points of entry to the company's gas system, gas supply, connection to installations and any other contract for the provision of services connected with the gas business and ancillary activities.
  - j) Set up, merge, change the corporate form, dissolve and wind up, take part in the enlargement or modification, of any kind of companies, partnerships, consortia, European consortia and joint ventures, represent the company in them, attend or take part in all kinds of meetings, holding office and appointing officers and representatives as he considers appropriate; contribute to commercial companies all kinds of assets, receiving in payment the relevant shares, equity interests, scrip certificates, convertible or non-convertible debentures, option rights or shares and, in the case of dissolution, the relevant assets. Establish share syndication agreements.
17. Apply for entries to be made at the Property and Companies Registers; send, receive and respond to summonses and notifications and request notarial certificates of all kinds, signing certificates of attendance and any other formality connected with them.
  18. Apply for the registration of trademarks and trade names, patents of invention and introduction, utility models and other modalities of industrial property, or challenge and denounce any attempted or effective misappropriation of the name, trademarks and countersigns of company products and counterfeits of them, initiating and pursuing the appropriate proceedings and making formal appearances in proceedings initiated by others, making statements, providing proof and petitioning as appropriate.
  19. Acquire and dispose of intellectual and industrial property rights.
  20. Organise, direct and inspect all of the company's services and installations and verify audits of company funds.
  21. Hire and dismiss personnel employed by the company, of whatever kind and category, appoint and remove them from their duties, stipulating their pay, duties and tasks, and the remuneration payable for extraordinary services.
  22. Grant loans and credits to company staff and agree subsequent renewals, alterations, subrogations and cancellations thereof.
  23. Grant payment bonds and personal and in rem guarantees to company staff as surety for the fulfilment of personal and mortgage loan contracts granted to Enagás personnel.
  24. Negotiate and sign on behalf of the company any kind of general or partial collective agreements and any other type of pact, agreement or arrangement with the company staff, trade unions, or administrative or judicial authorities that are competent in matters of labour and social security.
  25. Issue any kind of certificates, identity cards and other documents with the details of company staff that are contained in the company record books and files.

26. Sign all documentation to do with social security, accidents at work insurance, enrolments and dis-enrolments, filings and changes; initiate and pursue claims before the Spanish National Institute of Social Security and offices thereof, mutual insurance companies, benefit societies and insurance companies.
27. Make formal appearances and represent the company in dealings with the regional traffic department and offices thereof, in order to register, transfer and scrap any type of vehicle belonging to the company and to register and de-register them as appropriate.
28. Take delivery of letters, certificates, dispatches, parcels, postal orders and declared value items from communications offices, and of goods and property shipped from shipping companies, Customs and agencies. Receive, open, answer and sign any kind of correspondence and keep the company's books in accordance with the law.
29. Sign any public or private documents that may be necessary in order to jointly and severally exercise the powers granted hereunder as effectively as possible.
30. Request and obtain electronic signature certificates from authorised providers of certification services and use the electronic signature whenever he considers it appropriate in accordance at all times with the applicable rules on electronic signatures.
31. Grant such powers of attorney as he considers necessary, being able to confer each and every one of the aforementioned powers granted hereunder or part of them on such person or persons as he considers appropriate. He may also revoke the powers granted by the Board of Directors, by himself or by other company bodies.

