

4.3 Financial and operational excellence



[GRI 103-1, GRI 103-2, GRI 103-3]

Financial and operational excellence is one of our main concerns, given that the efficient management of the company's assets is one of the key strengths for the sustainability of the business in the short, medium and long term.

The key aspects on which we focus are sustaining our excellent results over time, a financing strategy based on diversification, and driving operational efficiency through continuous improvement programmes,

digitalisation, corporate entrepreneurship and the efficiency plan.

Milestones 2017

- ✓ The result of 2017 have exceeded the targets set for the year.
- ✓ The financial stability of the Spanish Gas System contributed to successfully transfer the collection rights to cover the 2014 tariff deficit, eliminating this risk from our balance sheet.
- ✓ Solid cash flow generation and major deleveraging (reduction of net debt by €725Mn).
- ✓ Contribution by our affiliates to net profit growth rises by up to 19.6%.
- ✓ Fixed-rate net debt higher than 80%, without significant debt maturities until 2022.
- ✓ Analysis of total tax contribution in countries where profits are generated.
- ✓ Implementation of the continuous improvement programme (Kaizen) project by project.

Targets 2018

- ✓ Sustainable net profit growth (CAGR +3%).
- ✓ Deleveraging through expected cash flow generation (€459Mn).
- ✓ Strong commitment to the reported dividends policy to 2020.
- ✓ Renewal of EFQM+500.
- ✓ Completion of implementation of the continuous improvement programme at 100% of transmission network worksites and continuation of projects for transversal improvement within the company.

Dividend of

€1.46

per share

€490.8MN
(+17.6%)

net profit

€5.008BN

net debt (4.4x net debt/adjusted EBITDA)

€328.5MN

in investment

Net cost of debt

2.7%

Financial excellence

2017 Results Figures

Results in line with the targets set for 2017. EBITDA also exceeded the yearly target owing to higher regulated revenues from growth in demand (9.2%).

In €Bn	2016	2017	% Variation
Total revenue	1,218.3	1,384.6	13.7%
EBITDA	948.8 ⁽¹⁾	1,110.3	17.0%
EBIT	651.72	732.1	12.3%
Net Profit	417.2	490.8	17.6%

(1) Adjusted figure for comparative purposes as a result of changes to reporting practice made in 2017 in which the yearly result for consolidated companies through the equity method are now fully integrated into the group's operating result.

Evolution of the share price

At year-end 2017, Enagás shares were trading at €23.87 each, a fall of 1.06% on the previous year-end, with a share capitalisation of €5.699Bn. Taking into account the dividends paid during 2017, the total yield for company shareholders stood at +4.82% for 2017. This behaviour is in line with the performance of the

company's main benchmark indices by sector: the IBEX produced a yield of +7.40%; EuroStoxx Utilities, +4.82%; and Bolsa Madrid Utilities, +3.87%.

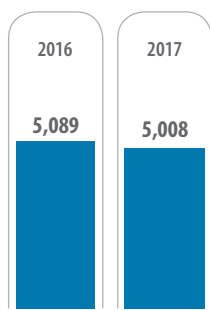
During the course of 2017, the price of the Enagás share peaked at €26.715 (7 June), with a low of €22.405 (2 February). The average volume traded for the year was 1,010,783, higher than recorded

at year-end 2016, which was 893,213 shares. Analysts agree on an estimated target average price for the end of 2018 of €26.16 per shares, with 50% recommending 'hold', 30% 'buy' and 20% 'sell' for the company's shares.

Financing strategy

Enagás adapted to the new context arising from the crisis by reducing external bank borrowings and replacing this with another type of funding, such as bonds. This enabled it to achieve a more diversified structure.

