

2016

Annual Report



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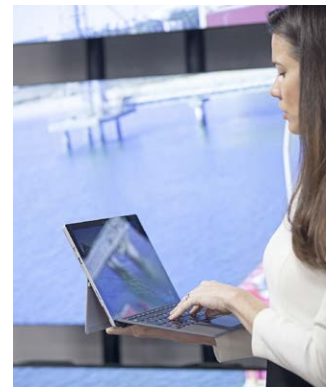
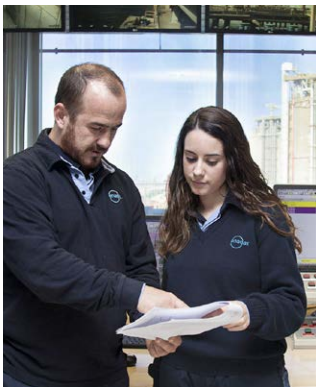
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The complete Enagás Annual Report 2016 is available on the corporate website in an online version for computer, tablet and mobile telephone (also in downloadable PDF files). www.enagas.es



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Antonio Llardén, Executive Chairman of Enagás

“ Shareholder remuneration is our strategic priority: we will be increasing the dividend by 5% per year until 2020 ”

We have revised our forecasts for average annual growth in net profit upwards to **3%**

The Executive Chairman of Enagás explains the main aspects of 2016 and the company's outlook for the 2017–2020 period. [\[GRI 102-14\]](#)

What were the 2016 results like? What aspects would you highlight?

The best way to recap the year is to say that, once again, we were able to meet our forecast targets for the tenth consecutive year. We increased our net profit by 1.1% on 2015 and made 417 million euros.

The dividends paid by our affiliates reached 90.5 million euros, easily exceeding the 65 million we forecast, which together with the reduction in our finance charges enabled us to achieve these good results.

What were the main investments made by Enagás in 2016?

Enagás invested 912 million euros in 2016. The most significant investment of the year was the purchase of 40% of GNL Quintero, the Chilean regasification terminal in which we already had a 20% stake. The amount, 400 million dollars, accounted for almost half of the total investments made during the year. With 60% we are now the majority shareholder, and in 2017 we will begin to include this company fully in our consolidated accounts.

In addition, we are continuing to invest in a very attractive project that is of great importance for Europe, the Trans Adriatic Pipeline (TAP), in which we hold a 16% stake.

In Spain, we should highlight the purchase of 42.5% of Saggas, the Sagunto regasification plant, which takes our stake to 72.5%.

How did Enagás shares perform in 2016?

Enagás performed better than comparable companies, not only in Spain but in Europe. After several really positive years, the IBEX 35 closed 2016 generally down, which in our case was a fall of 7%. It should be borne in mind that this year saw markets punish blue chip companies, like us, and the utilities sector in general.

The objectives of your Strategic Plan until 2020 have recently been revised. What stands out most in this updated forecast?

One important point is that we have raised our forecast for average annual growth in net profit to 3% from the previous 2%. This was possible thanks to the investment efforts made in 2016, and the investments due to be made until 2020.

Furthermore, we are upholding our commitment to our shareholders independently of market conditions, and their remuneration continues to be one of the strategic priorities at Enagás. As we announced, we will be increasing the dividend by 5% per year until 2020.



Between now and 2020, we estimate demand to **grow** at an average yearly rate of **3.5%**

What about the Enagás international strategy? Have any basic aspects changed?

Our international strategy remains on course and is based on three key pillars: the optimum and efficient management of investments already made; recouping as soon as possible our investment in the Peruvian GSP project, after termination of our concession; and a thorough analysis of interesting projects and possible new investment in countries that are attractive for the development of gas infrastructures.

We will slow down the process somewhat, given that one way or another, after investing more than 700 million euros in 2016, we have put forward a large part of the international investments we had forecast we would make by 2020.

How did the demand for gas behave in 2016? What is the outlook for 2017?

This was the second year in a row in which the demand for gas in Spain grew, mainly the result of increased industrial demand, which increased by 3%, in line with economic growth.

Between now and 2020, we estimate demand to grow at an average rate of 3.5% per year. We have started 2017 with record demand for natural gas in Spain, owing to the cold snap and a number of nuclear plants in France being offline. We have had the highest consumption in the Spanish Gas System since 2012, and it was met as normal thanks to the flexibility given by the regasification plants and underground storage facilities, which are key to guaranteeing supply.

Enagás continued to further its sustainability strategy. What new aspects would you highlight from last year?

Sustainability is one of our strategic pillars and a commitment shared by all the professionals who work for the company. Our sustainable management model enables us to integrate sustainability into our management, and to focus our efforts on the most relevant issues. In this way we contribute to achieving the Sustainable Development Goals and we renew our commitment to the ten principles contained in the Global Compact.

The energy efficiency initiatives we have put into place in our infrastructure allowed us to prevent the emission into the atmosphere of 92,000 tonnes of CO₂ in 2016, and we have reduced our carbon footprint by 49% over the last two years.

At the beginning of the year we were acknowledged as the tenth most sustainable company in the world by the 2017 Global 100 Most Sustainable Corporations in the World index, which gave me and the entire Enagás team great satisfaction. We have also renewed our presence on the Dow Jones Sustainability Index (DJSI) for the ninth consecutive year, with a Gold Class rating.

We are aware of the key part natural gas has to play if we are to advance towards a low-carbon economy, which is why we are promoting its use in sectors such as maritime transport, through projects such as CORE LNGas hive, coordinated by Enagás. We are also encouraging the use of natural gas-powered vehicles, because we need less polluting cars if we are to fulfil another extremely important objective to which we are committed, that of improving air quality.

In the field of Corporate Governance, what measures were taken in 2016 to continue on track with best practices?

We have one of the most international shareholder profiles in the entire Spanish market, and this has led us to adopt in recent years not only Spanish regulations

regarding Good Governance, but also the most stringent international guidelines. Our Board of Directors, through the Appointments, Remuneration and CSR Committee, monitors the correct application of the best practices in the fields of Good Governance and Sustainability.

In 2016 we adapted and updated all our policies related to Corporate Governance, which means that we are currently complying with the highest standards in this field.

The Board also approved the 2016–2018 Long-Term Incentive Plan, which includes a programme for multi-annual remuneration for senior management and a triennial bonus for other employees linked to compliance with the Enagás strategic plan. This has enabled us to align the interests of Enagás shareholders, management and all employees, and has responded to the requests by institutional investors and proxy advisors, with whom we continue to maintain a freely flowing dialogue with regard to Corporate Governance.

How does Enagás stimulate the motivation and commitment of its professionals?

Our 91 measures for a work-life balance has allowed us to renew Enagás certification as a Family-Friendly Company for yet another year. The signing of the new Enagás Collective Bargaining Agreement provides a stable framework for the company's labour relations with its professionals for the next four years and incorporated new aspects such as salary increases and professional development. We are also committed to diversity, and in the last two years we have increased the proportion of women in pre-executive and executive positions from 21% to 30%. It was highly satisfying that the 2016 working conditions survey, which had a 71% response rate, showed that practically every employee considered Enagás to be a good company to work for, corroborating the fact that we received certification from Top Employers España for the seventh year running.

Finally, is there another aspect that you would like to comment on?

I would like to stress that this Annual Report, which we have prepared in an integrated format for the fifth year in a row, not only covers the company's performance, but the most important impacts in the economic, social and environmental field.

Finally, I would like to thank the 1,337 professionals at Enagás for their efforts and commitment. They are the main resource we have with which to continue developing and operating gas infrastructures and to ensure the company's future growth.

I would also like to thank the members of our Board of Directors for their responsibility, involvement in the interests of the company and dedication throughout the year.

And, of course, I would like to thank all our shareholders, on my behalf and on behalf of the Board of Directors, for your trust and support. Rest assured that our main priority for the coming years continues to be the value creation for you. ●

Over the last two years we have **halved** our carbon footprint

Enagás in 2016

Financial results:



(*) Funds From Operations

Share price performance

+5%
Dividend per share

€24.12
Share at 31/12/2016

95%
Free float

Debt status

15%
FFO (last 12 months) / Net Debt

€5.089BN
Net Debt

2.4%
Net cost of debt

International indexes

91 (Gold class)
DJSI score

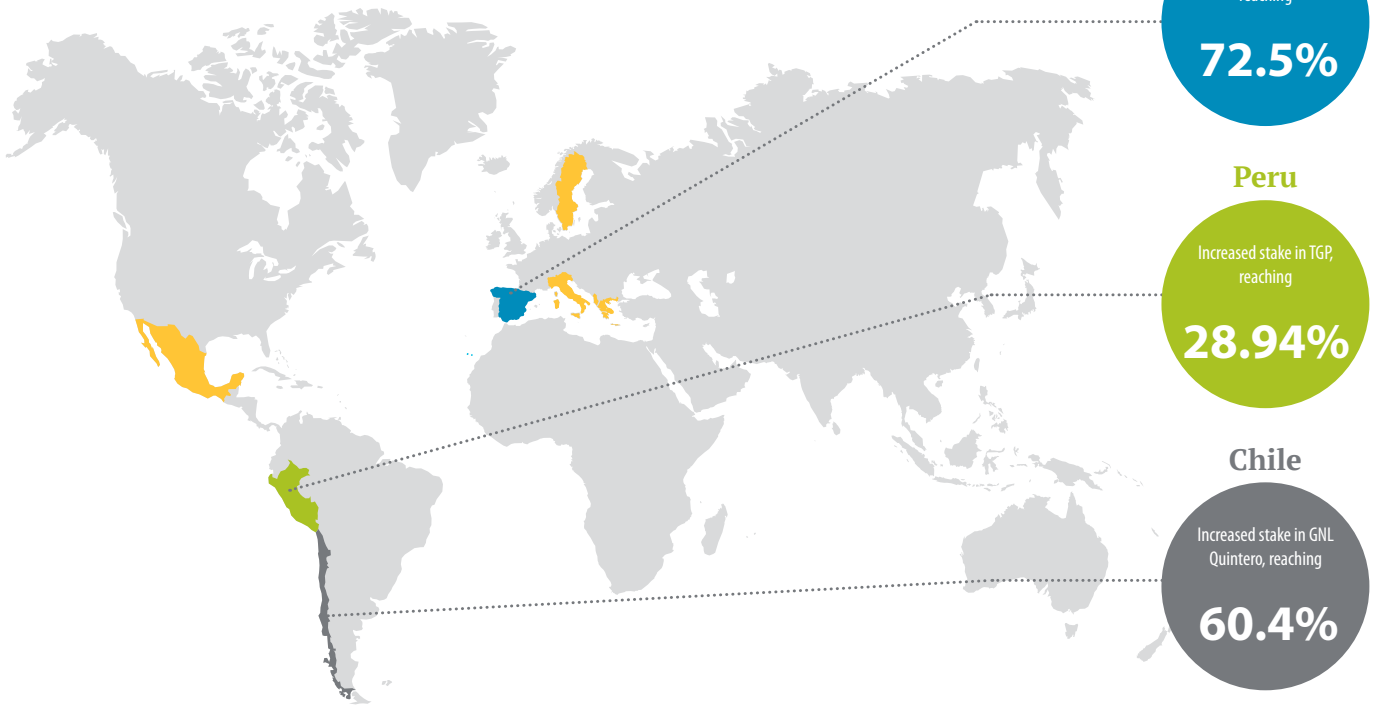
A
CDP score

Rating

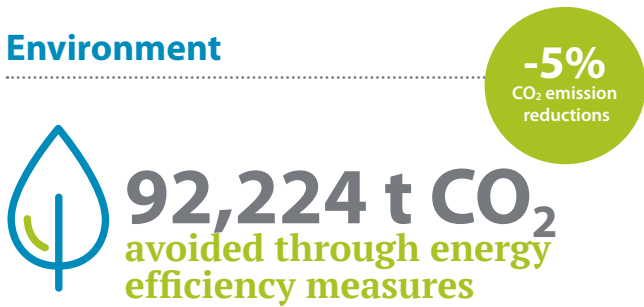
A-
S&P (stable outlook)

A-
FITCH (stable outlook)

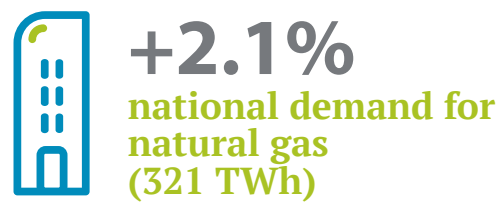
Business growth



Environment



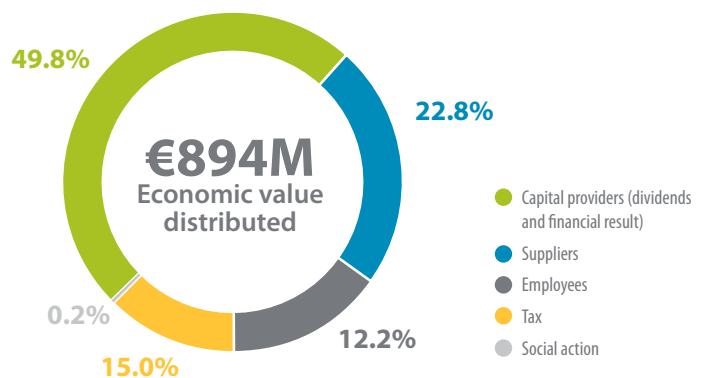
Gas Demand [GRI 302-2]



Workforce



Helping society



1

Our business model_ **11**

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Enagás: *good new energy*

Our business model

Enagás, a midstream company with almost 50 years' experience as an independent European TSO (Transmission System Operator), is an international

standard bearer in the development and maintenance of gas infrastructures and in the operation and management of gas networks. [\[GRI 102-2\]](#)

Service network operation



- The main natural gas operator in Spain
- Technical Manager of the Spanish Gas System
- Certified as independent European TSO

LNG



- Spain, Mexico and Chile
- LNG Terminals

Transmission

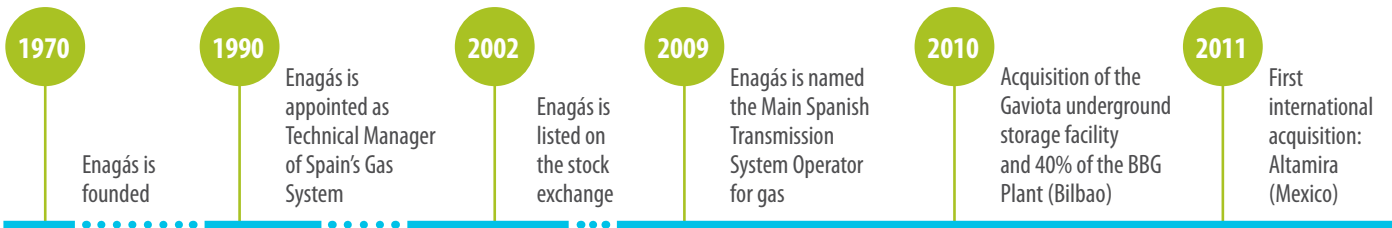


- Spain, Sweden, Mexico, Peru, Italy, Albania and Greece
- Gas pipelines
- Compressor stations
- International connections

Storage



- Spain
- Underground storage facilities



Enagás' activities do not include the purchasing or the sale of gas

Mission, vision, values

The company's mission, vision and values, as well as its policies and strategy, are reviewed and approved by the Board of Directors. [GRI 102-26]