## **B) Jointly.**

1. Enter into all types of banking arrangements including: factoring, leasing, lease financing, reverse factoring and any other similar banking arrangements with any Spanish or foreign bank, including the Bank of Spain and the branches thereof, the European Investment bank, the Spanish Official Credit Institute, registered savings banks, savings banks, post office savings banks, the Confederation of Spanish Savings Banks, the General Deposit Fund or any other similar Spanish or foreign trading, transfer, exchange or credit institution.
2. Open, monitor, cancel or drawn down from ordinary current accounts or credit, sight or fixed-term deposit accounts, secured through a security interest, personal guarantee, pledged securities or trade notes, with or without a guarantee.
3. With regard to ordinary current accounts or credit, sight or fixed-term deposit accounts opened on behalf of the company, write personal cheques, issue bank drafts, issue bank cheques, perform bank transfers or use any other accepted payment system or mechanism; pay in or withdraw voluntary or required amounts and deposits of cash or securities, signing any documentation required to perform such transactions.
4. Issue, cash, accept, endorse, receive, sign, intervene, challenge, pay and negotiate any type of bills of exchange, letters of credit, non-credit or credit facilities, promissory notes, cheques and other bank bills, commercial bills, bank giros, or bills of exchange.
5. Obtain and award loans or credits, with or without collateral or personal guarantees, including the pledging of securities, and arrange subsequent renewals, amendments and subrogations. Acquire and extend credits.
6. Request, cancel and withdrawn personal and collateral-backed sureties, guarantees and payment bonds.
7. Enter into discounting arrangements for promissory notes issued by the company with banks and financial institutions authorised to perform discounting, and enter into loan or other financing arrangements represented by promissory notes with these entities; contract agency services to facilitate such financing arrangements.
8. Buy and sell shares, debentures, bonds, stakes and any other type of security or instrument, and collect any yield from these.

9. Pay in bearer cheques paid to the company, signing the reverse, for the sole purpose of paying them into the current accounts held with the Bank of Spain, and other banks, credit institutions and savings banks.

10. Arrange transfers between current and credit accounts or loan accounts set up in the company's name through bank transfers, bank cheques or any other accepted payment system or mechanism in all types of banks, including the Bank of Spain, savings banks and other credit institutions, both Spanish and foreign.

11. Award and accept loans to/from subsidiaries and affiliates and the parent company.

12. Make payments to settle invoices for gas purchases and settle taxes by personal cheque, bank giro or transfer, bank cheque or any other accepted payment system or mechanism from ordinary current accounts and credit, sight or fixed-term deposit accounts opened by the company, to which end any type of document may be signed.

13. Sign any public or private documents that may be necessary in order to jointly exercise the powers granted hereunder as effectively as possible.

The powers described in this section can only be exercised jointly with one of the authorised signees stipulated in the deed of powers of attorney executed before the notary of Madrid Pedro de la Herrán Matorras on 28 May 2014 with number 1,306 of his notarial archive and registered as entry 777 in the record of Company M-6113. The terms of these powers of attorney are as follows:

- Jointly with another authorised signee from Group B or from Group A, up to a limit of 30,000 thousands of euros, except for power of attorney 12, jointly with another signee from Group B or from Group C.
- Jointly with another authorised signee from Group C up to a limit of 20,000 thousands of euros.

### Explanatory note on section C.1.11.-

The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS, S.A., a company that is not part of the Enagás Group and in which Enagás GTS, S.A.U. holds a 13.33% stake. The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS Derivatives, S.A., a company that is not part of the Enagás Group and in which Enagás SA, S.A.U. holds a 19.4% stake.

### Explanatory note on section C.1.12.-

SEPI has representation on the Board of Directors of the listed company EBRO FOODS, S.A. through ALYCESA (a 91.96%-owned subsidiary of SEPI).

### Explanatory note on section C.1.16.-

For the purpose of calculating the total remuneration of senior management, with respect to Ms. María Sicilia, only the part of her salary corresponding to the fourth quarter of 2017 has been taken into consideration, date from which she began to be part of senior management.

### Explanatory note on section C.1.17.-

Mr Bartolomé Lora Toro, individual representing the Director SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), is the Vice President of SEPI.

## Explanatory note on section C.1.19.-

### Duration in charge and co-optation:

Article 10 of the Regulations of the Board of Directors stipulates that Directors may hold office for a period of four years, and may be re-elected for similar periods. Directors appointed by co-option will perform their duties until the date of the first General Meeting, or until the date of the following meeting, if the vacancy arises after the General Meeting has been convened and before it is held.

