APMs – 3Q 2016

In October 2015, ESMA published its guidelines on Alternative Performance Measures (APM). The aim is that adherence to these guidelines will improve the comparability, reliability and/or comprehensibility of the measures. The guidelines apply to any regulated information disclosed from 3 July 2016 onwards, such as management reports that form part of annual or half-yearly financial statements, interim management reports, earnings presentations disclosed through a significant event notice, etc.

As a result, in its interim management report for the third quarter of 2016, Enagás mentioned specific APMs (including EBITDA adjusted for dividends from investees, net financial debt and regulated revenues) but did not provide all the information required under the Guidelines:

i. **Definition of APMs used and their components;**

ii. **Details of labels reflecting the content and basis of calculation of the APMs used;**

iii. **A reconciliation of the APM with the most directly reconcilable line item, subtotal or total presented in the financial statements;**

iv. **Explanation of the use of the APMs to allow users to understand their relevance and reliability;**

5.1 Information on APMs has been amplified in accordance with ESMA guidelines.

The financial information disclosed by Enagás contains figures and measurements prepared in line with applicable accounting legislation, in addition to a series of measurements prepared in accordance with established reporting standards and developed internally, known as Alternative Performance Measures (APMs).

These APMs are an adjustment of the indicators disclosed under International Financial Reporting Standards as adopted in the EU (IFRS-EU), which is the applicable accounting framework for the Enagás Group's consolidated financial statements, and therefore should be considered by the reader to supplement but not replace the latter.

APMs are important for users of financial information as they are the measures used by Enagás' management to assess financial performance, cash flows and financial position for the Group's operational or strategic decision-making. These APMs are consistent with the main indicators used by the investment and analyst community in the capital markets.

Therefore, pursuant to the Guidelines issued by the European Securities and Markets Authority (ESMA), valid from 3 July 2016, relating to the transparency of Alternative Performance Measures, Enagás hereby provides the information relating to the APMs included in the management report for the third quarter of 2016 that are considered to be significant:

1. Alternative Performance Measures relating to the Income Statement

EBITDA

EBITDA (*"Earnings Before Interest, Tax, Depreciation and Amortisation"* is an indicator that measures a company's operating income before the deduction of interest, taxes, depreciation and amortisation). By stripping out financial and tax figures and accounting costs that do not imply a cash outflow, this indicator is used by Management to assess the company's earnings over time and compare them with other companies in its sector.

EBITDA is calculated as Operating income plus depreciation and amortisation, impairment where applicable, and other items that do not imply cash inflows or outflows in Enagás' operations (such as capital gains or losses on disposals, provisions, etc).

EBITDA posted in the management report for the third quarter of 2016 totalled €643.3Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2016 are shown below (in millions of euros):

	EBITDA (9M) September - 2016
Operating income	438.6
Depreciation and amortisation	204.7
Impairment and other items	-
EBITDA	**643.3**

Adjusted EBITDA

Adjusted ***EBITDA*** is an indicator that measures a company's operating income before the deduction of interest, taxes, depreciation and amortisation, and includes dividends received as interest on subordinated debt from associates that are consolidated by the Enagás Group under the equity method.

This measure is used by the Management to calculate the leverage ratios described in the section "Alternative Performance Measures relating to the Balance Sheet and leverage ratios", facilitating their comparison with other sector companies.

The reconciliation of adjusted EBITDA for the last 12 months is shown below. This is used to calculated leverage ratios, based on the figures contained in the 2015 and 2016 earnings presentations:

	2015 (12M) (A)	September 2015 (9M) (B)	Sept.- Dec 2015 (A-B)	September 2016 (C)	LTM September 16 (A-B)+(C)
EBITDA	900.5	684.9	215.6	643.3	858.9
Dividends (*)	48.9	22.,2	26.7	53.0	79.7
Adjusted EBITDA	**949.4**	**707.1**	**242.3**	**696.3**	**938.6**

(*) Includes interest on subordinated debt charged to investees.

EBIT

EBIT (*"Earnings Before Interest and Taxes"* is an indicator that measures a company's operating income before the deduction of interest and taxes. As with the previous indicator, it is used by Management to assess the company's earnings over time and compare them with other companies in its sector.

EBIT is calculated the same way as EBITDA, deducting depreciation and amortisation, in addition to any impairment and other items that do not imply cash inflows or outflows in Enagás' operations (such as capital gains or losses on disposals, provisions, etc).

EBIT posted in the interim management report for the third quarter of 2016 totalled €438.6Mn and coincides with operating income for that period.

2. Alternative Performance Measures relating to the Balance Sheet and leverage ratios

Net Debt

Net finance debt or net debt is the main indicator used by Management to measure the level of the Group's debt. It is gross debt less cash.