Mission

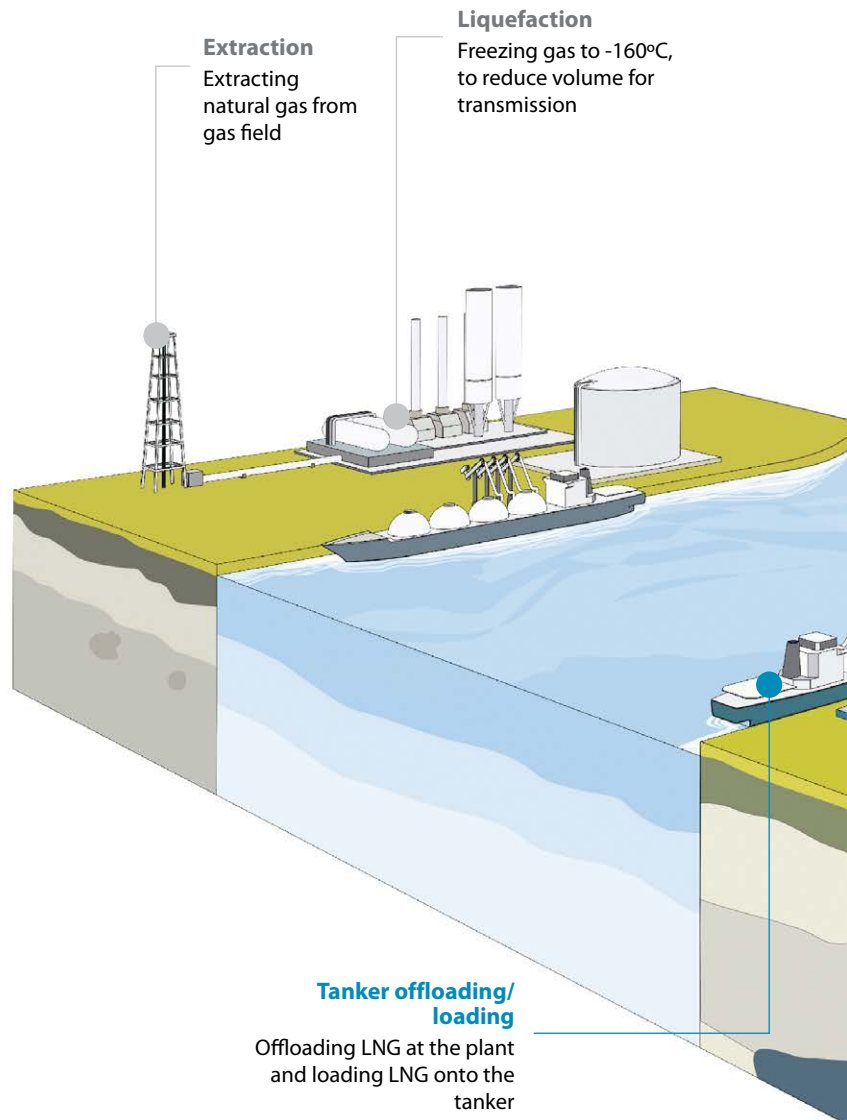
To develop and manage gas infrastructure in a secure, efficient and sustainable manner; complying responsibly with prevailing legislation and helping guarantee supply, particularly in our role as the Technical System Manager in Spain; offering our experience, knowledge and best practices to create value for our stakeholders.

Vision

To be a national and international standard bearer in the development and management of gas infrastructures, promoting their use by offering innovative services that contribute to sustainable development.

Values

- Efficiency
- Transparency
- Innovation
- Integrity
- Sustainability
- Safety
- Team work



● Activities carried out by Enagás on the gas value chain

2012

International acquisition of Quintero (Chile) and certification as European TSO

2013

Acquisition of Naturgas

2014

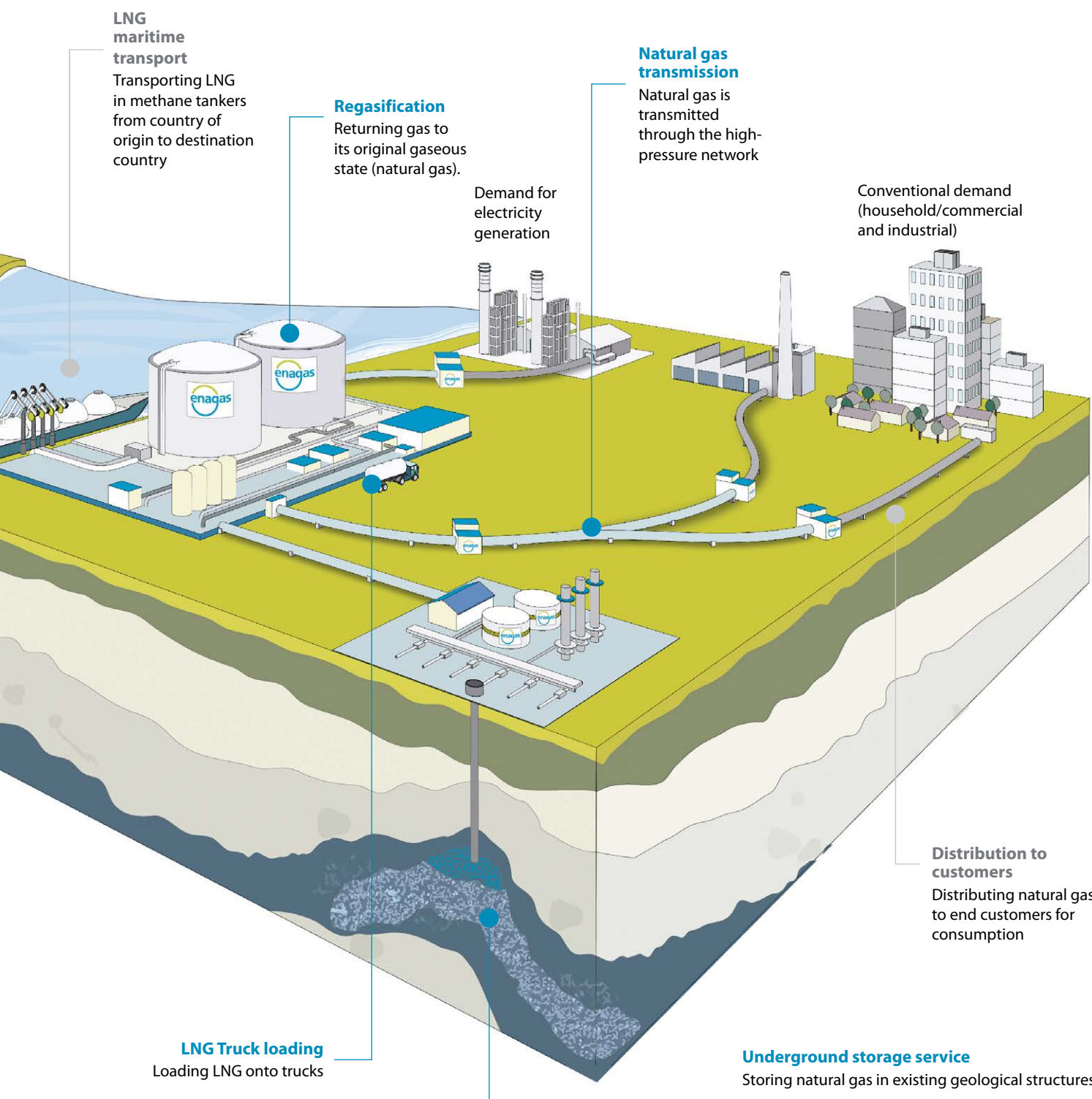
International acquisitions: TgP (Peru), GSP (Peru) y TAP (Europe)

2015

Acquisitions: increased share in TGP (Peru) and Swedegas (Europe)

2016

Acquisitions: increased share in TGP (Peru), Saggas (Spain) and Quintero (Chile)

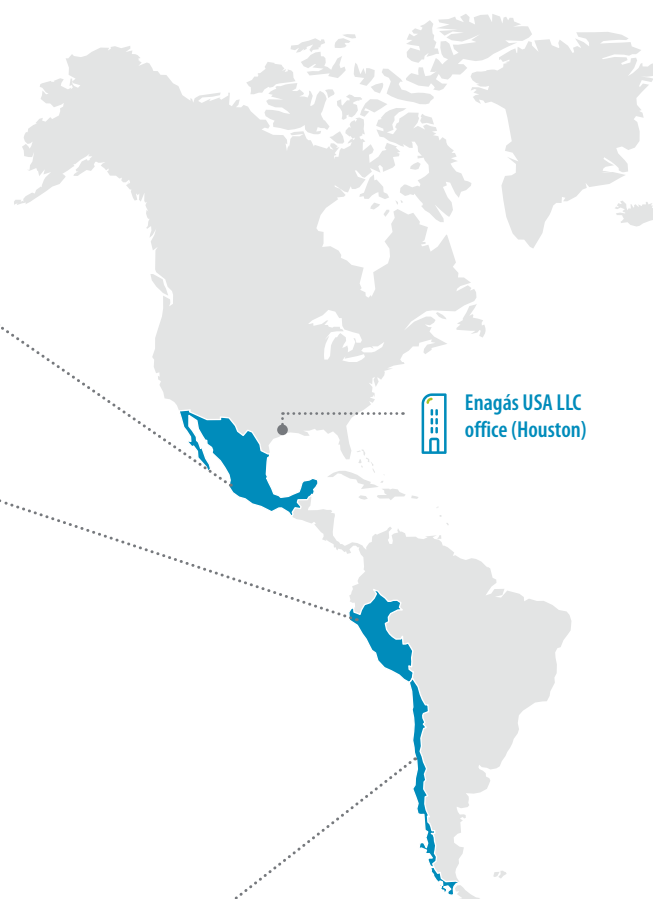


Where we operate

[GRI 102-3, GRI 102-4, GRI 102-6]

Mexico

- Soto La Marina compressor station (50%) 2013
- TLA Altamira plant (40%) 2011
300,000 m³/h
800,000 m³ (n)/h
- Enagás Mexico S.A. de C.V. office (Mexico City)
- Morelos pipeline (50%) 2012 / 172 km



Enagás USA LLC office (Houston)

Peru

- Transportadora de Gas del Perú (28,94%) 2014 / 729 km
- Compañía Operadora de Gas del Amazonas (Coga, 30%) 2014 / Operator TgP
- Enagás Peru, S.A.C. office (Lima)
- Gasoducto Sur Peruano^(*)

Chile

- Quintero LNG plant (60,4%) 2012
334,000 m³ LNG
625,000 m³ (n)/h

- Pipeline
- LNG terminal
- Underground storage service
- Compressor station
- Group offices
- International connection
- Under construction / Project

(*) The Peruvian government notified GSP on 24 January 2017 of the termination of the concession because the financial closure did not take place on the scheduled date.

Sweden



Operator Swedegas (50%)

LNG Terminal (Gothenburg) 2015

Skallen storage facility (Halmstad)

600 km of pipeline

Greece, Albania and Italy



Trans Adriatic Pipeline (TAP, 16%) 2014 / 871 km

Spain

~ 11,000 km of pipeline

6 LNG terminals (+ 2 in the works)

3 underground storage facilities

El Musel plant
300,000 m³ LNG
800,000 m³ (n)/h

Head office (Madrid)
[G4-5]

Huelva plant
619,500 m³ LNG
1,350,000 m³ (n)/h

Canary Islands plants
300,000 m³ LNG
[G4-6, G4-8]

BBG plant (50%)
450,000 m³ LNG/800,000 m³ (n)/h

Gaviota storage facility
Total gas: 2.7 bcm

Serrablo storage facility
Total gas: 1.1 bcm

Barcelona plant
760,000 m³ LNG/1,950,000 m³ (n)/h

Saggas plant (72.5%)
600,000 m³ LNG/1,000,000 m³ (n)/h

Cartagena plant
587,000 m³ LNG/1,350,000 m³ (n)/h

Yela storage facility
Total gas: 2.0 bcm*

* Quantity upon reaching its nominal capacity

19 compressor stations

6 international connections

Our customers

Enagás' clients are transmission companies, shippers, distributors and the direct consumers in the market (consumers who access our facilities directly), to which Enagás supplies a wide range of liquefied natural gas (LNG) services, transmission and underground natural gas storage.

Enagás' customer management model encompasses a commitment to quality and to excellence in the service offered.

The company has an ongoing marketing plan that includes various actions to boost and improve customer relations. Of the

actions initiated in 2016, those that should be highlighted are the publication of the *Services and Infrastructures Catalogue*, the protocol for visits to infrastructures; and the organisation of the first Shipper's Day in Barcelona, aimed at current clients as well as potential ones.

Furthermore, Enagás, as the Technical Manager of Spain's Gas System, organises and heads the Gas System Follow-up Committee (the organ responsible for the operational monitoring of Spain's Gas System and coordination among the different agents involved).



Relationship channels with clients

Account managers Enagás offers clients round-the-clock service.

These managers are responsible for Enagás' customer relationship management. These managers oversee and continuously monitor their needs, via regular meetings, and offer them customised advice. The level of contact with clients is articulated according to a customer-attention procedure. Roadshows are also organised with international clients.

Business tools: SL-ATR Enagás has a seamless, real-time communication tool that provides management support for the complete natural gas cycle: SL-ATR.

Possible incidents or conflicts with clients are resolved according to the customer-attention procedure via the review and claims module in the SL-ATR.

In 2016, the Balancing Circular (circular 2/2015 CNMC) of RD 984/2015 and other resolutions were introduced into the Spanish Gas System, leading to the creation of the new SL-ATR 2.0. This introduction was the result of the coordination and the joint work by Enagás for over two years with MINETUR, CNMC, transmission companies, distributors, shippers and MIBGAS.

Satisfaction surveys Customer-satisfaction surveys are carried out yearly in order to define lines of action and improve the service offered. The results for 2016 are as follows: [GRI 102-21](#), [GRI 102-42](#), [GRI 102-43](#), [GRI 102-44](#)

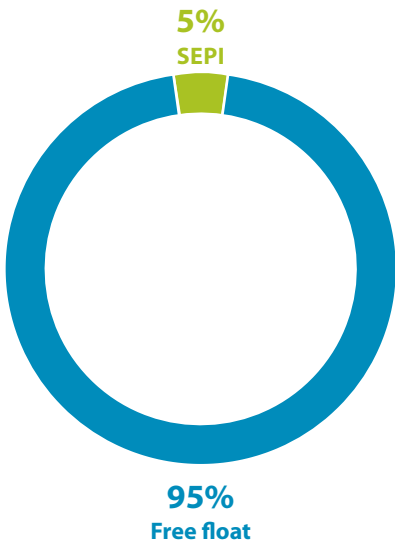
		Number of responses from the total	Assessment of services rendered	Services
Business operation	Enagás as transmission company			
	Shippers	45/54	5.06/6	Capacity management and viability analysis, infrastructure operation and programming, etc.
	System operators (transmission and distribution companies)	5/6	5.08/6	
	Enagás as Technical Manager of the System			
Shippers	23/83	5.2/6	Programming, operations, distribution and balances, etc.	
System operators	4/13	4.8/6		

In addition, Enagás provides its clients with a range of channels to offer them swift and expeditious access to the company, as well as to the corporate website and a regular newsletter.