### Re-election of Directors:

Article 11 of the Regulations of the Board stipulates that the Appointments, Remuneration and CSR Committee, responsible for evaluating the quality of work and dedication to their offices of the Directors proposed during the previous term of office, shall provide the information required to assess proposals for re-election of non-Independent Directors presented by the Board of Directors to the General Meeting and proposals for the re-election of Independent Directors.

Proposals for re-election shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the candidate. This report shall be attached to the minutes of the General Meeting or of the Board.

As a general rule, appropriate rotation of Independent Directors should be ensured. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified.

### Removal and dismissal:

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Articles of Association and these Regulations (Article 12.1 of the Regulations of the Board).

The Board of Directors shall not propose the removal of any independent Director prior to the end of the period mandated by the Articles of Association for which they have been appointed, unless there are due grounds acknowledged by the Board following a report from the Appointments, Remuneration and Corporate Social Responsibility Committee. In particular, it shall be understood that there is just cause when the Director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law (art. 12.3 of the Regulations of the Board).

## Explanatory note on section C.1.37.-

As disclosed in note 4.6 c) to the financial statements, 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 of accounts (Ernst & Young, S.L.) amounts to 18% of the audit service fees invoiced during 2017 (17% for the Group).

## Explanatory note on section C.2.1.-

### Audit and Compliance Committee (Continued):

The duties and responsibilities of the Audit and Compliance Committee are:

- a) With regards to the financial statements and other accounting information
- Overseeing the preparation and presentation of financial information on the company and the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
  - Examining the information on the company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.
  - Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
  - Informing the Board with regard to the annual financial statements and any other information that must be regularly disclosed prior to these being drawn up.
  - Ensuring that the Board of Directors endeavours to present the financial statements in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
  - The Board of Directors must properly explain any departure from the Audit and Compliance Committee's prior Report in the financial statements finally authorised for issue.
  - Assessing any proposals made by senior managers regarding changes in accounting practices.
- b) Competencies relating to legality
- Reporting to the Board of Directors prior to it approving the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair the transparency of the company or the Group.
  - Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 Bis of the Regulations of the Board.
  - Receiving and analysing information on the fiscal criteria applied by the company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the annual financial statements.
- c) Competencies with regard to the Internal Audit unit
- Ensuring the independence of the unit that performs internal audit functions, which reports functionally to the Chairman of the Committee. It also ensures the smooth running of internal control and information systems submitting recommendations and proposals to the Board of Directors, with related monitoring periods, as it deems appropriate.
  - The head of the unit responsible for the internal audit function shall present an annual work programme to the Committee, and report on any incidents arising during its implementation, and shall submit an activity report at the end of each year.

- Ensuring the unit has sufficient resources and suitably qualified personnel for optimum performance of the function.
  - Approving the Internal Audit Plan and related work plans, and proposing the annual budget for this, ensuring that activity focuses mainly on the most significant risks facing the company.
  - Supervising the company's Internal Audit services, receiving regular information on its activities and verifying that senior management takes its conclusions and recommendations into account.
  - Making proposals to the Board of Directors on the selection, appointment, re-election and removal of the head of Internal Audit.
- d) Competencies relating to the relationship with the external auditor
- With regard to the appointment, re-election and replacement of the external auditor:
    - Taking responsibility for the selection process, pursuant to applicable legislation.
    - Reporting on the remuneration of the external auditor and other contract conditions.
    - Proposing the appointment, re-election or replacement of the external auditors of the Enagás Group to the Board of Directors for presentation to the General Shareholders' meeting.
    - As applicable, ensuring that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - With regard to the independence of the external auditor and absence of causes for prohibition and incompatibility:
    - Establishing appropriate relations with the External Auditor for the receipt of information on issues that might represent a threat to its independence and any other issues related to the audit process, and any safeguards to be adopted, discussing any significant weaknesses in internal control systems identified in the audit process, without in any way impinging on its independence.
    - Receiving other communications as set down in auditing legislation and audit standards.
    - Authorising services other than those that are prohibited, in accordance with applicable legislation.
    - 
    - Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
    - Ensuring that the fees of the External Accounts Auditor do not threaten its quality and independence, and are not based on any form of contingency.
    - In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
    - Receiving the annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to it, in conformity with audit regulations.
    - Issuing an annual report, prior to the issue of the audit report, giving an opinion on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered, as referred to in the previous section, that could compromise the independence of the Accounts Auditor, considered separately and in their totality, other than statutory audits and how they relate to the requirement of independence or to the audit regulations and shall be published on the website of the company sufficiently in advance of the date of the Ordinary General Shareholders' Meeting.
    - Establishing a maximum term of auditor engagement, ensuring a gradual rotation with the main audit partners.

