

Annual Activity Report of the Audit and Compliance Committee

Audit and Compliance Committee

22 February 2019



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1

Composition, attendance and operation

Composition

On 31 December 2018, the composition of the Audit and Compliance Committee was as follows:



Chairwoman
Ms Isabel Tocino
Biscarolasaga
Independent



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



Vocal
Ms Rosa Rodríguez
Díaz
Independent



Member
Mr Luis García del Río
Independent



Member
Mr Martí Parellada
Sabata
External



Secretary
Mr Rafael Piqueras Bautista



The following changes took place in the composition of the committee in 2018:

- The resignation presented by Mr Luis Valero Artola from the Board of Directors and therefore as a member of this Committee took effect at the General Meeting of Shareholders of 22 March 2018.
- Furthermore, the Board of Directors agreed to appoint Mr Luis García del Río as a member of the Audit and Compliance Committee on 22 March 2018 to occupy the vacancy, having ceased to be a member of the Appointments, Remuneration and CSR Committee.

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

All the information on the Directors, including their work experience, is available on the Enagás Corporate Website:



<https://www.enagas.es/enagas/en/QuienesSomos/ConsejoAdministracion>

Attendance

In accordance with the Regulations governing the Audit and Compliance Committee, the committee approved an annual schedule of meetings, which set a total of ten meetings: four ordinary meetings, five preparatory meetings and one extraordinary meeting.

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

Committee Operation

The Committee conducted its activity in 2018 in accordance with the best practices of corporate governance and the standard procedures set out in Technical Guidelines 3/2017 on Audit Committees in Public Interest Entities.

In accordance with these guidelines, all Audit and Compliance Committee meetings were attended by the Internal Audit Director, Mr Isidro del Valle Santín, and the Internal Audit Manager, Ms Rosa Sánchez Bravo, in her duties as adviser to the Committee.

Similarly, during 2018, upon the invitation of the Chair of the Committee, the Committee insisted on the presence of the following Directors, in relation to matters of their competence in accordance with the established agenda: the Chief Executive Officer Mr Marcelino Oreja Arburúa and the Chief Financial Officer of Enagás Mr Borja García-Alarcón Altamirano. The Chief Risk Officer and the Compliance Officer also attended meetings of the Committee when the latter addressed issues related to their functions.

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

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

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



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Regulation of the Audit and Compliance Committee

The Audit and Compliance Committee is governed by the provisions of applicable laws and regulations, the provisions contained in corporate documents, the Regulations for the Organisation and Functioning of the Board of Directors of Enagás, S.A., as well as the set of regulations governing its own organisation and operation, dated 21 December 2015.

These documents are available on the website.

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

2.1. Annual Accounts and other financial reports:

- i. Oversight of the process for the preparation and presentation of any economic or financial reports relative to the Company and its Group, which are published in compliance with the regulations governing the securities market, ensuring their transparency and the accuracy of the information presented.
- ii. Reporting to the Board of Directors on the recommendations or particulars it considers necessary in relation to the application of accounting principles, internal control systems or any other matter addressed for the purpose of safeguarding the integrity of the financial information.

- iii. Reporting to the Board of Directors with regard to the annual accounts and any other information that must be regularly disclosed, prior to their being drawn up.
- iv. Reporting at the General Shareholders' Meeting on the issues that arise in relation to those matters that fall within the competence of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial information and the role that the Committee has played in this process.

2.2. External auditors

The appointment, re-election or replacement of external auditors:

- i. Responsibility for the process of selection, renewal and replacement of the account auditor.
- ii. Reporting on the remuneration of external auditors and other contract conditions.
- iii. Proposing to the Board of Directors the appointment, re-election or replacement of the accounts auditor, subject to the decisions of the General Shareholders' Meeting.

External auditor independence:

- i. Ensuring compliance by both the account auditor and the Company with the regulations governing the provision of non-audit services, limits on the concentration of the auditors' business and other generally applicable requirements concerning auditor independence, in addition to the existing internal procedures.
- ii. Ensuring that the fees of the external auditor does not jeopardise their quality and independence, and are not based on any form of contingency.
- iii. Authorisation for the provision of any services other than those of auditing non-prohibited accounts, after analysing the threats to auditor independence and the safeguard measures to be applied where deemed necessary.
- iv. Receiving from the account auditors on a yearly basis their auditor independence statement in relation to any directly or indirectly related entity or entities, in accordance with the regulations governing the account auditing activity.
- v. The issuance of an report expressing the Committee's opinion on the independence of the auditors, prior to the issuance of the audit report.