Our shareholder structure

Enagás has a free float of 95%, one of the highest on the Spanish continuous market. More than 70% of our share ownership is international. [GRI 102-10]

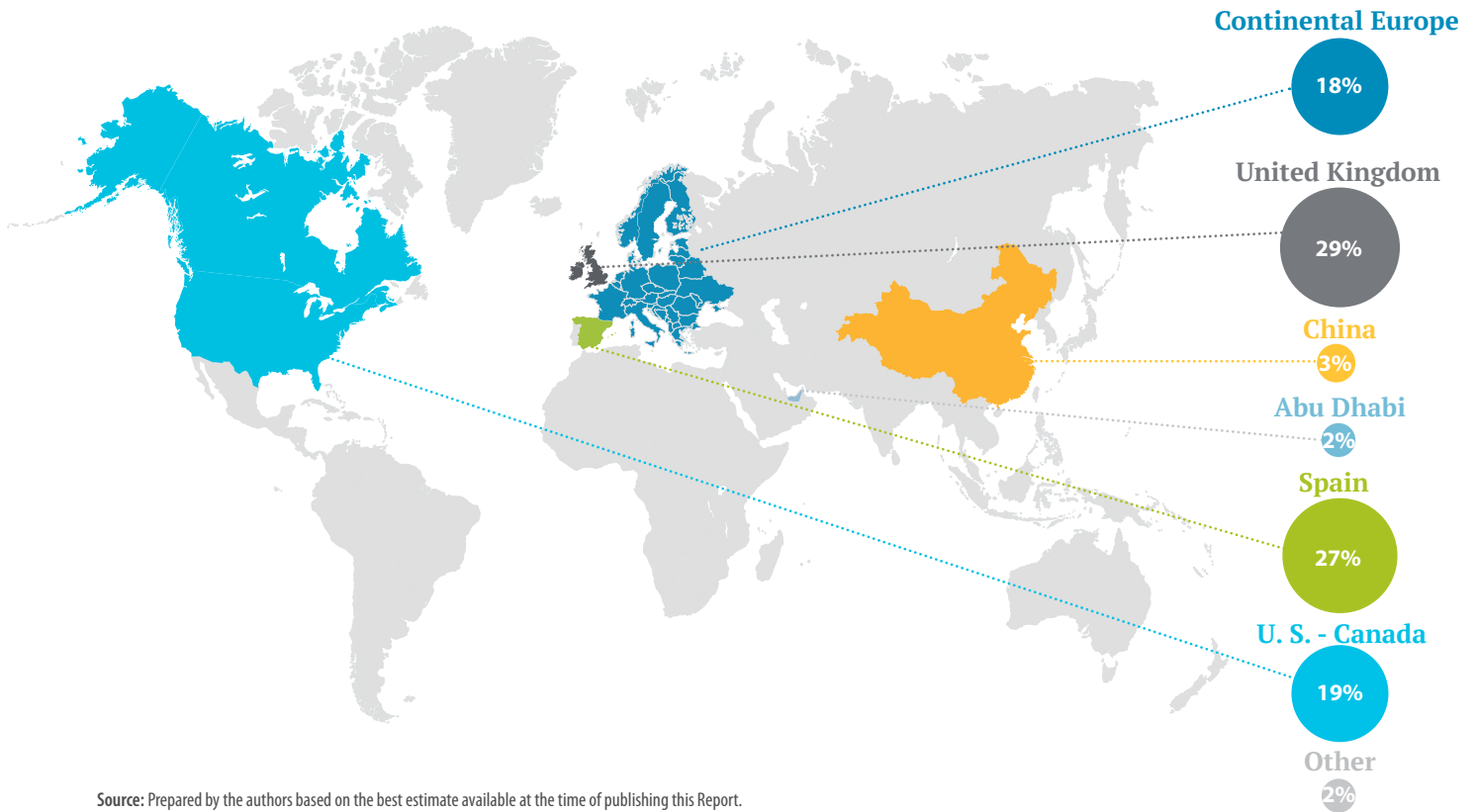
Distribution of capital



Capital by geographical location



Distribution of total capital



Source: Prepared by the authors based on the best estimate available at the time of publishing this Report.

Active and transparent dialogue with shareholders and investors

The Communication and Contact Policy with shareholders, institutional investors and proxy advisors of Enagás is to encourage ongoing dialogue and conversation with each of its stakeholders and, in particular, with its shareholders, institutional investors, rating agencies, bondholders and proxy advisors, all within a framework of transparency and accessibility.

Enagás' Shareholder Information Office responds to any shareholder's request for information, in particular with regard to the General Shareholders Meeting and the distribution of dividends for that year. The company offers permanent support service for shareholders that can be accessed via the following channels:



See the Communication and Contact Policy with shareholders, institutional investors and proxy advisors of Enagás on the corporate website

Shareholder support communication channels



Free shareholder helpline: 900.100.399



Email: accionistas@enagas.es



Corporate website: www.enagas.es

With the aim of strengthening communication and transparency, as well as a close and continuous relationship with its shareholders and investors, the company has set up several initiatives aimed at bringing these stakeholders closer to the top management of the company as well as visiting the company's main operating facilities.

On the one hand, over the past two years, visits to Enagás have been organised for minority shareholders. This is due to the growing trend for new minority shareholders that the company has observed in recent years (currently 27% of share ownership of Enagás is Spanish and approximately half of that percentage is held by minority shareholders). In 2016, the 3rd Meeting of large minority shareholders in Enagás was held; Enagás shareholders visited the

company headquarters where they met the Chairman to discuss the company's main current issues. A visit was also made to the Enagás Regasification Plant in Huelva, thus affording these shareholders a closer understanding of the company's management.

In addition, during this year we have worked on automating the control and location of national shareholders in order to bring corporate communication closer to minority shareholders.

On the other hand, 2016 saw the first visit by financial analysts to one of Enagás' facilities; the Yela Underground Storage Facility, thus giving this group a glimpse of how this aspect of the company functions.

[GRI 102-42, GRI 102-43, GRI 102-44]

Enagás has set up various initiatives aimed at **bringing their shareholders and investors closer** to both the company's top management as well as showing them the company's main operating facilities

2

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“Enagás 2040”_25

Risk management_28



Our project for the future

Operating context

[GRI 102-15]

The future operating context for Enagás will be marked by the process of energy transition, which will involve a profound transformation towards an environmentally sustainable energy model, with low levels of greenhouse gases and other polluting gases. This process has gained in priority in recent years after the adoption of the United Nations Sustainable Development Goals, the Paris Agreement at the COP21 conference, and the growing concern for local pollution in our cities and seas.

[GRI 201-2]

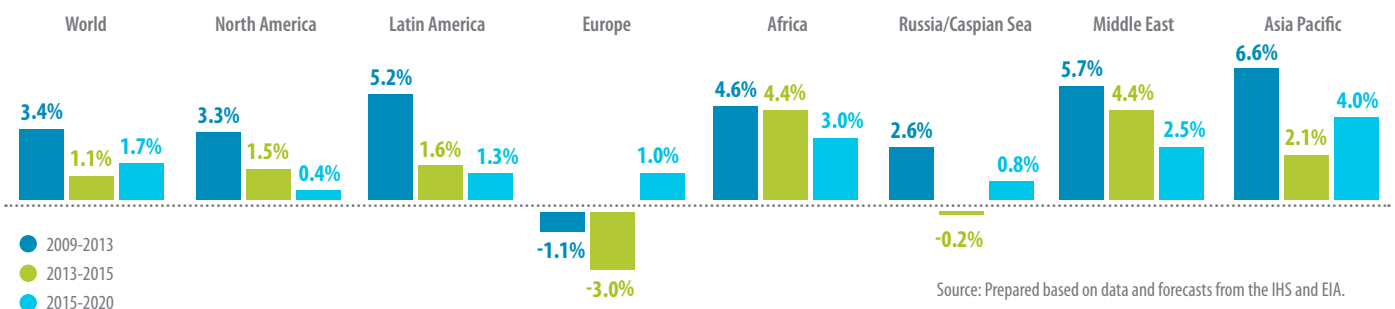
As it is a relatively clean, flexible, widely diversified and competitive source, natural gas is an important solution to energy supply-related problems in the medium term.

In the short term, the gas sector is currently characterised by high availability of gas supplies at competitive prices in all basins, and moderate growth in demand. This context will keep prices at low levels and consolidate the convergence between regional pricing.

The demand for gas is again growing after the downturn in recent years, supported by economic recovery, low gas prices and the increasing substitution of petroleum derivatives and coal in a number of regions.

Annual growth rates in gas demand by region

[GRI 302-2]



These dynamics are also driving new commercial trends, and there has been an evolution observed in international markets towards gas supply contracts with shorter terms, lower volume and greater flexibility. Given these market conditions, a low cycle of investments in the natural gas supply chain in the short term, with exception being made of infrastructures

for the import and regasification of LNG, where the low price environment is favouring their development. There is also expected to be a change in tendency, with greater weight given to floating solutions on a global scale, with new, traditional onshore developments limited to non-OECD Asia.

Our strategy

In 2016, we continued developing our activity in line with the established drivers and strategic criteria as established in the Strategic Plan 2015-2017, focusing on the

three identified pillars of growth. This has allowed us to meet our annual targets once again.

2017-2020 Strategic Priorities

Furthermore, we have defined our strategic priorities for the 2017–2020 period, which includes stable growth with high visibility in net income and

dividends. Enagás also prioritises the contribution to energy security and supply diversification in Europe, our positioning as a strategic operator in growth markets

and encouraging the replacement of more polluting fuels:



Growth

- Consolidation of Enagás' position, in regions where the company already has a presence, through growth of its subsidiaries
- Global consolidation of GNL Quintero
- Commissioning of greenfield projects: TAP, Gascan and Midcat/STEP
- Monitoring of potential opportunities for assets in operation



Sound financial and liquidity position

- Solid and visible cash flow generation
- Maintain FFO/DN at > 15%
- No significant debt maturities until 2022
- Fixed debt above 80%



Efficiency and regulatory visibility

- Remaining on track to improve operational efficiency and safety
- Encouraging greater use of Enagás facilities to add depth to gas markets and lower prices
- Regulatory continuity, based on the gradual elimination of the Gas System deficit



Attractive and sustainable shareholder remuneration

- Dividend growth (5%) in line with net income
- Sustainable dividend



Leadership in sustainability

- Promotion of new services and uses for natural gas in transport
- Commitment to reducing the carbon footprint report
- Commitment to reconciliation and equal opportunities

Pillars of growth

Participate in the integration of the European natural gas market



Mature, competitive market - EU

Enagás seeks to become a key European player with increasing importance in the Internal Energy Market

Develop natural gas infrastructures in growth markets



Growth market

Lay the foundations for rolling out Enagás' business model as an independent TSO in countries with high growth potential

Strengthen Enagás' position as global LNG (regasification and liquefaction) expert



Global market - LNG

Leverage opportunities to interconnect markets worldwide, with Enagás maintaining its position as leader in LNG

Strategic criteria

- Transmission and storage of natural gas, LNG infrastructures, logistical solutions and related activities
- Long-term contracts and solvent off-takers
- Stable and predictable flows
- Role as industrial partner with veto powers, Enagás managers in key positions and participation in working groups
- Partnerships with local companies/companies with complementary capabilities. Reputable partners

Meeting 2016 objectives

The variable remuneration for employees is linked to fulfilling strategies through the establishment of the strategic priorities as company objectives. The variable remuneration of the Chairman and Chief Executive Officer depend on these objectives, and in this way remuneration is tied to economic, environmental and social objectives. [\[GRI 102-35\]](#)

Approval was given in 2016 to a long-term incentive (see the chapter on 'Good Governance') which is subject to the realisation of the following objectives in line with the strategic drivers:

We have met **set objectives**; executed investments, earnings growth and shareholder remuneration (see section 'Enagás in 2016')

Strategic priorities	ILP Plan Objectives (% weighting)	Yearly company objectives (% weighting)	Meeting 2016 Objectives (%)
Ensuring adequate and competitive shareholder remuneration	Relative Total Shareholder Return (TSR) (20%) <ul style="list-style-type: none"> This indicator takes into account the evolution of shares and the dividend policy It is relatively measured against a peer group Investors and proxy advisers expect the plan to be linked to this target 	Improved company economic performance (30%) <ul style="list-style-type: none"> Net income growth 	100%
Financial soundness	Funds from operations (FFO) as an indicator of financial soundness and growth in net profit (40%) <ul style="list-style-type: none"> It takes in both the EBITDA of the regulated business and dividends coming from international investment It is a primary indicator for investors 	Strengthening Regulated Revenues (25%) <ul style="list-style-type: none"> Regulatory and remunerative actions Integrated OPEX margin management Development of logistic-commercial plan 	94.38%
Growth in net profit	Meeting this objective enables the targets of Group dividend payment, investment and debt repayment to be met		
Focus on international growth	Dividend from international investment (30%) <ul style="list-style-type: none"> This measures the profitability of international business International investment is included as an indicator for yearly variable remuneration 	Consolidation of the Company's Strategic Plan (25%) <ul style="list-style-type: none"> Development of the Business Plan <ul style="list-style-type: none"> Update of Enagás' mid- and long-term strategy To execute 2016 investments according to the Strategic Plan Consolidation of the international business in order to guarantee profitability 	73.33%
Realistic/profitable investment plan			
Sustainability, as a framework for developing Enagás' business	Sustainable Management Plan (10%): <p>The assessment of the Sustainability Plan is carried out by the Appointments, Remuneration and CSR Committee on a discretionary basis and depends on a set of results in this area:</p> <ul style="list-style-type: none"> Carbon Footprint (30% reduction for 2013-2015) Commitments made to the government associated with equality and non-discrimination Corporate Social Responsibility 	Sustainability and Good Governance (20%): <ul style="list-style-type: none"> Sustainability and energy efficiency Positioning Enagás vis-à-vis socially responsible investors (SRI) Stakeholder management (Peru, Mexico) Strategic Resources Plan 	100%

Long-term vision: "Enagás 2040"

Meeting the Paris Agreement targets for climate change limitation is a great challenge for the energy sector. As the producer of two-thirds of total greenhouse gas (GHG) emissions, the sector has to shift towards a more sustainable model of production, transformation and consumption. This move towards a low-emissions economy will affect all energy sectors (transport, industry, residential/commercial and electricity generation). Gas plays or may play a relevant part in all these sectors.

The European Union is at the forefront of international efforts to combat climate change. Consequently, the 2030 climate and energy framework adopted by the Council of the European Union in 2014 set a binding 2030 target for GHG emissions of at least 40% of 1990 levels,

and set additional targets for 2030 in order to achieve at least 27% of energy from renewable sources in the final energy consumption and at least a 27% improvement in energy efficiency.

[\[GRI 201-2\]](#)

Additionally, the company has spent the last year working on the "Enagás 204" project with the aim of defining a long-term strategy that guarantees the future growth of Enagás in the context of energy transition, positioning us with a model of long-term sustainable growth, based on value creation for the company as a whole and for our shareholders.