With regard to audit reports:

- Reviewing the content of audits, limited review reports of interim financial statements and other required reports of statutory auditors prior to their issue in order to prevent qualifications.
- Supervising the responses of senior management to its recommendations, and mediating and arbitrating in the event of any disagreement with regard to the principles and criteria applicable to the preparation of the financial statements.
- Fostering and ensuring that the external auditor who audits the individual and/or consolidated financial statements takes full responsibility for the audit report issued, even when the financial statements of affiliates are audited by other external auditors.
- Reporting to the General Shareholders' Meeting on the audit results, explaining that this process contributes to the reliability of the financial information, and on the role performed by the Committee in this process.
- Ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform them of the work undertaken and developments in the company's risk and accounting positions.

e) Competencies relating to the company's risk control and management function

- To oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the company's internal policy. To submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them. In particular, the company shall have a risk control and management unit, supervised by the Audit and Compliance Committee, which shall, among other functions, ensure the proper functioning of the risk control and management systems and, in particular, identify, manage and adequately quantify all material risks affecting the company; actively participate in the development of the risk strategy and major decisions on its management; and ensure that the risk control and management systems adequately mitigate risk under the policy defined by the Board of Directors.
- To assess the company's risks and examine the analyses of risks that affect the business, which are set out in the internal risk policies. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- To disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

f) In relation to Corporate Governance

- Reporting in advance to the Board of Directors on structural and corporate changes that the company plans to carry out, their economic conditions and their accounting impact and, in particular, where appropriate, the proposed exchange ratio.
- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Rules and Regulations of the Audit and Compliance Committee and the company's governance regulations in general, and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.
- Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.
- Supervising a whistle-blowing mechanism enabling employees to report - confidentially and anonymously
- any potentially significant incidents they identify in the company, particularly with regard to financial and
- Accounting issues, whilst respecting personal data protection regulations and the basic rights of the parties involved.
- Preparing an annual report on the work of the Audit and Compliance Committee that will form part of the Corporate Governance Report.
- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interests.

g) Competencies relating to the Compliance function

- Ensuring the independence of the compliance function.
- Ensuring that the compliance unit performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Group Code of Ethics.
- Ensuring that the compliance unit has the human and material resources needed for optimum performance of its functions.
- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Compliance.

h) In relation to shareholders

- Providing information on issues within the scope of its duties at the General Meeting.

### Appointments and Remuneration Committee (Continued):

The duties and responsibilities of the Appointments and Remuneration Committee are:

- To evaluate the competencies, knowledge and experience required on the Board of Directors. To this end, it shall determine the functions and capacities required of the candidates to fill each vacancy, and evaluate the precise amount of time and degree of dedication necessary for them to effectively perform their duties, while overseeing that the Non-Executive Directors have sufficient time available to properly perform their functions.
- To review the structure of the Board of Directors, the criteria for the renewal of Directors required under the Articles of Association, the addition of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that the Committee considers necessary.
- To establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- To forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- To report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- To report on the appointment and dismissal of the Secretary and Vice secretary of the Board of Directors.
- To report on proposed appointments and removals of senior management and the basic terms of their contracts.
- To examine and organize the succession of the Chairman of the Board of Directors and CEO of the company and, if appropriate, to make proposals to the Board to ensure the succession is smooth and well-planned.
- To draw up and review the criteria that must be utilized for the composition of the Board and for selection of those nominated as Directors, ensuring that their access to the Board does not affect the company's status as technical transmission operator, pursuant to the provisions of regulations applicable concerning hydrocarbons.