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

- i. Establishing opportune relations with the external auditors in order to receive information on those issues relating to the audit process, evaluating the results of each audit and discussing any significant weaknesses in control that may be detected with the account auditors.
- ii. Reviewing the contents of audit reports, reports on limited review of interim financial statements and other statutory reports required of account auditors prior to their issuance, in order to prevent qualifications.
- iii. Ensuring that the external auditors hold two meetings per year, half-yearly and at the end of the accounting period, with the Board of Directors in order to report on the evolution of accounting positions and risks to the Company.
- iv. Conducting a yearly assessment of auditor performance, in accordance with the criteria set out in the Company's internal procedure and the laws in force.

2.3. Internal audit function

- i. Ensuring the independence of the Company's internal audit function, ensuring the provision of sufficient resources and suitably qualified personnel for the optimum performance of its duties.
- ii. Supervising the internal audit services, receiving regular information on their activities and verifying that senior management takes their conclusions and recommendations into consideration.
- iii. Yearly assessment of the internal audit function and its manager's performance.
- iv. Making proposals to the Board of Directors on the selection, appointment, re-election and removal of the head of the internal audit function.

2.4. Risk control and management function

- i. Overseeing the effectiveness of risk control and management systems in order to adequately mitigate risks with the framework of the Company's internal policy.
- ii. Reporting to the Board of Directors on any risks uncovered, with an assessment thereof, and any key issues concerning risks.

2.5. Competencies relating to legality

- i. Reporting to the Board of Directors prior to approval of the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair the transparency of the Company or the Group.
- ii. Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 Bis of the Regulations of the Board of Directors.
- iii. Preparing a report on related-party transactions, for posting on the Company's website, sufficiently in advance of the Ordinary Shareholders' Meeting.

2.6. Corporate governance

- i. Reporting in advance to the Board of Directors on operations involving structural and corporate modifications planned by the Company.
- ii. Overseeing compliance with the Internal Code of Conduct in matters relating to securities markets of the Regulations of the Audit and Compliance Committee.

In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and Corporate Social Responsibility Committee in relation to Directors' and executives' compliance with the Code.

- iii. Supervising a whistle-blowing mechanism enabling employees to report –confidentially and anonymously– any potentially significant incidents they identify in the Company, particularly with regard to financial and accounting issues, while observing the personal data protection laws and the basic rights of the parties involved.
- iv. Preparing the present Annual Activity Report of the Audit and Compliance Committee that will form a part of the Annual Corporate Governance Report.
- v. Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interests.

2.7. Compliance

- i. Ensuring the independence of the compliance function.
- ii. Overseeing the activity of the Compliance Department, and receiving its reports on a regular basis.

iii. Ensuring that the compliance function performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Group Code of Ethics.

iv. Ensuring that the compliance function is provided with the necessary staff and material resources needed for the optimum performance of its duties.

2.8. Tax policies and related matters

- i. Receiving and analysing information on the tax-related criteria applied by the Company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the Annual Accounts.

3

Activities of the Audit and Compliance Committee in 2018

During 2018, the Committee fully executed its scheduled actions, strengthening activities related to its oversight of financial and non-financial reporting in accordance with the standard procedures set out in the Technical Guidelines, including monitoring of account auditing, relations with the external auditors, internal audit activity, risk control and management, and compliance.

The most relevant activities conducted by the Audit and Compliance Committee in 2018 is summarised below.

3.1. Financial and non-financial reporting

Preparation and approval of the Enagás annual accounts for 2017.

In its meeting held on 19 February 2018, the Committee analysed and debated the 2017 annual accounts, reporting favourably on them to the Board of Directors, which proceeded to prepare the annual accounts for the year ending 31 December 2017 under the terms set out by the Committee.

Oversight of Interim Financial Statements

In the course of 2018, in accordance with good governance practices, the Committee continued to carry out its duty of reviewing the Company's interim financial statements, quarterly and half-yearly, from the reports and analysis

provided by the Chief Financial Officer, Internal Audit Director and external auditors.

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

As a result of its work, the Committee presented at its meetings in April and October 2018 reports to the Board of Directors regarding the interim economic and financial statements of Enagás and the economic and financial report for the first quarter of 2018.

In compliance with the Code of Good Tax Practices observed by Enagás, the Committee was informed by the Finance Department of the tax policies applied prior to the preparation of the annual accounts.

Throughout 2018, the Finance Department regularly reported to the Audit and Compliance Committee on the process of implementing the new accounting standards IFRS 9 and IFRS15, in force since 1 January 2018, and their main impacts on the Enagás financial statements.



Internal Control over Financial Reporting System (“ICFR”)

At the beginning of 2018, the external auditor reported favourably on the Internal Control over Financial Reporting System (hereinafter ‘ICFR’), that the Company applies under the COSO 2013 guidelines.