For this purpose analysis of different energy scenarios was conducted not with the aim of predicting the future, but in order to anticipate possible technological and legal changes that may affect our

Enagás has spent the last year working on the "Enagás 2040" project **with the aim of guaranteeing the future growth** of the company in the context of energy transition

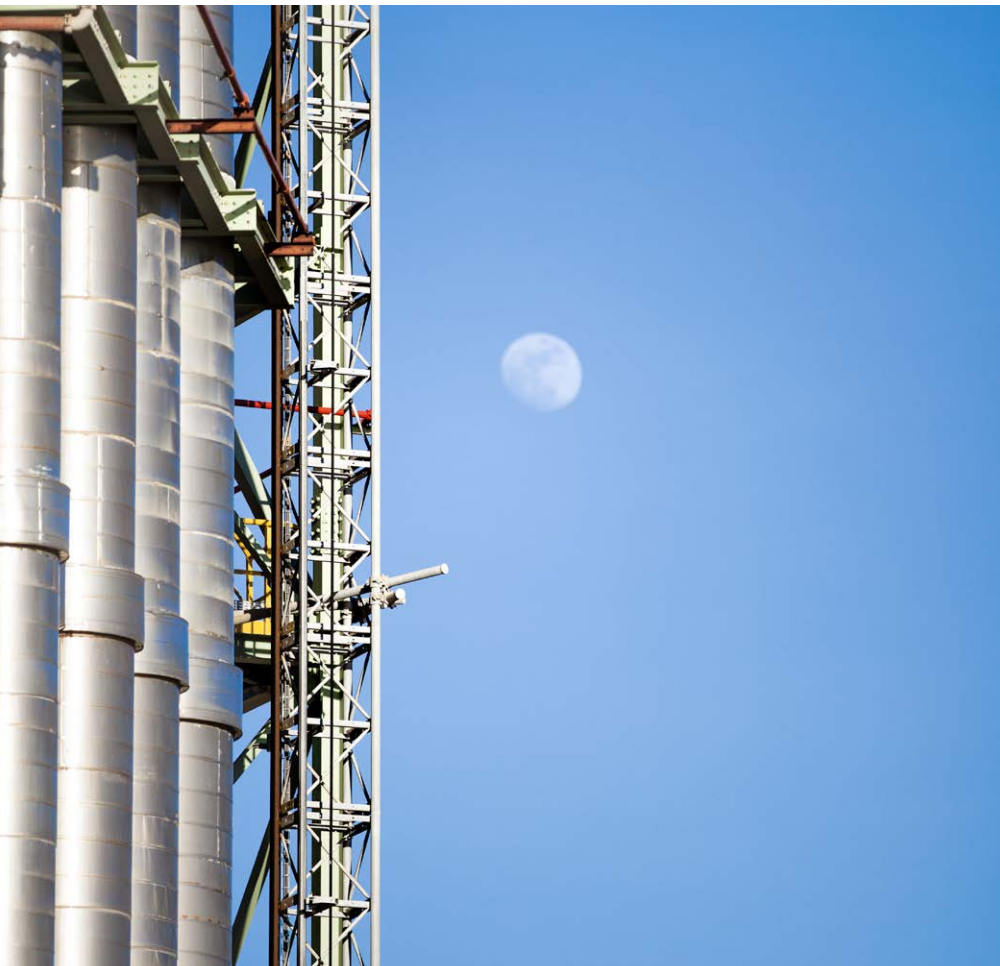


business. The modelling exercise allowed an estimation of the optimum energy mix to be estimated for each scenario, from the standpoint of its long-term technical and economic efficiency, while assessing its impact on the needs to develop gas infrastructures and the sensitivity of earnings to the main conditioning factors. The project saw participation both from experts in key Enagás divisions and external consultants.

The main conclusion drawn from this analysis was that in any plausible scenario, the natural gas chain will have an important contribution to make to energy consumption by the different sectors.

- Gas is and will continue to be the most competitive and clean source of energy to satisfy heating requirements and to guarantee the economic feasibility of local industry.
- Taking full advantage of the investments already made in stable and mature markets provides the necessary support and flexibility to ensure secure electricity supply, at the lowest cost, with a high penetration of renewables.
- In dynamic markets with great potential for growth in energy demand, gas is able to cover the growing need for modern energy services and the commitments to reduce emissions and for air quality while permitting the integration of renewable energies. For this to happen, these markets will require significant investments in gas infrastructure.
- Natural gas offers great potential for growth in the transport sector, mainly that of transporting goods by road and sea, by displacing polluting fuels that generate large amounts of SO_x, NO_x and particles.

The analysis of the different energy scenarios has led to the conclusion that **the natural gas chain will have an important contribution to make** to energy consumption by the different sectors





Nevertheless, the realisation of these positive perspectives for the gas infrastructure business will depend on a favourable economic and regulatory environment. We will need to be vigilant in the coming years and adapt to expected changes:

- Energy transition is a process in which different countries will progress in the decarbonation of their economies at different speeds, but one which will in any case require significant investments in energy infrastructures.
- The centre of gravity for gas infrastructures investment is shifting from Enagás' traditional markets to new emerging markets.
- Regulations regarding air quality and local pollution may prove to be an important driver for energy transition while providing a clear opportunity for gas as it displaces more polluting fuels from the energy matrix.

The conclusions of the Enagás 2040 projects have led the company to adopt a series of actions in key areas in order to face the challenges posed by energy transition:

- Ongoing monitoring of the main early warning indicators identified to anticipate changes that may influence our core business.
- Demonstrating the environmental credentials of gas as a sustainable energy source and its advantages compared to other alternative fossil fuels.
- In stable or already served markets, which do not require significant expansion in supply capacity, promoting the use of existing gas infrastructure as a flexible safety net that is necessary for a gradually decarbonated supply, and the creation of a catalogue of innovative logistic services.

- Taking full advantage of the growth opportunities of our international subsidiaries in dynamic gas markets that require strong investments to cover their growing energy demands, or to adapt their flows in accordance with new upstream developments.
- Promoting innovation and corporate entrepreneurship in new growth areas within gas markets, and contemplating diversification of sources of growth in the longer term.

Risk management

[GRI 102-11, GRI 102-15, GRI 201-2, GRI 102-29, GRI 102-30, GRI 102-31]

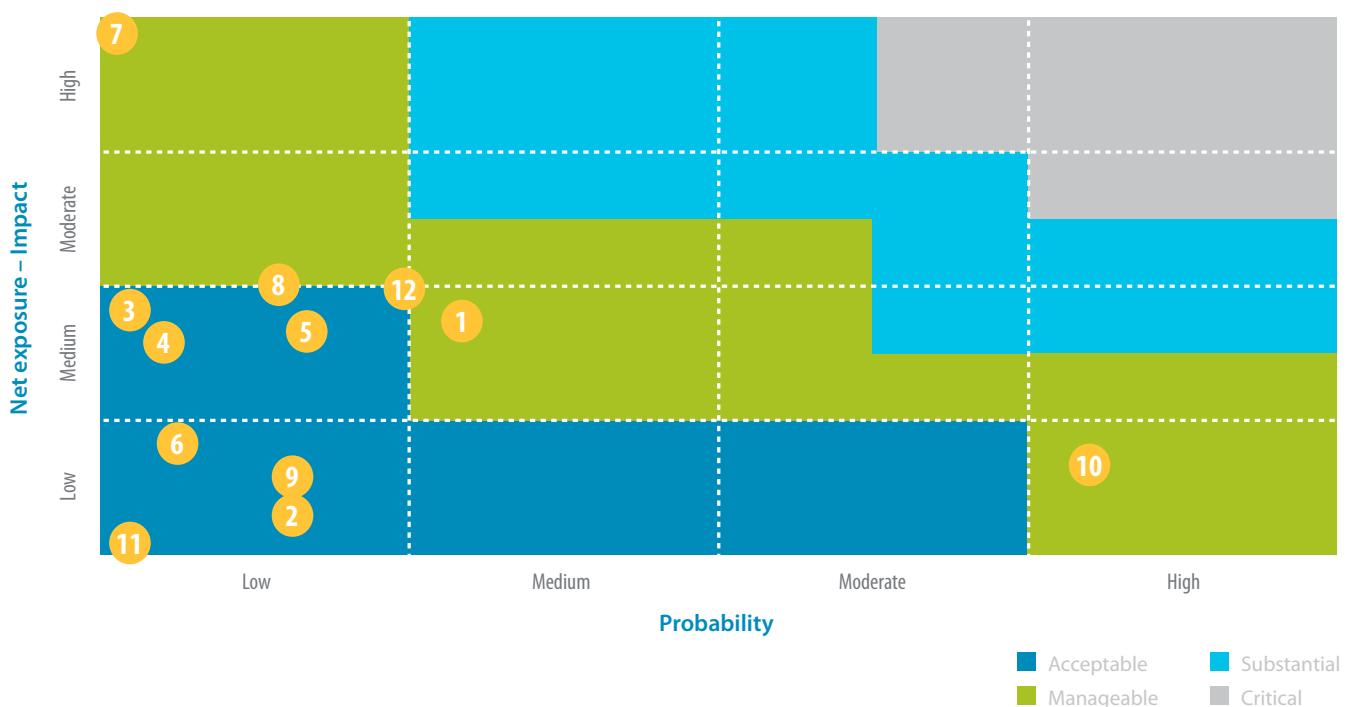
The Enagás Group uses a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. The model allows Enagás to adapt to the complexity of its business operations amid a globally competitive and economically complex environment, where risks materialise more quickly and with increasingly evident knock-on effects. The model is based on the following aspects:

- Establishing a context of appetite for risk, a level of risk that is considered acceptable, and that is consistent with the established business goals and the market context in which the company is developing its activities.
- The consideration of some standard types of risk that the company is subject to:
 - Strategic and Business
 - Operational and Technological
 - Financial and Tax-related
 - Credit and Counterparty
 - Reputational
 - Criminal Liability
 - Compliance and Model
- The segregation and independence of the risk management and control function:
 - On the one hand, the individual business units are responsible for the risks they take on when conducting their ordinary business activities, and are therefore responsible for identifying and measuring them.
 - There is also a risk management function in charge mainly of ensuring that the risk control and management system works correctly, defining the

The risk control and management model allows Enagás to adapt to the complexity of its business operations amid a globally competitive environment

Main risks for the Enagás Group

[GRI 102-11, GRI 102-15]



regulatory framework and approach, and performing periodic monitoring and overall control of the company's risks.

- Lastly the internal audit function, is in charge of supervising the efficiency of the risk controls in place.
- The existence of certain governing bodies with responsibilities for supervising the level of risk in the company:
 - The 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.
 - The Audit and Compliance Committee mainly supervises the efficiency of the risk systems and evaluates the risks to the company (identification, measurement and establishment of measures for their management).

- The Risks Committee establishes the overall strategy for risks, the limits of global risk for the company, and reviews the level of exposure to risk and the corrective actions, should there be any non-compliance.

- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The integral analysis and periodic monitoring 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 existing model is completed by the carrying out of specific risk analyses that facilitate the decision-making process based on risk-profitability criteria in those strategic Enagás Group initiatives, new businesses or initiatives of special relevance from the risk standpoint. The Group's risk function performs this analysis independently, transversally (covering all risk types) and homogeneously (with similar operations and measuring overall risks).

The update of the company's risk map includes the following impacts arising from both the socio-economic context and the company's actions, as shown in the 2016 Enagás Group Risk Map.

[GRI 102-11, GRI 102-15, GRI 201-2, GRI 102-29, GRI 102-30, GRI 102-31]

Strategic and Business Risks

1. Regulatory risk
2. Risks in the evolution of demand
3. Legal risk
4. Risks in obtaining licenses, permits and authorisations
5. Infrastructure development risks (national and international)
6. Commercial risk and revenue variability risk (international)

Operational and Technological Risks

7. Industrial risks in infrastructure operation
8. Cybersecurity

Financial and Fiscal Risks

9. Financial (interest rate, exchange rate and liquidity) and fiscal
10. Project financing structure risks (International)

Credit and Counterparty Risks

11. Credit and counterparty risks

Direct Reputational Risks

12. Direct reputational risks (national and international)

Notes:

The main risks for the Enagás Group, the effects of which could be felt within 3 years.
The classification of risks (different nature) on a single map takes into account different scales of assessment.
Hedged risks or those covered by contingencies are not represented on the Risk Map.

Main risks for the Enagás Group

[GRI 102-11, GRI 102-15]

Risks	Description	Level of risk	Controls and mitigating actions
Strategic and Business Risks			
1. Regulatory risk	The activities carried out by the Enagás Group are notably affected by the current remuneration framework. Any change to this could affect the regulated revenues of business activities.	■	<ul style="list-style-type: none"> ● Ongoing working relationship with regulatory bodies and government bodies. Regulatory development proposals. ● Participation in different associations with players in the gas sector and on projects to promote NG as a fuel. Initiatives with other companies to encourage its use.
2. Risks in the increase in demand	In the short term, the variation in the demand for transmission, regasification and underground storage of natural gas in Spain has a direct impact on a component of the regulated remuneration received by these activities.	■	<ul style="list-style-type: none"> ● Internal analysis: evolution of demand, gas system capacity, etc. ● Participation in projects to promote NG as a fuel, in initiative with other companies to encourage its use and continuous collaboration with regulatory institutions and governments.
3. Legal risk	The results of the company may be affected by 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.	■	<ul style="list-style-type: none"> ● Management and monitoring of legal processes and negotiation with third parties to reach out-of-court settlements. ● Monitoring of the existing situation with corresponding administrative authorities.
4. Risks in obtaining licenses, permits and authorisations	New infrastructure developments are subject to obtaining licences, permits and administrative authorisations. These long and complex processes may cause delays owing to the obtention of authorisations and the procedures related to environmental impact studies, and may impact expected revenues.	■	<ul style="list-style-type: none"> ● Ongoing working relationship with government bodies. ● Monitoring processes and agility in resolving the required procedures.
5. Infrastructure development risks (national and international)	The development of infrastructure may be subject to deviations in schedules, affecting expected revenues. Also, deviations in foreseen investment costs as a consequence of variations in the planned designs.	■	<ul style="list-style-type: none"> ● Adjustment of construction plans to reflect potential delays, establishment of local working groups with the aim of resolving disputes, as well as improving government relations.
6. Commercial risk and revenue variability risk (international)	Certain internal regulatory frameworks stipulate that companies assume a commercial risk and that their short-term revenue can be affected by an increase in demand (gas competition compared with other sources of energy or meteorological conditions, etc.). Likewise, the yearly adjustment of transport rates are based on macroeconomic parameters that are subject to volatility.	■	<ul style="list-style-type: none"> ● Development of strategic commercial plans, detailed studies of potential markets for LNG, biogas and gas-powered electricity generation, and the development of new projects. ● Monitoring of macroeconomic parameters in order to create action plans in case of fluctuations different from those foreseen.