The Committee shall verify on an annual basis compliance with the selection policy of Directors of the company approved by the Board of Directors.

- To formulate proposals to the Board of Directors regarding the company's organizational structure, including the creation of senior management posts in order to achieve improved and more efficient company administration.
- To propose to the Board of Directors a policy of remuneration of Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to the Chairman, to executive committees or Chief Executives, along with individual remuneration and other terms of Executive Directors' contracts, ensuring that said policy is abided by. To this end, the committee will periodically review the remuneration policy for Directors and senior management and ensure that their individual remuneration is proportional to that paid to the other Directors and Senior Management of the company.
- To propose a general remuneration policy for Enagás management, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has suitable highly qualified staff for administering its business at all times, proposing to the Board the basic conditions of their contracts.
- To verify information on remuneration of Directors and senior management contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- To ensure that any conflicts of interest do not impair the independence of external advisers to the Committee on remuneration.
- To report to the Board on general policy concerning Corporate Social Responsibility and Corporate Governance, ensuring the adoption and effective application of best practices – both those which are compulsory and those that are in line with generally-accepted recommendations. To this end, the Committee shall be responsible for the following functions:
  - a) To submit to the Board the initiatives and proposals it deems appropriate and provide information on proposals submitted to the Board and information the company releases to shareholders annually regarding these issues.
  - b) To monitor compliance with the rules of corporate governance of the company, periodically assessing the adequacy of the company's system of corporate governance, in order to fulfil its mission of promoting the corporate interest, and consider, as appropriate, the legitimate interests of other stakeholders.
  - c) To monitor the communication strategy and relations with shareholders and investors, including small and medium shareholders.
  - d) To monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
  - e) To monitor and assess the processes of liaising with different stakeholders.
  - f) To review the corporate responsibility policy of the company, ensuring that it is aimed at creating value.

In particular, the Committee shall ensure that the policy of corporate responsibility identifies at least:

- The goals of its corporate social responsibility policy and the support instruments to be deployed.
- The corporate strategy with regard to sustainability, the environment and social issues.
- Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- The mechanisms for supervising non-financial risk, ethics and business conduct.
- Channels for stakeholder communication, participation and dialogue.
- Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

The report, which, if any, may be issued by the Committee on the company's general policy of Corporate Social Responsibility, shall be developed using any of the internationally accepted methodologies, and shall be published on the website of the company sufficiently in advance of the Ordinary General Shareholders' Meeting.

- To report to the Board of Directors on measures to be taken in the event of breach of these Board Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and Corporate Social Responsibility Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

The Committee shall consult the Chairman of the Board and Chief Executive Officer of the company, especially on matters relating to the appointment of the executive directors and the remuneration of senior management and Executive Directors. Any board member may suggest directorship candidates to the Appointments Committee for their consideration.

## Explanatory note on section D.2.-

Regarding dividends paid by Enagás to significant shareholders, excluding Directors, referred to in section D.2 of this Report, note:

On July 5th, 2017, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2016 of 7,195 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 5,039 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 12,232 thousands of euros.

On 5 July 2017, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2016 of 2,010 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 1,408 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 3,418 thousands of euros.

Enagás paid **FIDELITY INTERNATIONAL LTD** an amount of 4,219 thousand euros on July 5, 2017, corresponding to a complementary dividend for 2016, as approved at the General Shareholders Meeting. In addition, in December 2017, an interim dividend corresponding to 2017 was paid, totaling 2,658 thousand euros. Thus, total dividends paid amounted to 6,877 thousand euros.