To calculate the ***gross debt*** the headings "Bank borrowings", "Bonds and other marketable securities" at amortised cost are added to other headings from the consolidated balance sheet such as "Other financial liabilities".

Cash is taken from the Balance Sheet heading "Cash and cash equivalents".

The reconciliation between the APM and the figures corresponding to the interim consolidated balance sheet for the period ending 30 September 2016 are shown below (in millions of euros):

	Net Debt September - 2016
Cash and cash equivalents	779.1
Non-current liabilities	**-4,805.9**
Bank borrowings	-1,689.8
Bonds and other marketable securities	-3,093.7
Other financial liabilities	-22.4
Current liabilities	**-463.8**
Bank borrowings	-185.1
Bonds and other marketable securities	-270.1
Other financial liabilities	-8.6
Net debt (accounting)	**-4,490.6**
Adjustments to Financial debt	**59.3**
Put option (1)	17.3
Adjustment to AFLAC bond placement (2)	34.8
Other (3)	7.2
Net debt	**-4,431.3**

(1) The present value of the put option held by EVE on its stake in Enagás Transporte del Norte, S.L. is not included.

(2) Corresponds to the adjustment made to calculate the amortised cost of certain items included in the "Bonds and other marketable securities" category.

(3) "Other" mainly includes the financial liability held by the Enagás Group with EIGs that will be offset by the use of tax loss carryforwards generated by these companies.

Ratios linked to net debt

Management uses two ratios to analyse leverage and the Group's capacity to meet its financial obligations over time, comparing these with other companies in the sector.

Both ratios compare net debt calculated at the date of the financial statements with the figures on the income statement (EBITDA) and Cash Flow statement (FFO) corresponding to the previous 12 months, in order to ensure the results thrown up by these quarterly ratios are comparable with annual information.

The **ratio linked to leverage** is calculated as net debt/adjusted EBITDA as follows:

	Net Debt / Adjusted EBITDA September – 2016
Net Debt	4,431.3
Adjusted EBITDA (last 12 months)	938.6
Net debt / adjusted EBITDA ratio	**4.7x**

The **ratio linked to the capacity to generate cash flows over net debt** is calculated as FFO / net debt as follows:

	FFO / net debt September – 2016
FFO (last 12 months)	705.9
Net debt	4,431.3
FFO / net debt ratio	**15.9%**

3. Alternative Performance Measures relating to the Cash Flow and Investments

Funds from Operations (FFO)

FFO is the main cash flow generation indicator analysed by Enagás' Management as it jointly measures cash generation in the regulated and unregulated domestic business and in the international business in the form of dividends from investees or interest charged on subordinated debt extended to these companies, after deducting both taxes and interest relating to the Group's financial debt.

It is calculated as:

FFO = EBITDA +/- taxes received/paid – interest paid + dividends received from investees + interest on subordinated debt charged to investees.

FFO in the first nine months of 2016 stood at €611.5 million. The reconciliation between this APM and the figures seen in the financial statements for the period ended 30 September 2016 are shown below:

	FFO September – 2016
Operating income	438.6
Depreciation and amortisation	204.7
Impairment and other items	-
EBITDA	**643.3**
Taxes received /(paid)	-26.9
Interest paid	-52.9
Dividends (*)	53.0
Other adjustments	-5.1
FFO	**611.5**

(*) Includes interest on subordinated debt charged to investees.

Operating cash flow (OCF)

Operating cash flow measures the company's capacity to generate operating cash flow after changes in working capital. The calculation is based on FFO and includes changes in working capital

OCF posted in the management report for the third quarter of 2016 totalled €606.0Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2016 are shown below (in millions of euros):

	OCF September – 2016
FFO	**611.5**
Changes in working capital	-5.5
OPERATING CASH FLOW (OCF)	**606.0**

Free cash flow (FCF)

Free cash flow measures cash generation from operating and investing activities, and is considered by Enagás to be a key APM as it is the indicator used to assess the funds available to pay dividends to shareholders and to service debt.

FCF posted in the management report for the third quarter of 2016 totalled €7.6Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2016 are shown below (in millions of euros):

	FCF September – 2016
OPERATING CASH FLOW (OCF)	**606.0**
Payments for investments	-600.8
Divestment proceeds	2.4
Other cash flows from investing activities	49.7
Interest paid	-63.2
Interest received	13.6
Free Cash flow (FCF)	**7.6**

Discretional Cash Flow (DCF)

Discretional cash flow is an APM used by Management to address existing funding needs. It is defined as free cash flow (FCF) less dividends paid to shareholders.

DCF posted in the interim management report for the third quarter of 2016 totalled -€181.6Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2016 are shown below (in millions of euros):

	DCF September – 2016
Free Cash flow (FCF)	**7.6**
Dividend payments	-189.2
Discretional Cash Flow (DCF)	**-181.6**