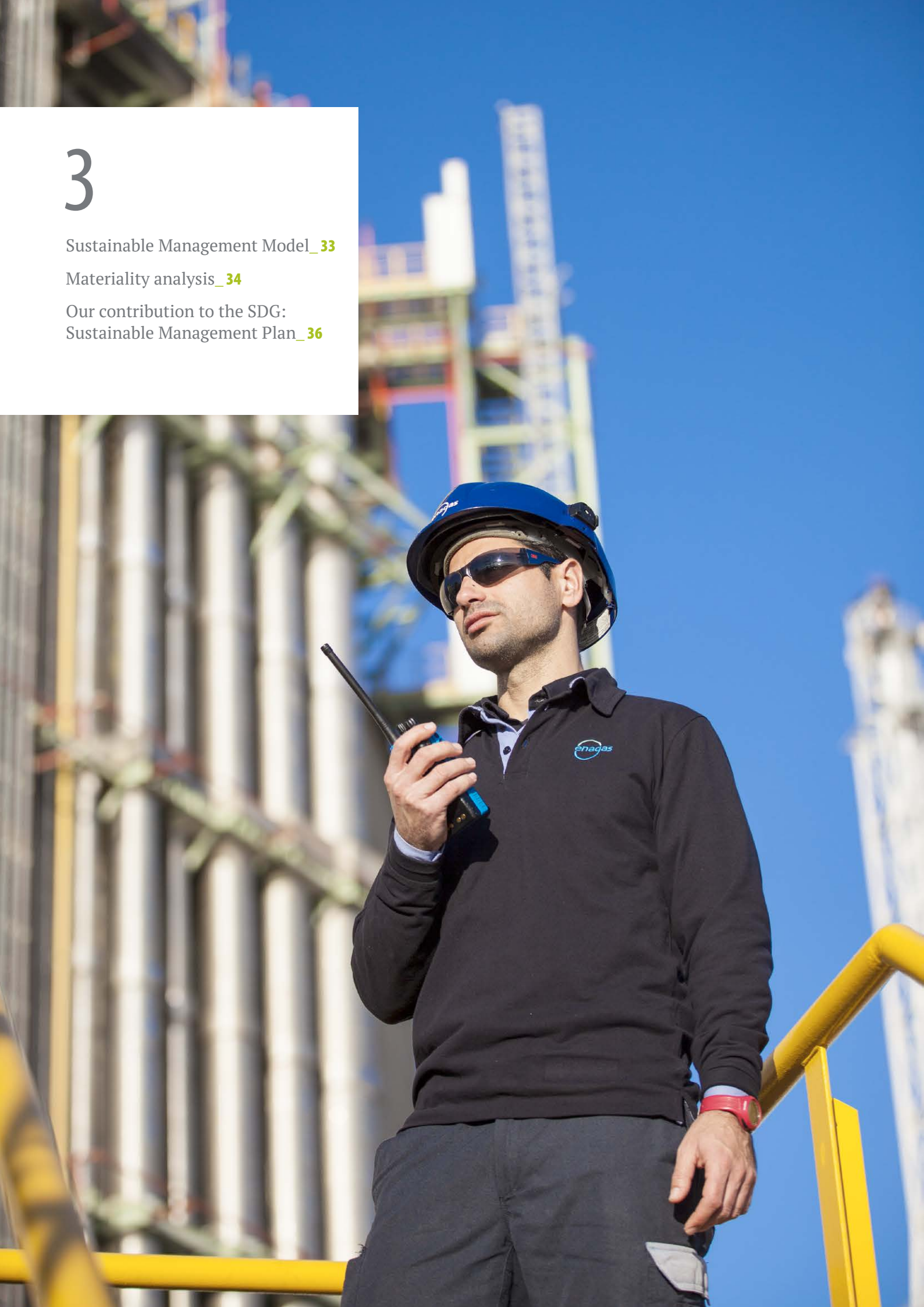
Risks	Description	Level of Risk	Controls and mitigating actions
Strategic and Business Risks			
7. Industrial risks in infrastructure operation	Losses in value or earnings may occur during the operation of the Enagás Group infrastructures owing to incidents (occasionally conditioned by the nature of the flow handled) taking place in transmission infrastructure, regasification plants and underground storage facilities.	■	<ul style="list-style-type: none"> ● The existence of emergency plans; creation of maintenance plans; continuous improvements to plans; the existence of control systems and alerts that guarantee the continuity and quality of service; quality, risk prevention and environmental certification; and redundancy of equipment and systems. ● Risk transfer by means of insurance policies.
8. Cybersecurity	Possible attacks on corporate and industrial computer systems that may be the result of different factors: economic fraud, espionage, acts of activism and acts of terrorism.	■	<ul style="list-style-type: none"> ● Segmentation of the industrial telematic network and the common network between industrial and corporate systems, and the cutting off of infrastructure in an attack situation. ● Control of access to computer systems and protection plans for critical infrastructure.
Financial and tax-related			
9. Financial (interest rate, exchange rate and liquidity) and tax-related risks	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. Possible changes to tax legislation that could affect the company's results.	■	<ul style="list-style-type: none"> ● Hedges are put in place using derivatives to establish a fixed or optimally protected debt structure. ● 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. ● Consultancy services provided by tax specialists.
10. Financial risk in the development of infrastructures	In 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 business plans.	■	<ul style="list-style-type: none"> ● Ongoing relationship with financial institutions. ● Negotiation process with specialist personnel. ● Working groups to obtain finance in the expected conditions.
Credit and counterparty risks			
11. Credit and counterparty risks	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. As well as the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.	■	<ul style="list-style-type: none"> ● Analysis and monitoring of counterparties' credit quality, regulatory proposals to compensate the Group for any possible failure to comply with payment obligations on the part of shippers. ● New mechanism for managing credit risk by means of establishing guarantees for the access of players to the Spanish Gas System.
Reputational risks			
12. Direct reputational risks.	The potential reputational impact of the risks listed previously and as a result of strictly reputational events arising from the action, interest or opinion of a third party.	■	<ul style="list-style-type: none"> ● General regulations for Communications in Crisis Situations. ● Fluent, direct communication with stakeholders. ● Periodic tracking of information that is damaging and/or potential damaging for the company, cross-referencing of negative news items and reputational risks that are most critical to the company as a whole. Issuing of press releases.

3

Sustainable Management Model_ [33](#)

Materiality analysis_ [34](#)

Our contribution to the SDG:
Sustainable Management Plan_ [36](#)

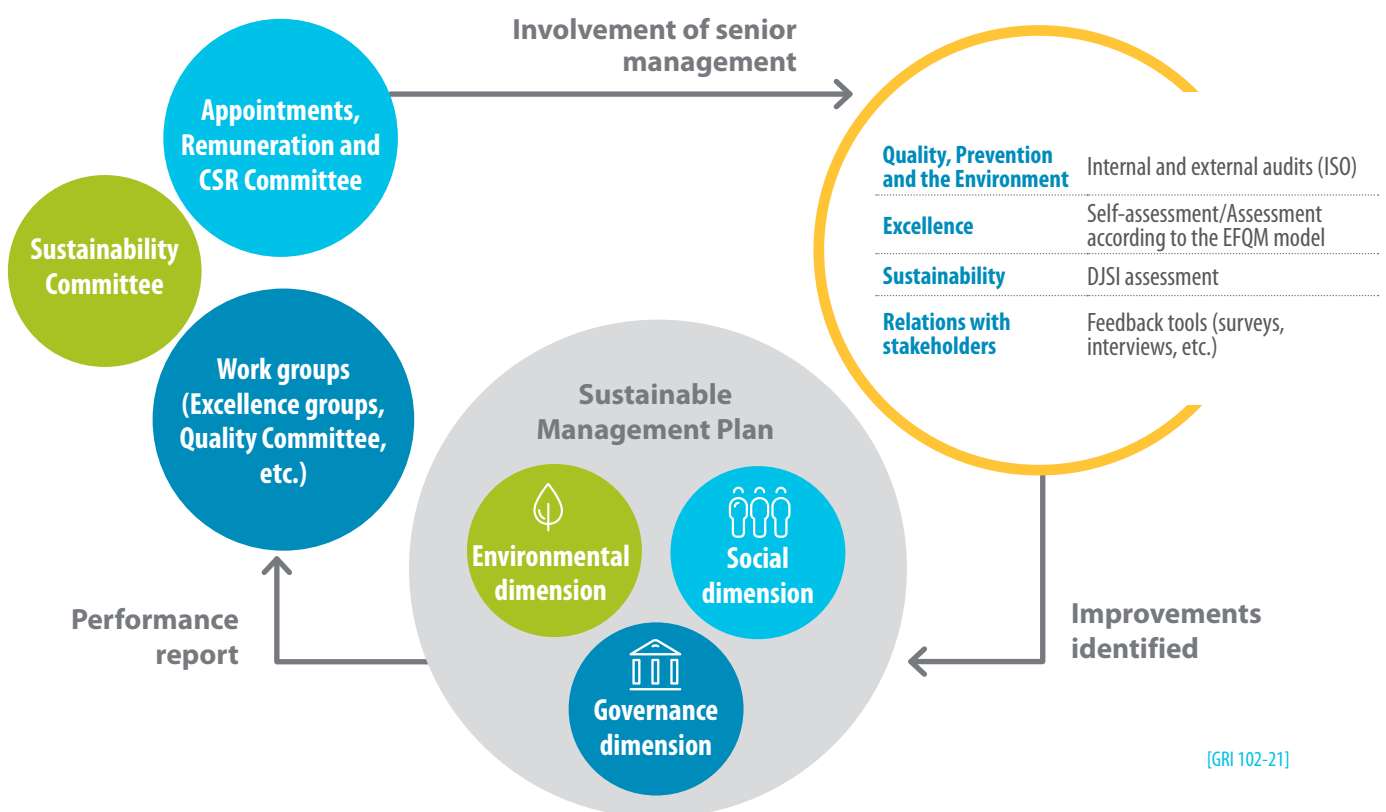


Our culture: doing things properly

Sustainable Management Model

Enagás' Sustainable Management Model establishes the company's responsibilities as regards sustainability and defines the assessment methodologies for identifying lines of action that are set out in the

Sustainable Management Plan. This plan incorporates the company's innovation and ongoing improvement initiatives to achieve sustainable results in three spheres: environmental, social and governance.



[GRI 102-21]

The Appointments, Remuneration and CSR Committee (ARCSRC) is the highest body with responsibility for sustainability (economic, environmental and social impacts). The Sustainability Committee, which is defined at General Management level, reports to the ARCSRC and is responsible for approving initiatives in this connection (by delegation from the ARCSRC). [GRI 102-29, GRI 102-31]

At executive level, the CEO is responsible for managing the company's business, under the supervision of the Chairman, who is responsible for driving the company forward and the ongoing coordination of its activities.

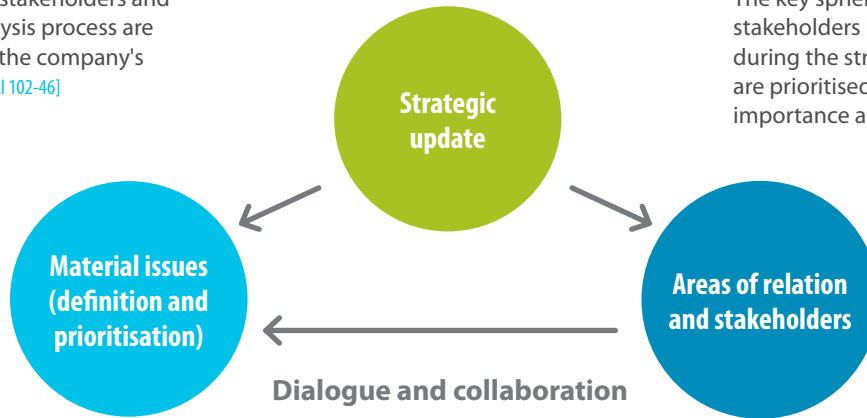
Under the umbrella of the Chief Executive Officer and as a general rule, the Finance Department is responsible for managing financial matters, while the Corporate Resources Department is responsible for environmental and social matters, including an external review of the Annual Report.

[GRI 102-18, GRI 102-19, GRI 102-20, GRI 102-32, GRI 102-56]

Materiality analysis

The map of Enagás stakeholders and the Materiality Analysis process are both updated with the company's strategic update. [GRI 102-46]

The key spheres of relationship and the stakeholders in each of them are reviewed during the strategic updating process and are prioritised according to their level of importance and impact. [GRI 102-42, GRI 102-43]



Stakeholder map [GRI 102-40]

● Sector regulation

- Ministry of Energy, Tourism and Digital Agenda
- National Markets and Competition Commission
- European Network for Transmission System Operators for Gas
- International regulatory bodies
- European institutions

● Share listing/stock market

- Investors
- Rating agencies
- Analysts
- CNMV

● International development

- Business partners
- Suppliers (development)

● Financing

- Financial institutions

● Business operation

- Employees
- Clients (transmission companies, shippers, distributors and direct consumers in the market)
- Spanish public administration
- Suppliers (operation)

● Reputation

- Media

Affiliates

Given Enagás' growing international presence, in 2016 the company initiated a project to manage stakeholders on a country by country level, following the methodology used in the definition and the management of stakeholders on a corporate level.

With regard to Enagás' offices in Mexico and Peru, the aim was to create a stakeholder map as well as to define the relationship model with each of them. This model will allow relevant issues on a local level that are international in scope to be managed more efficiently and in advance.

Over the next year, Enagás will continue working on the definition of an associated action plan for the management of stakeholders in both of these offices.

Stakeholders play a key part in identifying and prioritising material issues⁽¹⁾ and the company relies on continuous feedback to develop and update its strategy and materiality matrix.

[GRI 102-42, GRI 102-43, GRI 102-44, 102-46]

In 2016, Enagás updated its materiality matrix with the results obtained from an analysis of the feedback received from the main indices as well as from sustainability rating agencies that periodically evaluate the company with regard to governance, and social and environmental aspects. A key stakeholder for the company, at the

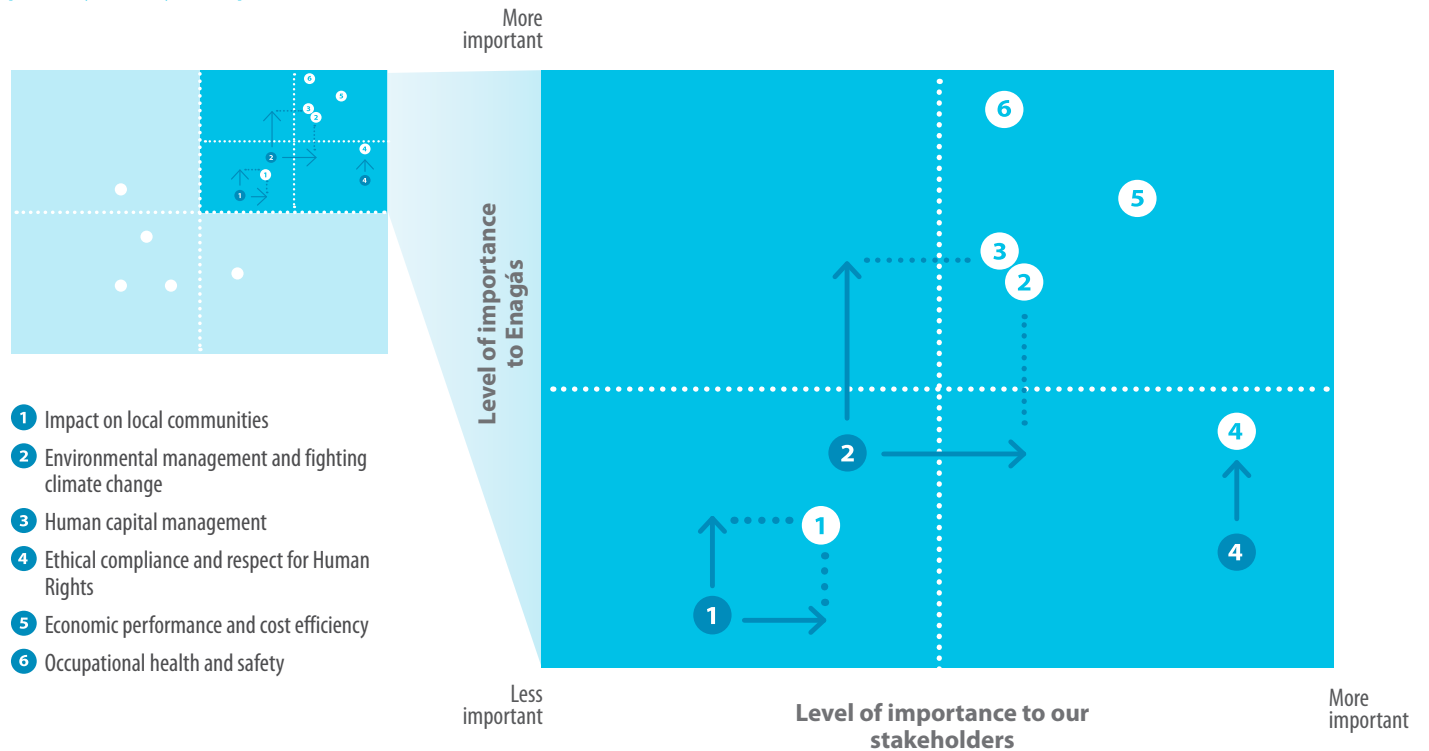
same time it gathers the expectations of other stakeholders (investors, society, etc.).

In turn, conclusions that are long term in nature are drawn from the strategic reflection that has been carried out during the year. Both aspects have slightly modified the prioritisation of some of the material aspects, as can be seen below:

(1). Material issues in the economic, social and environmental spheres, using the aspects set out in the GRI Sustainability Reporting Standards as a starting point.

Materiality matrix

[GRI 102-44, GRI 102-47, GRI 103-1]



Energy efficiency and reducing CO₂ emissions are spheres on which every sustainability index and rating agency that evaluates the company place particular importance. At the same time, this is a key issue for the company given its sphere of operation, marked by the process of the transition of energy towards a low-carbon economy.