In December 2017, Enagás paid **BLACKROCK INC** an interim dividend for 2017, amounting to 4,718 thousand euros.

In December 2017, Enagás paid **LAZARD ASSET MANAGEMENT** an interim dividend for 2017, amounting to 4,269 thousand euros.

Enagás also paid **STATE STREET CORPORATION** an amount of 5,989 thousand euros on July 5, 2017, corresponding to a complementary dividend for 2016, as approved at the General Shareholders Meeting. In addition, in 2017, an interim dividend for 2017 was paid, in the amount of 4,193 thousand euros. Thus, total dividends paid amounted to 10,182 thousand euros.

## Explanatory note on section D.3.-

Regarding dividends paid by Enagás to Directors who are significant shareholders, as referred to in section D.3 of this Report, note:

On 5 July 2017, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2016 of 9,955 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 6,971 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 16,926 thousands of euros.

The remuneration received by the Board of Directors in 2017 is set out in the Annual Directors' Remuneration Report, which will be made available to shareholders at the time of the publication of the call notice for the 2018 General Shareholders' Meeting.

## Explanatory note on section D.4.-

The criteria used by Enagás for reporting information on significant operations carried out by the company with other entities in the same group is as follows:

1. Significant operations with other entities in the group shall be reported provided that they are not eliminated in the consolidation process.
2. Of the operations that are not eliminated in the consolidation process, a report shall be made of those that do not simultaneously meet the following three conditions:
  - a. Their amount does not exceed 1% of the company's annual revenues.
  - b. They are part of the company's ordinary traffic, with ordinary traffic understood to mean those activities related to transmission, storage and regasification.
  - c. They are carried out at prices or rates under normal market conditions.

For the item Services received, the company was invoiced for **48,604 thousands of euros**, and for the item Services rendered, the company invoiced for **7,563 thousands of euros**, an amount which was not included in D.4 of this report because it involved operations that were part of the ordinary traffic of Enagás, S.A. and its Group in terms of object and conditions.

## Explanatory note on section D.5.-

The amount from related party transactions is obtained from the following breakdown:

Group Entity	Related Party	Item	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Finance cost	3,654
Enagás Internacional S.L.U.	Banco Santander, S.A.	Finance cost	4,605
Enagás Financiaciones, S.A.U.	Banco Santander, S.A.	Finance cost	456
<b>Total finance cost, other related parties</b>			<b>8,715</b>
Enagás, S.A.	Banco Santander, S.A.	Agent Services	15
Enagás Transporte S.A.U.	Banco Santander, S.A.	Vehicle leasing	120
Enagás Internacional S.L.U.	Newcomer 2000, S.L.U.	Services received	72
<b>Total services received, other related parties</b>			<b>207</b>
Enagás S.A.	Banco Santander, S.A.	Sureties	130,212
<b>Guarantees and sureties received, other related parties</b>			<b>130,212</b>
<b>Total transactions with other related parties</b>			<b>139,134</b>

#### Transactions with BANCO SANTANDER, S.A.-

##### Finance costs:

In 2017, finance costs payable to Santander, S.A. amounted to **8,715 thousands of euros**, of which 3,654 thousands of euros is payable by Enagás S.A., 4,605 thousands of euros is payable by Enagás Internacional, S.L.U. and 456 thousands of euros is payable by Enagás Financiaciones, S.A.U.

##### Guarantees and sureties:

Guarantees extended by Banco Santander, S.A. in 2017 amounted to **130,212 thousands of euros**, all of which were granted to Enagás, S.A.