■ Net Debt (€MN)

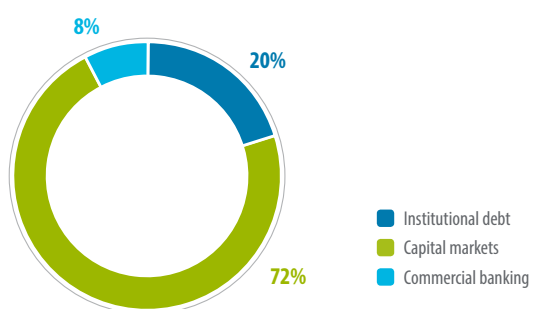


■ Leverage and liquidity

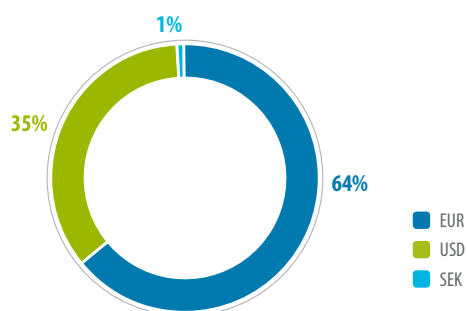
	2016	2017
Net Debt/Adjusted EBITDA ⁽¹⁾	5.2x	4.4x
FFO/Net Debt	15.0%	17.4%
Cost of debt	2.4%	2.7%
Liquidity	€2.409Bn	€2.484Bn

(1) EBITDA adjusted by dividends received from affiliates.

■ Debt structure



■ Fixed-rate debt above 80%



Total tax contribution

The total tax contribution made by Enagás in 2017 amounted to €265 million, of which 55% corresponded to taxes borne (€146 million) and 45% to taxes collected (€119 million).

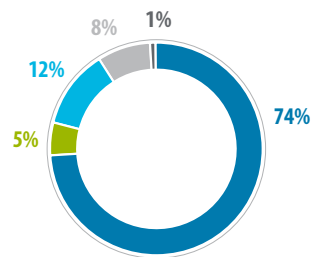
Total Tax Contribution was calculated according to the PwC Total Tax Contribution (TTC) methodology, with a cash approach and taking into account the group entities consolidated through full integration (Enagás S.A., Enagás GTS, S.A.U., Enagás Transporte S.A.U., ETN, S.L., Enagás Mexico, S.A. de C.V, Enagás

Perú, S.A.C, Enagás Financiaciones, S.A.U., Enagás Internacional, S.A.U., Enagás USA LLC and Enagás Chile SPA) and entities consolidated through proportional integration (Gasoducto Extremadura, S.A., Gasoducto Al-Ándalus, S.A. and GNL Quintero).

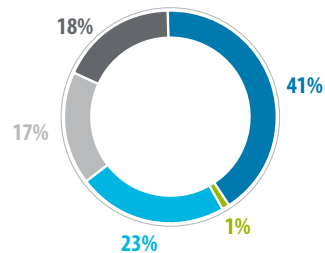
■ Total tax contribution



■ Taxes borne



■ Taxes collected



- Taxes on profits
- Property taxes
- Payroll taxes
- Taxes on goods and services
- Environmental taxes

Operational excellence

Efficiency Plan

Enagás continues to promote efficiency as one of the key strengths for the sustainability of the business in the short, medium and long term. In order to do this, our current efficiency plan focuses on the following areas:

- Infrastructure, by implementing plans for greater efficiency and optimising maintenance management using tools for continuous improvement and operating excellence (continuous improvement programme and digitalisation process); reducing CO₂ emissions through energy efficiency and elimination of fugitive emissions (see the chapter on [‘Climate change and energy efficiency’](#)).
- People, by implementing measures to adapt the resources and organisational structure to the strategy, and strengthening talent as a critical asset of the company (see the chapter on [‘People’](#)) and innovation (corporate entrepreneurship programme).

- Administration and support services, by putting in place actions to ensure control of spending, adjusting it to the needs of the business at all times (cost efficiency plan).

Continuous improvement programme

Enagás approaches operational excellence by means of different Lean – Kaizen methodologies. The basic pillars of this programme are to bring about cultural change in the company, in addition to new methods and ways of working that empower professionals, creating autonomous continuous improvement teams focused on problem-solving and operating efficiency.

The programme is structured along the following lines:

- Training and skills training to ensure the implementation of a philosophy

of continuous improvement and sustainability for the programme.

- Development and implementation of a culture of improvement in daily operations with a focus on problem solving.
- Creation of multidisciplinary groups aimed at developing specific improvement projects focusing on efficiency and process improvement.

In 2017, the programme was rolled out in all regasification plants and underground storage facilities, and was extended to new transmission worksites. Moreover, different transversal pilot projects were implemented with disruptive impacts on results. It is estimated that implementation of the programme at 100% of transmission network worksites will be completed in 2018, with continuation of projects for transversal improvement.