Furthermore, with regard to climate change, Enagás has identified methane emissions to be an issue that will become ever more relevant in the sector. Therefore, and as outlined in the chapter on 'Climate Change and Energy Efficiency', Enagás has been working for some time on detecting and reducing fugitive emissions and on minimising venting.

Similarly, in issues regarding ethics and integrity, matters such as responsible taxation or the fight against corruption and cybersecurity are spheres in which the company has launched various initiatives (the publication of policies, adoption of best practices, etc.) in order to highlight their importance for business development. Finally, and in the context of the internationalisation of the company, its impact on local communities is becoming increasingly relevant. Enagás is therefore working with its affiliates to properly manage these spheres.

Both good governance and the supply chain are aspects common to all material issues and are therefore key to the value creation for the company. [GRI 102-44, GRI 102-47]

Our contribution to the SDG: Sustainable Management Plan

At Enagás we are aware of the role companies play in the field of opportunity set out by the Sustainable Development Goals (SDG) and we have thus integrated them into our strategy.

On the one hand, the company's mission (see the 'Enagás: Good New Energy' section) outlines access to energy and the construction of resilient infrastructures. In addition, the development and management of gas infrastructures and a guaranteed supply are key aspects of our business. Moreover, sustainability is one of the company's strategic priorities for the 2017–2020 period (see the 'Our project for the future' section) and this is undertaken by the Sustainable Management Plan.

Structured according to material issues and fuelled by different evaluation tools, integrated management system audits, EFQM evaluations, sustainability indexes and consultations with stakeholders, this Plan integrates the company's continuous innovation and improvement initiatives to achieve sustainable results. The Sustainable Management Plan has been approved by the Sustainability Committee and by the Appointments, Remuneration and CSR Committee. [\[GRI 102-21, GRI 102-44\]](#)

Via lines of action in spheres such as human capital management, climate change and energy efficiency, among others, Enagás contributes significantly to the goals outlined in the scope of the SDG as can be seen in the following chart and explained on the 'Creation of Value for our Stakeholders' section.

Below are the SDG that are most aligned with the business and on which the company focuses its main actions with regard to sustainability:

People

Sustained, inclusive and sustainable economic growth, full and productive employment and decent work



Main actions:

Enagás, a company with Top Employer certification, has maintained stability and quality of employment in recent years with a sustained increase in staff and an average growth of 3.7% since 2009. Enagás is known for offering stable, quality employment with 94.5% of contracts being permanent; in 2016 its voluntary employee turnover was 0.63%.

Furthermore, we are upholding our commitment to our shareholders independently of market conditions, and their remuneration continues to be one of the strategic priorities at Enagás. (See the chapter on 'Human capital management')

Impact goals:

Enagás aims to maintain stable, quality employment via high rates of permanent contracts and low voluntary turnover rates. In addition, with regard to remuneration for our shareholders, the company is committed to increasing the dividend by 5% annually until 2020 (see section "Interview with the Executive Chairman").

Gender equality and women's empowerment



Main actions:

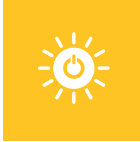
Enagás encourages internal and external projects to spot and boost women's talent: This has led to an increase of 3% of women in the workforce and maintained the percentage of women in management positions at around 25% this past year. As a Family-Friendly Company since 2007, Enagás has introduced over 90 work-life balance measures that foster the promotion of co-responsibility and equal opportunities. (See the chapter on 'Human capital management').

Impact goals:

Enagás is committed to increasing the number of women on the Board to 30% by 2020 (see the chapter on "Good Governance"), as well as increasing – from 21% to 25% – the number of women in pre-management and management positions by 2018. The company achieved this last goal in 2016 as it went beyond 30%.

The planet and prosperity

Access to affordable, safe and sustainable energy



Main actions:

Enagás' mission, as a leading company in the development, operation and maintenance of gas infrastructures, is to strengthen and ensure the security of energy supply. To do this, we develop infrastructures that allow a highly efficient use of natural gas in the gas generation, industrial, commercial and residential markets, thus displacing the most polluting fuels. Thus, gas infrastructures ensure a cleaner and more affordable energy supply to fuel the growing economy and promote social wellbeing, while facilitating the introduction of renewable energy and biogas. See the 'Enagás: good new energy' and 'Our project for the future' sections).

Building resilient infrastructure, promoting inclusive, sustainable industrialisation and innovation



Impact goals:

The strategic 2017-2020 priorities include contributing to energy security and the diversification of supplies in Europe, positioning itself as a strategic operator in growing markets and promoting the substitution of the most polluting fuels.

Measures to combat climate change and its effects



Main actions:

In 2016 Enagás managed to reduce its carbon footprint by 5% compared to the previous year.

In 2016 it also managed to avoid emitting over 92,000 tonnes of CO2 into the atmosphere thanks to the implementation of energy efficiency measures. Energy efficiency is a key area in which Enagás continues to work by establishing annual energy-intensity targets at each of its facilities, and this is also linked to the variable remuneration of its employees. See the chapter on 'Climate change and energy efficiency'.

Impact goals:

Included in its long-term incentive plan, and in order to continue along this path of emissions reduction, the company has set a long-term goal of reducing its emissions by 30% in the period spanning 2016-2018.

Sustainable use of terrestrial ecosystems and halting of the loss of biological diversity



Main actions:

During study phases, prior to the construction of infrastructures, Enagás develops measures whose aim is to protect biodiversity; these include using the corridors of other infrastructures or using narrow work tracks. Once construction has started, other measures are put in place to protect and conserve flora and fauna, including the revegetation of land, the restoration of waterway banks and soil, and the transfer of specimens to similar habitats nearby. (See the chapter on 'Environmental management').

Impact goals:

In 2016, Enagás approved Corporate Biodiversity Guidelines that set out preventive measures for biodiversity conservation (see the chapter on "Environmental management").

Partnerships

Partnerships for achieving the objectives
[GRI 102-12]



Enagás has been a member of the United Nations Global Compact since 2003 and annually renews its commitment to the ten principles of the Global Compact.

With regard to corporate social responsibility, the company is a partner of Forética as well as the SERES Sociedad y Empresa Responsable Foundation.

In the sphere of climate change, the company supports the We Mean Business initiative to make the most of the opportunities for economic growth, employment and prosperity offered by the transition to a low-carbon economy; it also belongs to the Grupo Español para el Crecimiento Verde (Spanish Group for Green Growth) and supports the initiative Action for the Climate.

In addition, in people-related spheres such as equality, diversity and the development of talent, Enagás has signed various collaboration agreements with public administrations, foundations and associations (it belongs to the Diversity Charter, participates in the project Promociona, etc.). (See the chapters on 'Contents of the Global Compact', 'Climate Change and Energy Efficiency' and 'Human Capital Management').

4



Creation of value for our stakeholders

The following chapters show how we are generating value for our stakeholders through our performance in each material issue, including company governance and the supply chain as key transversal aspects of this value creation:
[\[GRI 102-47\]](#)



Good Governance_ **40**



Financial and operational excellence_ **50**



Ethical compliance and Human Rights_ **56**



Human capital management_ **68**



Health and Safety_ **82**



Community outreach_ **90**



Environmental Management_ **94**



Climate change and energy efficiency_ **100**



Supply chain_ **114**



Good Governance

[GRI 103-1]

Milestones 2016 [GRI 103-3]

- Approval of a Long-Term Incentive Plan for 2016-2018, based on various objectives aligned with Enagás' Strategic Plan and with the expectations expressed by institutional investors and *proxy advisors*.
- Updating of company policies according to best practices of Good Governance and recommendations from investors and *proxy advisors*.
- Provide training sessions to the Board on key financial and non-financial matters regarding the management of the company.
- Publication of the company's objectives and its achievements in the Remuneration Report.
- Participation in *roadshows* that target SRI investors.

[GRI 103-3]

23%
female members on
the Board

13
members of the Board of
Directors

Lines of progress 2017 [GRI 103-3]

- Review of the procedure for the annual external assessment of the functioning of the Board and its Committees and publication of a summary of the results.
- Continuation of the training sessions to the Board on key financial and non-financial matters regarding the management of the company.
- Publication of the indicators and set goals linked to variable remuneration (short and long term).

62%
Independent Directors

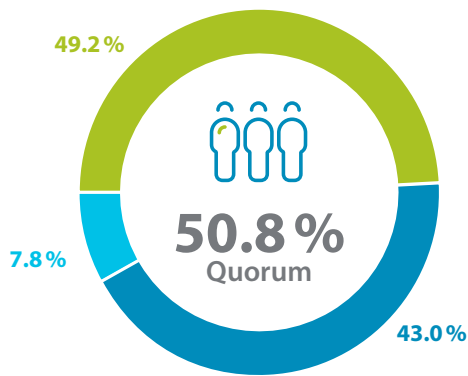
50.8%
Quorum at
2016 GSM

Governing Bodies

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body representing shareholders.

Quorum in 2016



- Represented by proxy
- Present
- No quorum

Share capital

€358,101,390.00

Number of shares

238,734,260

Number of voting rights

238,734,260



Board of Directors and Committees

[GRI 103-1, GRI 103-2]

The Board of Directors maintains a 62% ratio of Independent Directors compared to the 49% of the Spanish market (Ibex 35 average)

[GRI 102-18, GRI 102-22, GRI 102-23, GRI 405-1]

The composition of the Board of Directors and the Governance Committees is set out below.

Name of the Director	Position on the Board of Directors	Type of Director	Position on the Audit and Compliance Committee	Position on the Appointments, Remuneration and CSR Committee
Antonio Llardén Carratalá	Chairman	Executive		
Marcelino Oreja Arburúa	Chief Executive Officer	Executive		
Martí Parellada Sabata	Director	Independent	Chairman	
Isabel Tocino Biscarolasaga	Director	Independent		Chair
Ana Palacio Vallelersundi	Lead Independent Director	Independent		Member
Antonio Hernández Mancha	Director	Independent		Member
Luis Javier Navarro Vigil	Director	External		Member
Jesús Máximo Pedrosa Ortega (proposed by SEPI - Sociedad Estatal de Participaciones Industriales)	Director	Proprietary		Member
Ramón Pérez Simarro	Director	Independent		Member
Rosa Rodríguez Díaz	Director	Independent	Member	
Gonzalo Solana González	Director	Independent	Member	
Luis Valero Artola	Director	Independent	Member	
SEPI - Sociedad Estatal de Participaciones Industriales (represented by Federico Ferrer Delso)	Director	Proprietary	Member	
Rafael Piqueras Bautista	General Secretary	-	Secretary	Secretary

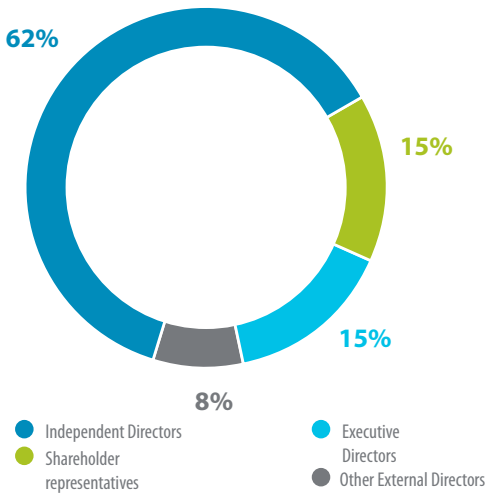


Enagás has a higher percentage of Independent Directors than the average in the Spanish market and has gradually reduced the number of members of the Board of Directors that now stands at 13. Furthermore, Enagás' commitment to promote gender diversity on the Board is

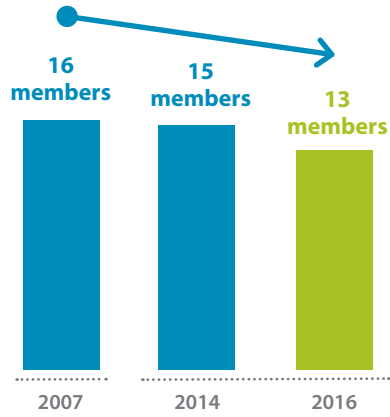
reflected in the significant increase in the ratio of women, rising from 6% in 2007 to 23% in 2016. In addition, the new Director Selection Policy set out its commitment for that figure to reach 30% in 2020. [\[GRI 103-1, GRI 103-2\]](#)

[GRI 103-1, GRI 103-2]

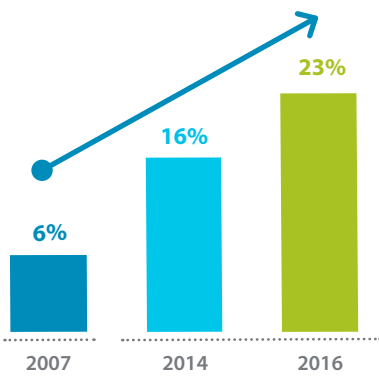
Board of Directors



Size of the Board of Directors

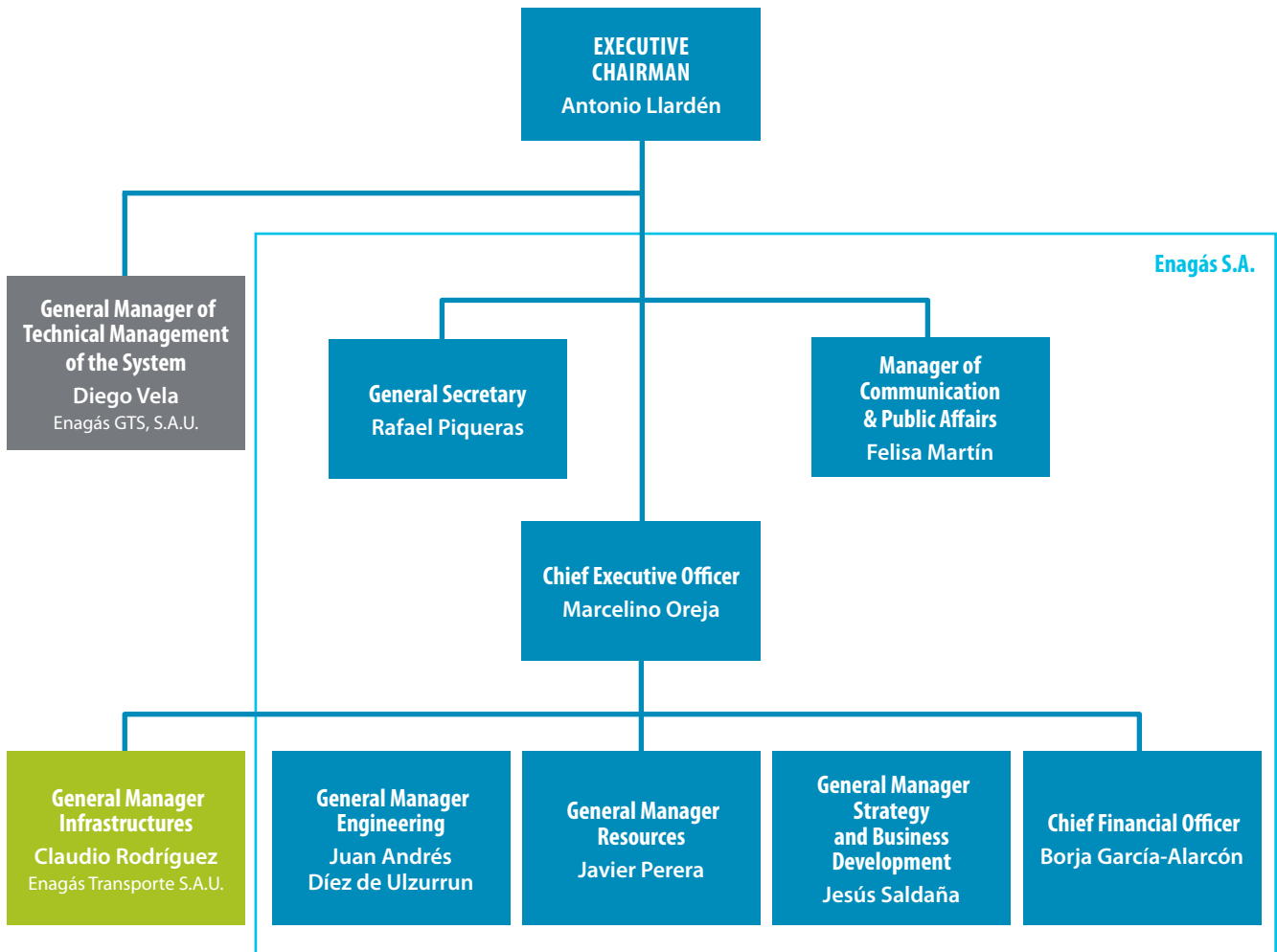


Percentage of female members on the Board of Directors



[GRI 103-1, GRI 103-2]

Management Committee



Remuneration of the Board of Directors

[GRI 102-35, GRI 102-36, GRI 102-37, GRI 103-1]

The Enagás Board of Directors is empowered to adopt resolutions on Director remuneration. The Appointments, Remuneration and CSR Committee proposes the remuneration criteria, within the limits set forth in the Articles of Association and pursuant to the decisions taken at the General Shareholders' Meeting. The Committee also monitors the transparency of remuneration.