##### Receipt of services:

Enagás, S.A. incurred expenses of **15 thousands of euros**, as follows:

Services received from Banco Santander				
Item	Amount	Price policy	Payment terms	Guarantees
Agency commission	15	-	-	-

##### Receipt of services:

Enagás Transporte, S.A.U. incurred expenses of **120 thousands of euros**, broken down as follows:

Services received from Banco Santander				
Item	Amount	Price policy	Payment terms	Guarantees
Vehicle hire	120	-	-	-

#### Transactions with Newcomer 2000, S.L.U.-

##### Receipt of services:

Enagás Internacional, S.L.U. incurred expenses of **72 thousands of euros**, broken down as follows:

Services received from Newcomer 2000				
Item	Amount	Price policy	Payment terms	Guarantees
Advisory services	72	-	-	-

## APPENDIX II

### Report on the Activities of the Audit and Compliance Committee, 2017



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

Audit and Compliance committee  
**February 19<sup>th</sup>, 2018**

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

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

### **1. Composition during 2017**

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

#### President

- D<sup>a</sup> Isabel Tocino Biscarolasaga, Independent Director

#### Members

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

#### Secretary

- Mr. Rafael Piqueras Bautista.

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

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



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

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

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

[www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion](http://www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion).

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

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

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

## **2. Regulation of the Audit and Compliance Committee**

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

## **3. Competencies of the Audit and Compliance Committee**

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

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

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

## **4. Activities of the Audit and Compliance Committee during 2017**

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

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

### **4.1. In relation to Financial Information**

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

#### **Formulation and approval of the Enagás Financial Statements for 2016**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Internal Control over Financial Reporting System (ICFR).**

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

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

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

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

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

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

## 4.2. External Auditor

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

### **Participation in the Commission and Board of Directors.**

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

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

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

### **Authorization of non-audit services.**

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

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

### **Reception of the letter of Independence of the Auditor EY**

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

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

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

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

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

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

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

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

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

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

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

This report concludes that:

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

#### **4.3. Related-party transactions.**

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

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

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

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

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



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

#### **4.4. Internal auditor**

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

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

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

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

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

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

#### **4.5. In relation to risk management and control**

##### **Competencies related to the supervision of the effectiveness of the risk management and control model, the annual monitoring of risks and the quarterly monitoring of the evolution thereof.**

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

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

#### **4.6. In relation to Execution**

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

###### **Execution Model.**

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

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

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

###### **Ethical channel**

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

#### **5. Information to the General meeting**

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

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

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

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

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

## **7. Activities subsequent to year-end**

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

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

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

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

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

## APPENDIX III

Audit opinion on Internal Control over Financial Reporting  
("ICFR"), 2017

**Independent Assurance Report on the "Information Regarding  
Internal Control over Financial Reporting (ICFR) System"**

**ENAGÁS, S.A.**

**2017**

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

## INDEPENDENT ASSURANCE REPORT ON THE "INFORMATION REGARDING THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) SYSTEM"

To the shareholders of ENAGÁS S.A.:

### Scope of the work

We have examined the accompanying information on the Internal Control over Financial Reporting (ICFR) system of ENAGÁS S.A. and subsidiaries (the "Group") contained in Section F of the Annual Corporate Governance Report for the year ended December 31, 2017.

The objective of this system is to contribute to the faithful representation of the transactions performed and to the provision of reasonable assurance in relation to the prevention or detection of any errors that might have a material effect of the consolidated financial statements.

The aforementioned system is based on the rules and policies defined by the Boards of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report.

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail, (ii) guarantee that these transactions are performed only in accordance with the authorizations established; (iii) provide reasonable assurance that transactions are recognized appropriately to enable the preparation of the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorized acquisition, use or sale of the company's assets that could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

### Directors' Responsibility

The Directors of ENAGÁS, S.A. are responsible for maintaining the System of Internal Control over Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness.