During 2018, the Finance Department and the Internal Audit Department reported on the implementation of minor improvement recommendations detected in the 2017 ICFR certification.

Finally, on 22 February 2019, the account auditors informed the Audit and Compliance Committee that, in their opinion, the Group had effectively received ICFR certification for 2018. The Committee subsequently informed the Board of Directors of this certification, and of the non-existence of relevant recommendations.

Annual Corporate Governance Report and Annual Report containing non-financial information

On 15 February 2018, the Annual Corporate Governance Report and 2017 Annual Report, containing the non-financial information, were made available to the Committee in accordance with Spanish Royal Decree Law 18/2017 of November 24, on non-financial information and diversity. Both documents were finally approved by the Committee on 19 February 2018.

As regards the 2018 financial year, the Committee approved both the Annual Corporate Governance Report and the Consolidated Management Report containing non-financial information on 22 February 2019. The non-financial information statement contained in the Consolidated Management Report provides all the information required by Spanish Law 11/2018 of 28 December governing non-financial information and diversity.

Preparation and approval of the Enagás 2018 annual accounts

With regard to the approval of the 2018 annual accounts, the account auditors gave a favourable report to the Audit and Compliance Committee on 22 February 2019, leading to their subsequent preparation by the Board of Directors.

Moreover, the consolidated accounts together with the management report will be presented to the General Meeting of Shareholders to be held on 29 March 2019.

3.2. External auditor

Account auditing

In accordance with the established agenda, the external auditors participated in the nine ordinary meetings held by the Committee in 2018, and in the three ordinary meetings held in 2019 to prepare for the end of the accounting period, which has allowed the latter to adequately perform

its duty to serve as a communication channel between the Board of Directors and the external auditors. In addition, the external auditors reported to the Board of Directors in its meetings on two occasions during the past year, 19 February 2018 and 16 July 2018.

At the meetings held by the Committee in 2018, the external auditors provided detailed information on the planning and progress of their work.

Analysis of Auditor Independence by the Audit and Compliance Committee

During 2018, the Audit and Compliance Committee approved the contracting and relations with external auditors, whose purpose is to regulate the process of appointment, renewal and removal of auditors and the process of approval of the services provided by the external auditors by the Committee, in accordance with the applicable regulations.

In addition, the Committee reviewed and approved all of the services provided by the external auditors, to verify that they complied with the requirements established in the Regulations of the Audit and Compliance Committee and Spanish Account Auditing Law 22/2015.

At the meeting held on 22 February 2019, the external auditors delivered to the Audit and Compliance Committee their auditor independence statement certifying fulfilment of the independence requisites set out in the applicable laws.

On 22 February 2019, the Audit and Compliance Committee issued the Account Auditor Independence Report in which a favourable opinion was expressed as to the independence of the external auditors. This report is available on this website. By 31 December 2018, non-audit services accounted for 36% of total auditor fees.

3.3. Internal auditors

The Committee supervises the Company’s internal audit services, receiving regular information on their activities and verifying that senior management takes their conclusions and recommendations into consideration.

In this regard, at the meeting of the Committee held on 15 February 2018:

- The Committee evaluated and approved the Annual Internal Audit Plan for 2018 and the Internal Audit Budget for the year, evaluating the suitability and effectiveness of the internal audit function for the implementation of the plan.
- The Committee carried out an evaluation of the performance of the duties and responsibilities assumed by both the Internal Audit Director and the internal audit function as a whole.



The completed evaluation questionnaire mainly evaluates aspects such as the strategic positioning of the function, good governance and auditor independence, as well as performance in the execution of the defined Audit Plan.

- Finally, it was informed of the Annual Report on internal audit activity conducted in 2017.

The Committee reported on all these aspects to the Board of Directors at their meeting held on 15 February 2018.

Throughout 2018, the Internal Audit Director reported to the Committee quarterly on monitoring of the Audit Plan, the reports issued and the degree of implementation of the recommendations previously detected by the Committee.

It should be highlighted that the Internal Audit Department presented the conclusions given on the quality certificate issued by the Institute of Internal Auditors of Spain in January 2018. In October, the Committee approved a number of modifications to the internal regulations governing the internal audit function in order to address certain improvement actions specified on the quality certificate.

In its extraordinary meeting held on 19 November 2018, the Audit and Compliance Committee proposed to the

Board of Directors the appointment of Ms Rosa Sánchez Bravo as Internal Audit Director, which was approved.