Thus, in 2016, the General Shareholders' Meeting approved the Executive Compensation Plan for 2016-2018 with the following characteristics and following the criteria of independence, involvement of stakeholders (the remuneration report is put to a consultative vote at the General Shareholders' Meeting) and internal and external assessment:



See the 'Long-Term Incentive Plan 2016-2018' on the corporate website

Long-Term Incentive Plan 2016-2018

Eligibility

- Members of the Management Committee and the rest of the management team: 43 participants (3% of the workforce)

Type of Plan

- Plan for delivery of shares and cash linked to the goals of the Strategic Plan. A minimum reference of shares is established for each segment: 100% Executive Directors, 75% Management Committee and 50% Directors

Duration

- Period of goal measurement and permanence: 3 years

Conditions for receiving the incentive

- Fulfilment of the four outlined goals (see the 'Our project for the future' section)
- Permanence in the Group

Achievement scales

- An achievement scale is established for each goal with:
 - A minimum achievement level, below which no remuneration is paid
 - A 100% achievement level, for which 100% of the initial target remuneration is paid
 - The maximum total remuneration may not exceed 125% of the initial target remuneration
 - Intermediate levels are calculated using linear interpolation
- The assessment of the Sustainability Plan is carried out by the Appointments, Remuneration and CSR Committee on a discretionary basis and depends on a set of results in this area

Incentive level

- The incentive is expressed as a percentage of the fixed remuneration for 2016 or a number of times the fixed remuneration amount in a way that allows segmentation by management level. Annual incentive: 50% for Executive Directors, 45% for the Management Committee and 30% for Directors

Clawbacks

- In the event of certain circumstances coinciding, the Board may, if suggested by the Committee, claim part or all of the remuneration paid

Withholding taxes on shares

- A 2-year retention period is proposed for Executive Directors, following the delivery of the shares

Remuneration of the Board of Directors in 2016

[GRI 102-35]

Directors	Thousands of euros	
	2015	2016
Mr Antonio Llardén Carratalá (Executive Chairman) ⁽¹⁾	1,749	1,839
Mr Marcelino Oreja Arburúa (Chief Executive Officer) ⁽²⁾	561	693
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	127
Mr Sultan Hamed Khamis Al Burtamani ⁽³⁾	11	---
Mr Jesús David Álvarez Mezquíriz (Independent Director) ⁽³⁾	20	---
Mr Ramón Pérez Simarro (Independent Director)	76	126
Mr Martí Parellada Sabata (Independent Director)	81	142
Mr Luis Javier Navarro Vigil (External Director)	76	126
Mr Jesús Máximo Pedrosa Ortega (Proprietary Director)	76	126
Ms Rosa Rodríguez Díaz (Proprietary Director)	76	127
Ms Ana Palacio Vallelersundi (Proprietary Director)	80	133
Ms Isabel Tocino Biscalorasaga (Independent Director)	81	139
Mr Antonio Hernández Mancha (Independent Director)	76	126
Mr Luis Valero Artola (Independent Director)	76	127
Mr Gonzalo Solana González (Independent Director)	76	127
Total	3,191	3,958

(1) The remuneration for the Executive Chairman for the 2016 financial year was approved in detail by the General Shareholders' Meeting on 18 March 2016, as part of the "Directors' Remuneration Policy for 2016, 2017 and 2018." In 2016, the Executive Chairman received a fixed remuneration of €980 thousand and a variable remuneration of €572 thousand; he also received Board meeting attendance fees of €102 thousand, as well as other remuneration in kind amounting to €185 thousand. In total €1,839 thousand. In addition, he was provided with a life insurance policy whose premium for the year came to €109 thousand. The increase in the cost of this insurance is due exclusively to the loss or reduction in this year of the "profit share" shared out by the company with the insurer, without there having been an increase in the premium or an expansion of the above mentioned coverage. This higher cost implies, in turn, an increase in retentions due to the remunerations in kind, although there was not a significant increase in the in-kind remuneration received by the Executive Chairman. The Group has outsourced its pension commitments with its executive directors 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. The total premium paid during the year in respect of the Executive Chairman was €201 thousand. The Executive Chairman is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on 18 March 2016. Item 8 of its Agenda states that the Committee assigned him a total of 69,711 performance shares. These shares do not entail an acquisition of the shares until the end of the programme and the final remuneration depends on the level of achievement of the goals of the programme.

(2) The remuneration of the Chief Executive Officer for 2016 was approved in detail by the General Shareholders' Meeting on 18 March 2016, as part of the "Directors' Remuneration Policy for 2016, 2017 and 2018." In 2016, he received a fixed remuneration of €390 thousand and a variable remuneration of €179 thousand; he also received Board meeting attendance fees of €102 thousand, as well as other items of remuneration in-kind amounting to €22 thousand (variations in in-kind remuneration with respect to prior years are due solely to differences in the value of said remuneration without him having received remuneration in-kind for other reasons). In total €693 thousand. In addition, he was provided with a life insurance policy, with total premiums in the year of €1.5 thousand. The CEO is also covered by the mixed group insurance policy for pension commitments, and the amount of €90 thousand of this premium corresponds to him. The Chief Executive Officer is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on 18 March, 2016. Item 8 of its Agenda states that the Committee assigned him a total of 27,744 performance shares. These shares do not entail an acquisition of the shares until the end of the programme and the final remuneration depends on the level of achievement of the goals of the programme.

(3) Both Directors resigned in 2015.

Remuneration for all the Directors for their membership of the Board and its Committees, as well as that of the two Executive Directors for carrying out their duties, was approved in detail at the General Shareholders' Meeting on 18 March 2016, as part of "The Directors' Remuneration Policy

for 2016, 2017 and 2018". This followed reports drafted by the independent external consultant, Willis Towers Watson, who analysed the remuneration position of the Directors and Executives of Enagás and its position with regard to comparable companies on the Ibx 35 stock market.

According to these reports, and with the amendments to the remuneration policy, the remuneration of Enagás Directors, Executive Directors and Senior Management in 2018 will continue to be below the average for 2014 when compared to similar companies in the sector.

Performance of the Governing Bodies

[GRI 102-28, GRI 103-1]

Among its commitments, the Enagás Sustainability and Good Governance policy establishes compliance with national and international recommendations and best practices in the area of good governance, in such aspects as the training and assessment of Directors, among others.

Every year, a self-assessment of the Board is performed with participation from an independent external expert. This self-assessment is performed objectively and from a best-practice viewpoint by means of questionnaires completed by all members of the Board. The aim of the is self-assessment is to sustain and bolster the performance of the Board.

In the last self-assessment, strengths were identified; among these independence, diversity and a strong commitment by the members of the Board as well as good communication between the Board and the company's executives stood out. Regarding Board meetings, prior preparation (availability of materials) and a focus on key issues are strengths.

With regard to what can be improved, the following areas need to be looked at and as can be seen by the following table, the company is already working on them:

Some of the outstanding strengths of Enagás' Board of Directors are its **independence, diversity and the strong commitment** of its members

Recommendations	Enagás' actions
Board independence and succession planning	Approval of the policies of the Director Selection Policy, Conflicts of Interest, the Policy on the Succession of the Chairman and the Chief Executive Officer
Development of specific know-how for the Board	Provide training sessions to the Board on key financial and non-financial matters regarding the management of the company
Improve communication with shareholders regarding Enagás' commitment to environmental, social and governance spheres	Participation in roadshows that target socially responsible investors (SRI)
Devote more time to auditing activities	Implement the new regulatory framework that assigns new functions to the Audit and Compliance Committee and strengthens the independence of the external auditor

Key issues addressed by the Board of Directors in 2016

[GRI 102-21, GRI 102-27, GRI 102-33, GRI 102-34]

Some of the key issues addressed by the Board of Directors in 2016 within the economic, corporate governance, social and environmental spheres are summarised below. When addressing such matters, the members of the Management Committee of the company are invited to attend Board meetings to present issues within their area of responsibility.

Issue	Type	Resolution
Strategic thinking regarding Enagás' long-term 2040 vision	Economic	Unanimously approved
Approval of the Long-Term Incentive Plan	Economic	Unanimously approved
Approval of the Carbon Footprint reduction goal for the period spanning 2016-2018	Environmental	Unanimously approved
Updating of company policies according to best practices of good governance and recommendations from investors and proxy advisors	Corporate Governance	Unanimously approved
Plan for actions for training Directors	Corporate Governance	Unanimously approved
Monitoring of the Company's contributions to social action and corporate volunteering	Social	Unanimously approved





Financial and operational excellence

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Two bond issues totalling €1.25Bn (€750Mn (annual coupon of 1.375% maturing in 12 years), €500Mn (annual coupon of 0.75% maturing in 10 years)).
- At 31 December 2016, the average maturity of debt was 6.3 years and there is no significant maturity until 2022.
- Standard & Poor's has maintained Enagás' long term rating at "A-", with stable prospects and an "Excellent" business risk profile.
- Renovation of the EFQM+500 certification.
- Introduction of the Programme for continuous improvement (Kaizen).
- Launch of the 2016 Ingenia Business initiative and development of business models linked to the 2015 edition of Ingenia Business.

[GRI 103-3]

€6.5MN savings derived from the Efficiency Plan in 2016

Dividend of
€1.39 per share

€417.2MN
(+1.1%)
post-tax profit

Lines of progress 2017 [GRI 103-3]

- Global consolidation of GNL Quintero from 1 January 2017.
- Profit growth after tax ~ + 12% (includes the effect of revaluing the cost of the first acquisition of GNL Quintero (2012) to the acquisition cost of acquisitions made in 2016 amounting to ~ €29Mn).
- BDI stand alone growth: ~ 5.0% (GNL Quintero pro forma consolidated under the equity method).
- FFO/DN stand alone higher at 15% (pro forma ratio with GNL Quintero under the equity method).
- Dividends coming from affiliates ~€120M.
- Forecast investments ~ €650M.
- Dividend €1.46/share (+5%).
- Cost of stand alone net debt ~2.4%.
- Finalise the expansion of the Kaizen continuous improvement programme to all work centres and launch Kaizen project by project.

€5.089BN
net debt
(5.2x net debt/
EBITDA adjusted)

€912.2MN
in investment

Net cost of debt
2.4%

Analysis of results in 2016

Enagás' net profit rose to €417.2Mn, 1.1% over the previous year. This increase was mainly possible thanks to improved financial results.

At year-end 2016, EBITDA had reached €882.6Mn, 2% lower than reported in 2015, in line with market guidance.

BDI grew 1.1% thanks to the contribution of the latest acquisitions (TGP, Saggas and GNL Quintero) from their respective closures and also to a better evolution

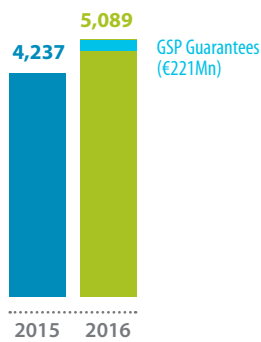
of the other subsidiaries compared to the initial budget, not forgetting the contribution of an additional quarter in 2016 (vs. 2015) of the 10% BBG share, 30% of Saggas and 50% of Swedegas (integrated in the second quarter in 2015). It includes the effect of the financial update of the equity together with the reversal to a positive GSP contribution (€31.4Mn) to date.

In €Mn	2015	2016	% Variation
Total revenue	1,221.6	1,218.3	-0.3%
EBITDA	900.5	882.6	-2.0%
EBIT	602.0	610.5	1.4%
Net Profit	412.7	417.2	1.1%

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)

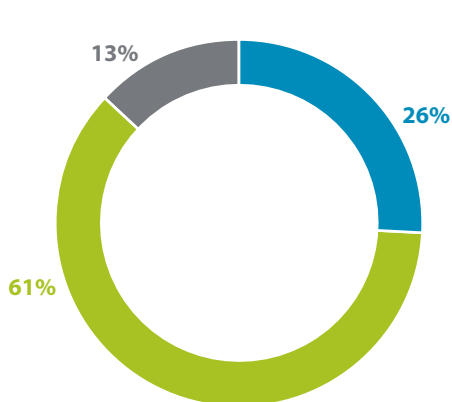


Leverage and liquidity

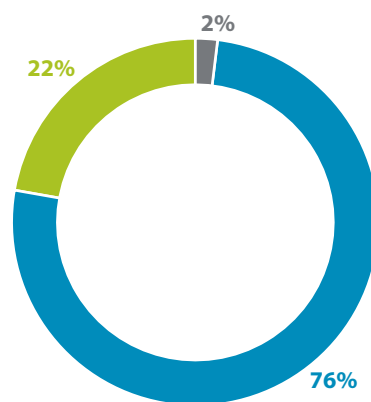
In €Mn	2015	2016
Net Debt/EBITDA (adjusted) ^(*)	4.5x	5.2x
FFO/Net Debt	16.4%	15%
Cost of debt	2.7%	2.4%
Liquidity	€2.268Bn	€2.409Bn

(*) EBITDA adjusted by dividends received from subsidiaries.