## **Our responsibility**

Our responsibility is to issue an independent assurance report on the effectiveness of the System of Internal Control over Financial Reporting (ICFR) based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the ENAGÁS' Group consolidated financial statements as at December 31, 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

We have carried out our reasonable assurance work in accordance with the requirements established by the International Standard on Assurance Engagements (ISAE) 3000 revised, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Reasonable assurance work includes comprehension of internal control over financial information contained in the financial statements; risk evaluation regarding possible material errors within them; tests and evaluations on design and daily effectiveness of the system and the use of any other procedures we considered necessary. We consider that our audit provides a reasonable basis for our opinion.

## **Independence and quality control**

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

Our Firm applies the International Standard on Quality Control No 1 (ISQC 1) and therefore maintains a global system of quality control, which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

## **Conclusion**

In our opinion, at December 31, 2017, the Group had, in all material respects, an effective System of Internal Control over Financial Reporting contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by the Board of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report. Also, the disclosures contained in section F of the Annual Corporate Governance Report at December 31, 2017 comply, in all material respects, with the requirements established by the Corporate Enterprises Act, the ECC Order /461/2013, of March 20, and Circular 7/2015, of December 22, which amends Circular 5/2013, of June 12, of the Spanish National Securities Market Commission (CNMV).



### Other matters

This report can under no circumstances be considered an audit report carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.



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David Ruiz-Roso Moyano

February 19, 2018

## APPENDIX IV

Audit opinion on the Annual Corporate Governance Report,  
2017

**Independent Assurance Report on the “Information Regarding  
the Annual Corporate Governance Report”**

**ENAGÁS, S.A.**

**2017**

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

## INDEPENDENT ASSURANCE REPORT ON THE "INFORMATION REGARDING THE ANNUAL CORPORATE GOVERNANCE REPORT"

To the shareholders of ENAGÁS, S.A.:

### Scope of the work

We have examined with the scope of a reasonable assurance engagement the Annual Corporate Governance Report for 2017 of ENAGÁS, S.A. prepared in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, and Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12.

### Responsibility of the Board of Directors

The directors of ENAGÁS, S.A. are responsible for the preparation, content, and presentation of the accompanying Annual Corporate Governance Report. This responsibility includes designing, implementing, and maintaining the internal control deemed necessary to ensure that the Annual Corporate Governance Report is free of material misstatement due to fraud or error.

The directors of ENAGÁS, S.A., are also responsible for defining, implementing, adapting, and maintaining management systems through which the information needed for the preparation of the Annual Corporate Governance Report is obtained.

### Our responsibility

Our responsibility is to issue an independent reasonable assurance report on the Annual Corporate Governance Report based on the work performed by us.

We have carried out our reasonable assurance work in accordance with the requirements established by the International Standard on Assurance Engagements (ISAE) 3000 revised, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Reasonable assurance work includes comprehension of the Annual Corporate Governance Report contained in the financial statements; risk evaluation regarding possible material errors within it; tests and evaluations on design and the use of any other procedures we considered necessary. We consider that our audit provides a reasonable basis for our opinion.

For those recommendations of the Unified Good Corporate Governance Code that have not been implemented by the Company, the Directors of ENAGÁS, S.A. offer the explanations that they consider appropriate. In relation to said explanations, we have verified that the assertions contained in the Annual Corporate Governance Report do not contradict the evidence obtained from the application of the procedures described above.

Also, as regards the system of Internal Control over Financial Reporting (ICFR) (see section F of the accompanying Annual Corporate Governance Report), we verified the existence of the corresponding report issued by the Company's auditor. That report stated that the work was performed in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

### **Independence and quality control**

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality, and professional behavior.

Our Firm applies the International Standard on Quality Control No 1 (ISQC 1) and therefore maintains a global system of quality control, which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

### **Conclusion**

In our opinion, the content of the accompanying Annual Corporate Governance Report for the year ended December 31, 2017 of ENAGÁS, S.A. has been prepared, in all material respects, in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, and Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12.

### **Other matters**

This report can under no circumstances be considered an audit report carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.



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David Ruiz-Roso Moyano

February 19, 2018