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 reporting standards established and developed internally, known as Alternative Performance Measures (APMs).

These APMs are considered to be adjusted figures compared to those 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. They should therefore be considered by the reader to supplement but not replace them.

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.

In this respect, and in accordance with the provisions of the Guidelines issued by the European Securities and Markets Authority (ESMA), in force since 3 July 2016, concerning the transparency of Alternative Performance Measures, Enagás provides information below related to those APMs included in the management information for 9M 2018 that it considers significant.

For clarification purposes, the ***"Standalone" concept,*** used since 2017 in the proforma financial information to present the stake in GNL Quintero using the equity method (instead of full consolidation), is still being used by the management of Enagas in 2018 to express only certain indicators (net debt, FFO and associated ratios), as explained below.

1. Alternative Performance Measures relating to the Income Statement

EBITDA

EBITDA (*"Earnings Before Interest, Tax, Depreciation and Amortization"*) 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 those of other companies in its sector.

EBITDA is calculated as Operating profit (loss) plus 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.)

The reconciliation from Operating Income seen in the financial statements for the period ended 30 September 2018 is shown below:

	9M 2018
Operating income	1,012.5
Affiliate results (*)	70.5
Operating expenses	-278.6
EBITDA	**804.4**

(*) For management purposes, the concept "Affiliate results" presented as part of the operating income, shown as 70.5 million euros, does not include the impact of the amortisation of the purchase price allocation (PPA) for the sum of (17 million euros), which is regarded as the largest amortisation expense and is therefore excluded from EBITDA. Jointly, these two concepts would amount to 53.5 million euros, as indicated in the income statement of the consolidated financial statements for the period ended 30 September 2018.

Adjusted EBITDA

Adjusted ***EBITDA*** **is** an indicator that measures the 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 accounted for by the Enagás Group using 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", enabling them to be compared with other sector companies. The reconciliation of adjusted EBITDA for 9M 2018 is shown below, which is used to calculated leverage ratios:

	9M 2018	LTM 9M 2018
EBITDA	804.4	1,120.6
Dividends (*)	54.1	84.8
Affiliate Results (**)	-70.5	-111.2
ADJUSTED EBITDA	**788.0**	**1,094.2**

(*) This basically refers to dividends received from companies accounted for using the equity method (42.8 million euros during 9M of 2018). Interest on subordinated debt charged to affiliates is also included.

(**) Since the dividends received from affiliates are indicated here, the share of profit/(loss) of these companies is excluded and included instead in EBITDA, as explained in the previous section.

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 those of other companies in its sector.

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

The EBIT for 9M 2018 reached 536.0 million euros. This figure matches the operating income for that period.

The reconciliation of operating income indicated in the consolidated financial statements for the periods ended 30 September 2018 and 30 September 2017 is shown below:

	9M 2018 Overall	9M 2017 Overall	9M 2018 stand alone	9M 2017 stand alone
Operating income	1,012.5	1,021.7	884.0	889.1
Affiliate results (*)	70.5	56.5	88.1	73.5
Operating expenses	-278.6	-284.0	-254.8	-259.9
EBITDA	**804.4**	**794.2**	**717.4**	**702.7**
Depreciation and amortisation	**-268.4**	**-259.4**	**-235.2**	**-223.8**
From affiliates (*)	-17.0	-18.5	-23.0	-24.9
Other	-251.4	-240.9	-212.2	-198.9
EBIT	**536.0**	**534.8**	**482.1**	**478.9**

(*) For management purposes, the concept "Affiliates" is presented separately within operating income, including the impact of the amortisation of the purchase price allocation (PPA) for the (17 million euros) as an increase in depreciation and amortisation and is therefore excluded from EBITDA. Jointly, these two concepts would amount to 53.5 million euros, as indicated in the income statement of the consolidated financial statements for the period ended 30 September 2018 (30 September 2017: 38 million euros).

Contribution from affiliates

Contribution from affiliates is an indicator that measures the contribution from affiliates to profit after tax. This indicator helps management assess the growth in the share of profit/(loss) of affiliates.

Contribution from affiliates is calculated as the full consolidation of the share of "standalone" profit/(loss) of affiliates divided by profit after tax of GNL Quintero, calculated as follows:

	9M 2018	9M 2017
Affiliate Results (Standalone) (*)	**65.1**	**48.6**
Affiliate Gross profit/(loss)	88.1	73.5
Amortisation of PPA	-23.0	-24.9
Profit after tax	**325.7**	**375.7**
Equity-accounted/Profit after tax	**20.0%**	**12.9%**

(*) As indicated herein, the share of "standalone" profit/(loss) of affiliates includes the profit/(loss) of GNL Quintero accounted for using the equity method, net of amortisation of PPA.

2. Alternative Performance Measures relating to the balance sheet and leverage ratios

Net Debt

Net financial 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.