3.4. Risk management and control

The Audit and Compliance Committee considers risk control to be of special significance. In all the meetings held by the Committee in 2018, the Chief Executive Officer and Director of Risks reported to the Committee on the state of risk management and control in the Company, and the level of compliance with the risk limits defined.

On 15 January 2018, the Risk Department presented the results of the yearly risk monitoring and measurement process, explaining the improvements made to the control model implemented in a number of affiliate companies, which have enabled the measurement of risks to be better measured and consolidation of risks at group level to be facilitated. The level of risk agreed for 2018 by the Risk Committee was proposed to the Committee for approval.

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

Finally, it should be pointed out that after these meetings, the Chairwoman reported to the Board of Directors on the actions taken in relation to risks.

3.5. Related-party transactions

With regard to 2017, in accordance with the recommendations of the Code of Good Governance of listed companies, the Audit and Compliance Committee prepared a report, dated 19 February 2018, on related-party transactions that was made available to shareholders at the time notice was given of the General Meeting of Shareholders to be held on 22 March 2018.

In its report, the Committee confirmed that the company has complied with the securities market regulations regarding related-party transactions and verifies that all the related-party transactions in 2017 form part of the company's ordinary course of business and were made on an arm's length basis and approved by the company's Board of Directors.

With regard to 2018, the Audit and Compliance Committee prepared a report, dated 22 February 2019, on related-party transactions. It will be made available to shareholders at the time notice is given of the General Shareholders' Meeting to be held on 29 March 2019.

No related-party transactions were made in 2018 that required involvement by the Board of Directors.

3.6. Compliance

The Committee approved the General Compliance Standard on 16 July 2018.

On 15 October 2018, the Committee was informed of the state of progress of the Anti-Corruption Model.

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

Finally, mention must be made of the fact that the Committee was informed on 15 February 2018 of the actions taken by the Ethics Committee with regard to monitoring the initiatives included in the 2017 Sustainable Management Plan and the setting out of initiatives in the Plan for Sustainable, Ethical and Compliant Management for 2018, and the breakdown of incidents arising in relation to the Ethics Channel, despite no incidents of appreciable importance taking place during the year.



3.7. Activity of the Audit and Compliance Committee

On 15 February 2018, the Annual Activity Report of the Audit and Compliance Committee, included in the documentation made available to shareholders, was presented to the Committee. This report was finally approved on 19 February 2018, and the Board of Directors was notified of this at the meeting held by the Board of Directors on the same day.

During 2018, the Committee monitored the implementation of the improvements defined for compliance with the standard procedures set out in the Committee's Technical Guidelines.

On 5 September 2018, Enagás was requested by the Spanish Securities Market Commission (CNMV) to respond to specific questions regarding compliance with the obligations derived from Additional Provision 3 of the Spanish Audit Act 22/2015 of 20 July governing audit committees in public interest entities. The Committee reviewed the contents of the report responding to this requirement on 8 October 2018, approving the text and notifying the Board of Directors about this report at its meeting held the same day.



4

Evaluation of Audit and Compliance Committee performance

In accordance with the provisions of the Regulations of the Board of Directors and the recommendations of Technical Guidelines 3/2017 on Audit Committees in Public Interest Entities, the Board of Directors and the Audit and Compliance Committee underwent an evaluation of the quality and efficiency of the performance of their duties and competences in 2018 by an external consultant, taking as a frame of reference for its evaluation the applicable regulations and best practices in matters of corporate governance.

The result of this evaluation highlighted the fact that the Audit and Compliance Committee performs its duties in accordance with the best corporate governance practices, and that there was no need for changes in its internal organisation or to its operating procedure. The results of this evaluation were approved by the Audit and Compliance Committee and the Board of Directors on 22 February 2019.

5

Progress made
in 2018

In line with the recommendations contained in Technical Guide 3/2017 for Audit and Compliance Committee, the following actions were carried out in 2018:

- Extension of the contents listed in the Annual Calendar with preparatory meetings and an annual training plan.
- An increase in the number and duration of meetings held by the Committee.
- In relation to the function of supervising the effectiveness of the Internal Financial Reporting System (IFRS), the intensification of reporting activities, by the Finance Department and the Internal Audit Department, have made it possible to extend the information available to the Committee in order to be able to conclude on the level of confidence and reliability of the IFRS.

- Enhanced training through courses on:
 - New Accounting Standards – IFRS 9 Financial assets and liabilities, IFRS 15 on Revenue, and IFRS 16 on Leases (23 May 2018).
 - Tax-Related Matters – Immediate provision of information to the Spanish Tax Authority, AEAT (23 May 2018).
 - Process for Managing Purchasing and Suppliers (23 May 2018).
 - Risk Management and Control Model (19 November 2018).

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