Gross debt calculated by aggregating "Bank borrowings", "Bonds and other marketable securities" measured at amortised cost and "Other financial liabilities". In the case of the latter, only the loans from the General Industry Secretariat, the General Energy Secretariat and Oman Oil are included.

The cash amount is taken from the consolidated 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 2018 are shown below (in millions of euros):

	9M 2018 Overall	9M 2018 Stand-alone
Cash and cash equivalents	844.5	531.7
Bank borrowings	-1,467.7	-1,467.7
Bonds and other marketable securities (1)	-4,031.7	-3,080.2
Other long-term loans (2)	-4.5	-4.5
Net debt	**-4,659.4**	**-4,020.6**

(1) For the standalone calculation, the items relating to GNL Quintero (bonds and other marketable debt securities for 951.5 million euros, and cash equivalents for 312.8 million euros) were eliminated.

(2) The adjustment has been included to record the Enagas Group yen bond at amortised cost as well as the adjustment made to the GNL Quintero bond to show its fair value at the date of the business combination. The total amount of these adjustments is 3 million euros.

(3) The amount included in this section corresponds, in aggregate, to the loans of the General Secretariat of Industry, General Secretariat of Energy and Oman Oil.

Ratios linked to Net Debt

Management uses two key figures to analyse the leverage and capacity of the Group to meet financial obligations over time, and compare them with those of other companies in its sector.

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

	LTM 9M 2018 Overall	LTM 9M 2018 Stand-alone
Net debt (at 30 September 2018)	4,659.4	4,020.6
Adjusted EBITDA	1,094.2	1,004.6
Net debt/adjusted EBITDA	**4.3x**	**4.0x**

The ratio linked to the capacity to generate flows on net debt is calculated as FFO over the last twelve months (LTM)/net debt, as follows:

	LTM 9M 2018 Overall	LTM 9M 2018 Stand-alone
FFO (*)	782.0	706.0
Net debt (at 30 September 2018)	4,659.4	4,020.6
FFO / net debt	**16.8%**	**17.5%**

(*) This figure is explained below under Alternative Performance Measures relating to the cash flow and investments.

3. Alternative Performance Measures relating to cash flow and investments

<u>Funds from Operations (FFO)</u>

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

It is calculated as:

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

FFO for 9M 2018 amounted to 617.5 million euros. The reconciliation between this APM and the figures indicated in consolidated the financial statements for the period ended 30 September 2018 is shown below:

	9M 2018 Overall	LTM 9M 2018 Overall
Operating income	536.0	733.3
Depreciation and amortisation (*)	268.4	387.3
EBITDA	**804.4**	**1,120.6**
Taxes received /(paid)	-48.1	-118.3
Interest received/paid (**)	-104.5	-138.0
Dividends (**)	54.1	84.8
Other adjustments	-17.9	-55.8
Affiliate results (*)	-70.5	-111.2
FFO	**617.5**	**782.0**
FFO Quintero (***)	49.2	76.0
Stand-alone FFO	**568.3**	**706.0**

(*) For management purposes, in addition to the provision for impairment of assets, the concept "Provisions for depreciation and amortisation" also includes the impact of the amortisation of the purchase price allocation (PPA), which is (17 million euros).

(**) Interest on subordinated debt charged to affiliates is included, for management purposes, under "Dividends."

(***) The calculation of Quintero's FFO for 9M took into account its EBITDA of 87.1 million euros (115.7 million euros for LTM 9M), interest payments amounting to 40.8 million euros (39.5 million euros for the LTM 9M), dividend collections for 14.8 million euros (15.2 million euros for the LTM 9M) and affiliates amounting to 17.6 million euros (21.5 million euros for the LTM 9M) and other adjustments amounting to 0 million euros (6.4 million euros for LTM 9M).

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 amounted to 710.2 million euros in 9M 2018. The reconciliation between this APM and the figures in the interim consolidated financial statements for the period ended 30 September 2018 is shown below (in millions of euros):

	9M 2018
FFO	**617.5**
Changes in working capital	92.8
OPERATING CASH FLOW (OCF)	**710.2**

Free cash flow (FCF)

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

The reported FCF for 9M 2018 was 556.7 million euros. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2018 is shown below (in millions of euros):

	9M 2018
OPERATING CASH FLOW (OCF)	**710.2**
Payments for investments	-155.4
Disposal proceeds	1.8
Other cash flows from investing activities	-
Free Cash flow (FCF)	**556.7**

Discretional cash flow (DCF)

Discretional cash flow is an APM used by Management to manage existing funding needs. It is defined as free cash flow (FCF) less dividends paid to shareholders and certain exchange rate differences related to net debt.

The reported DCF for 9M 2018 was 336.7 million euros. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 30 September 2018 is shown below (in millions of euros):

	9M 2018
Free Cash flow (FCF)	**556.7**
Dividends paid	-222.5
Effect of changes in exchange rates	2.5
Discretional Cash Flow (DCF)	**336.7**