Debt structure



- Institutional debt
- Capital markets
- Commercial banking



- Debt in euros
- Debt in USD
- Debt in SEK

Fixed debt above **80%**

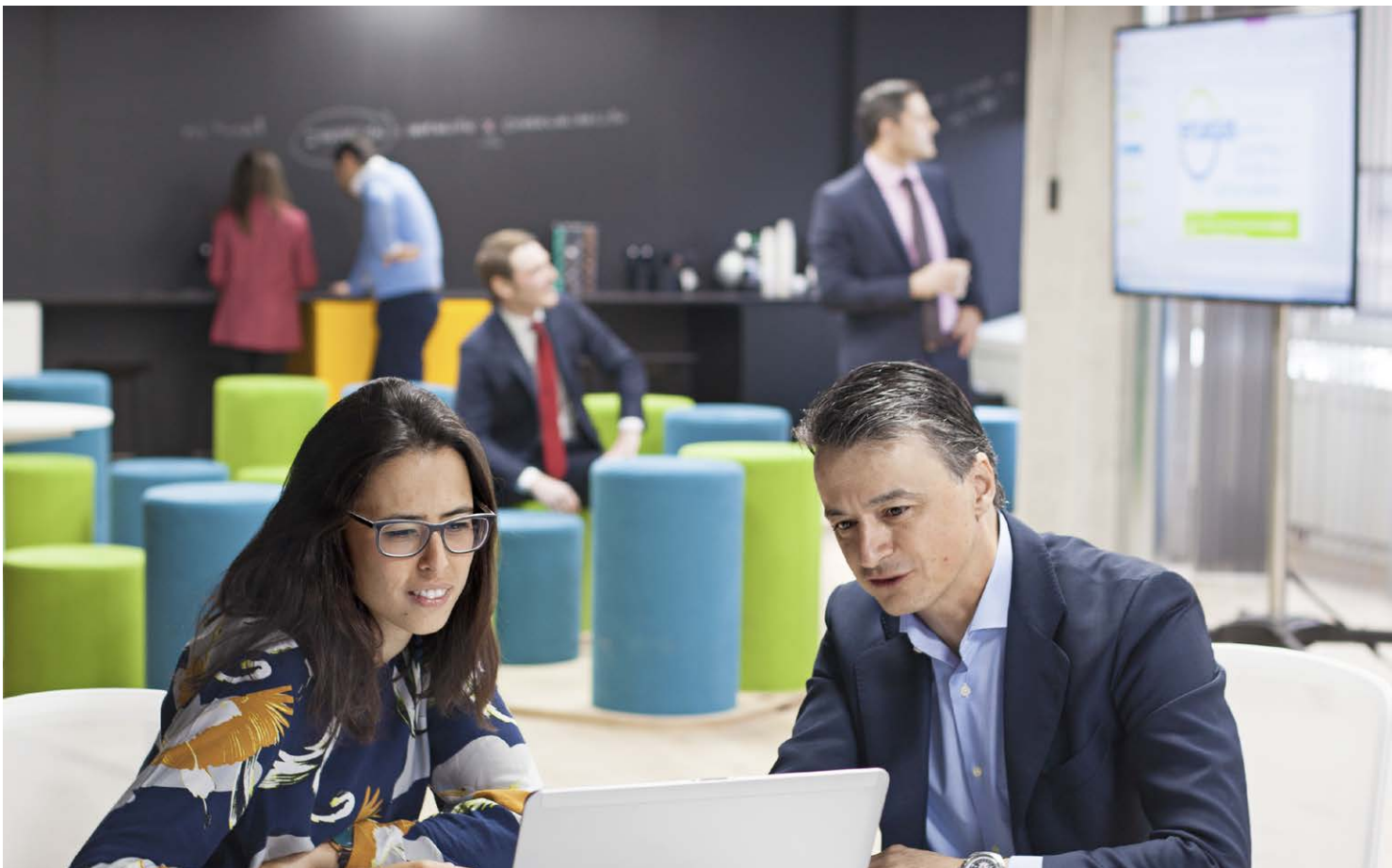
Efficiency Plan

The scope of Enagás' Efficiency Plan includes expenses associated with infrastructures and the company's general expenses, encompassing approximately 100% of its operating expenses.

The main goal of Enagás' 2015-2017 Efficiency Plan is to maintain the profit margin in Operation and Maintenance activities using measures among which the following are the most significant:

- Reduction of own consumption through the installation of compressors, with the resulting reduction of associated CO₂ emissions. (See the chapter on 'Climate change and energy efficiency').
- Boosting the self-generation of electricity. Enagás' goal is to self-generate 35% of the energy it uses by 2020. (See the chapter on 'Climate change and energy efficiency').
- Maintenance based on criticality matrices, adapting the frequency of maintenance schedules according to the criticality of the equipment and its failure probability.
- Improvement in the management of electrical contracting.

The average annual savings associated with the implementation of this plan is expected to be €6.5Mn (including the reduction of self-consumption).



Operational excellence

Enagás holds ISO 9001:2008 certification for its processes of Technical Systems Management, Asset Management, Infrastructure Development and Information Systems Management. Furthermore, Enagás has SSAE 16 certification for its processes of Capacity Management and Viability Analysis of the System, and Security of Supply in the System/ Technical Management of Underground Storages of the System.

Enagás is working on a continuous improvement programme based on Kaizen methodology to generate and promote a culture of continuous improvement within the organisation, aligning it with corporate strategy and values.

The improvement programme is based on the training of professionals and the enhancement of teamwork to implement a culture of continuous improvement and problem solving, focusing on process improvement and cost efficiency. It is thus structured in three phases:

- 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.

Throughout this year the programme's performance within the company's infrastructures, started the previous year, has been continued and covers all regasification plants and underground storage as well as four transport zones.



Digitalization

Enagás aims to adapt the business to new operational and technological models in line with trends deriving from Industry 4.0 and is immersed in a process of digital transformation. Our vision of said transformation is for a holistic and transversal approach to be applied to the company.

A function has therefore been designed to lead the transformational framework and execute the organisational and cultural change that will be at its core. Enagás is thus working on identifying opportunities to optimise and improve people management through the use of new technologies, taking into account aspects such as generational diversity.

In addition, processes have been re-engineered to optimise workflows and information sharing for the support processes (travel management, expenses, digital press, etc.).

On the other hand, initiatives are being set up whose aim is to achieve operational excellence of the activities that make up Enagás' core business (development of mobility tools for maintenance and operation processes, improvements to cybersecurity, digital signature, etc.).

Lastly, the Ingenia Business programme and other innovative company initiatives are in line with the opportunities offered by digitalisation such as collaborative technologies.

Enagás is carrying out a detailed analysis of opportunities and working on the development of partnerships with universities in order to open lines of research and collaboration in different spheres. In this regard, in 2016, a sponsorship agreement was signed with the ICAI Chair for Connected Industry made up of industrial and technological companies, and whose aim is to facilitate the digital transformation of the Spanish industry.

Likewise, initiatives are being implemented in order to develop a vision and transversal objectives for the whole company in the medium term.





Ethical compliance and Human Rights

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Design of the Compliance Model for Enagás Group.
- Updating of the Crime Prevention Model in Spain, adapting it to changes in the Criminal Code and Circular 1/2016 of the Attorney General's Office.
- Implementation of the Crime Prevention Model in Mexico.
- Approval of the new version of the Internal Code of Conduct regarding matters related to Securities Market, adapted to the new regulatory changes.
- Continuous monitoring of legal compliance risks and reputational risks of business partners (ethical and compliance risks).
- Incorporation of Human Rights impact analysis with regard to supplier management and the management of affiliates.

[GRI 103-3]

100%

of the significant agreements with suppliers include clauses containing issues regarding Human Rights

[GRI 412-3]

3

communications received via the Ethics Channel

Lines of progress 2017 [GRI 103-3]

- Approval and implementation of the new Compliance Model for Enagás Group.
- Approval of the Crime Prevention Model in Spain.
- Continuous training and dissemination of the Crime Prevention Model in Spain.
- Roll-out of model for compliance in international subsidiaries with effective management control
- Inclusion within the scope of the audits of partners that Enagás carries out on affiliates regarding ethics and criminal responsibility.
- Conduct internal audits on fraud prevention on the TLA Altamira and TAP affiliates.
- Definition of the level of risk for the incorporation of requirements related to respect for Human Rights in the supply chain.
- Adherence to the Code of Good Tax Practices.
- Publication of a report on the total tax contribution for 2016 in the respective countries where profits are generated.

91%

of Enagás' employees received training on the Code of Ethics in 2015 and 2016

92%

of employees received training in anti-corruption

policies and procedures in the past two years

[GRI 205-2]



71% of employees received training in Human Rights (15,191.9 hours)⁽¹⁾

[GRI 412-2]

(1) Training in at least one of the following types of courses: Equality and Anti-corruption, Human Rights (general) and Prevention, and the Environment.



Policy, procedural and regulatory framework

[GRI 102-16]

When developing its activities, Enagás ensures that ethics and integrity are respected via the following policy, procedural and regulatory framework:



The Code of Ethics sets out the conduct that is expected from all the professionals in the company, irrespective of their responsibilities and their geographic or functional location. The Code is implemented via policies, regulations, procedures and controls.

The policies set out the principles and commitments of the main management areas of the company. The corporate directives define the principles of action for specific management areas. In 2017 we are working on the creation and approval of corporate directives in the spheres of climate change and diversity.



See the Code of Ethics and policies section on the corporate website



Compliance model

Since the 2010 Reform of the Spanish Criminal Code, which introduced the criminal liability of legal persons in Spain, Enagás has established a Crime Prevention Model and is developing a Transversal Compliance Model with international reach.

The Enagás Compliance Model will be managed by a compliance function at the core of which is the Compliance Department: This is supported by synergistic functions and other corporate support areas including the participation of local compliance officers located in the different countries where Enagás operates.

According to the company's policy, procedural and regulatory framework, the Enagás Compliance Model is structured around three documents, which form the core of the model:

- The Compliance Policy sets out a series of compliance commitments that all company professionals must comply with, irrespective of their professional category or the country where they carry out their activities.

- The General Compliance Standard develops what is set out in the Compliance Policy and Enagás' Code of Ethics. It outlines the compliance responsibilities that, according to each professional category, are assigned to Enagás' professionals.
- The Compliance Management Procedure, set out according to the action guidelines outlined in ISO 19600 on Compliance Management Systems and based on the principle of proper control, aims to fulfil the commitments described in the Policy and in the General Standard of Compliance.

The model defines double line reporting in order to have a Compliance Function that is coordinated on a global level; this mitigates the risks of non-compliance in the international arena which in turn can lead to serious reputational consequences. This double line reporting is on the one hand, that reported by the corporate areas and, on the other hand, that reported by compliance officers in the different subsidiaries. Loss of information and inconsistencies are therefore avoided.

Enagás has established a **Crime Prevention Model** and is developing a **Transversal Compliance Model** with international reach



Crime Prevention Model

As part of the Compliance Model, Enagás has a Crime Prevention Model that acts as the core of the company's criminal compliance, notwithstanding the existence of policies, procedures and controls that illustrate its content and "contribute to preventing crimes being committed by any person who is part of Enagás as well as, in their respective areas of relation, by contractors, suppliers, business partners and any third party that

collaborates with or acts on their behalf." The Crime Prevention Model in Spain includes the following elements:

- Potential offences of criminal risk that are considered when taking into account the activity of a company with the characteristics of Enagás:

Enagás' Crime Prevention Model is the fundamental core of the company's criminal compliance

-
- | | | |
|--|---|--|
| <ul style="list-style-type: none"> ● Offences against privacy (discovery and disclosure of secrets) ● Fraud ● Frustration of execution and punitive insolvencies ● Offences regarding IT ● Offences relating to intellectual property and industrial property ● Offences relating to company secrets | <ul style="list-style-type: none"> ● Offences related to the market and consumers (fraudulent billing and stock market crimes) ● Corruption in business ● Money laundering ● Illegal donations to political parties ● Offences against the Tax Administration and Social Security ● Offences against spatial planning and town planning | <ul style="list-style-type: none"> ● Offences against natural resources and the environment ● Offences of catastrophic risk ● Offences against public health ● Offences of bribery and influence peddling ● Offences of financing terrorism ● Smuggling offences ● Other offences |
|--|---|--|
-

- Roles and responsibilities defined by a governance structure aligned with art. 31 bis 2.1 and 2 of the Criminal Code. The role of the Director of Compliance has thus been redefined with regard to the reception, prior study and investigation of complaints, as has the Compliance Department as a criminal prevention body.
- Map of risks and activities exposed to criminal risk.
- Inventory of controls, both general and specific, that exist at Enagás that provide preventive virtuality in the face of potential offences being committed.

- Disciplinary system articulated around compliance with the Code of Ethics which ensures compliance with the model via disciplinary measures.

As an example of the existing controls at Enagás to prevent potential offences of criminal risk, the following controls have been implemented to ensure that the express prohibition of making donations to political parties is respected. [\[GRI 415-1\]](#)

In terms of general controls, the following regulation sets out the prohibition:

- Enagás Group Code of Ethics.

- Segregation of duties and a structure to limit powers.
- Anti-fraud, corruption and bribery policy.
- Sustainability and Good Governance policy.
- Internal Control over Financial Reporting System (ICFR).
- General standard for hiring external advisors.

In addition, there are specific controls in the form of procedures to act in those areas where, due to their nature, there may be a greater risk of breaching the prohibition:

- The procedure for the management of sponsorships, patronage and donations, sets out the responsibilities regarding:
 - Authorisation of sponsorship collaborations will be done by the Sustainability Committee which reports to the Board of Directors and is responsible for approving all financial donations.
 - Follow-up of both the fulfilment of the sponsorship collaboration conditions as well as the collaboration agreement (the results of this analysis will be taken into account when analysing subsequent collaboration requests).
- The procedure for authorisation and accounting of treasury movements which regulates the correct reception, verification, authorisation, registration and accounting of documents supporting the collection and payment movements of Financial Institutions.
- The procedure for the management of offering and accepting gifts establishes that employees of the Enagás Group may not directly or indirectly carry out, offer or receive any payment in-kind or any other benefit that, due to its value, its characteristics or its circumstances, may reasonably alter the development of the business, administrative or professional relationships in which they take part. Gifts in cash or equivalent are expressly prohibited.
- The controls included in the Internal Control System regarding Financial Information such as the control of financial management and support services. [GRI 415-1]



Awareness and training

[GRI 205-2]

Enagás professionals receive training on the Code of Ethics that encompasses such key issues as the fight against fraud, corruption and bribery, fiscal responsibility and respect for Human Rights, among others. It is a tool for preventing irregularities, including those that could constitute crimes, in those spheres. The course is structured as follows:

- Practical cases for each guideline on conduct in the Code of Ethics.
- Procedures for reporting and querying cases of non-compliance.
- Responsibility for the management of reports (Ethical Compliance Committee).

Since its launch, 91% of employees have taken the Code of Ethics course. Furthermore, one of the most highly valued aspects of the workplace climate survey carried out in 2016 (see the chapter on 'Human Capital Management') was the acknowledgement by professionals regarding the existence of the Ethics Channel to report inappropriate behaviour without fear of reprisal. This reveals the level of familiarity with the principles and guidelines on conduct expected by Enagás.

Next year, training in and dissemination of ethics and compliance aspects will continue, with particular emphasis on conduct constituting a crime (Crime Prevention Model).

Since its launch, **91%** of employees have taken the **Code of Ethics course**

Affiliates

Enagás Group Crime Prevention Model in Mexico

Enagás has a Crime Prevention Model up and running in Mexico approved by the Board of Directors. In 2016, the diffusion of this model was initiated at a day of face-to-face training for Enagás Mexico staff.



Ethics Channel

[GRI 102-17]

Enagás' Ethics Channel is a platform for querying and reporting irregularities or breaches of the Code of Ethics. The channel adheres to the following principles:

- Only reports that involve irregularities for which the company may be liable are processed.
- Access to the Ethics Channel and the processing of reports is procedurally regulated by and restricted to members of the Ethical Compliance Committee.
- Information concerning dismissed reports is deleted.
- Confidentiality prevails over anonymity.
- Reports received anonymously and/or via the channel are only processed if well-founded.
- The procedure for managing reports and consultations about irregularities or breaches of the Code of Ethics complies with the Personal Data Protection Act as regards the preserving, cancelling and blocking of data.



Electronic mailbox:
canal.etico@enagas.es



Post addressed to any member of the Ethical Compliance Committee



Form available on the corporate Intranet

In 2016, three communications were received via the Ethics Channel: [GRI 205-3]







- A suggestion regarding labour matters, not related to Compliance with the Code of Ethics, was conveyed to the department responsible for its management.
- Two reports related to Compliance with the Code of Ethics were dismissed expressly by the complainants.

Respect for Human Rights

In its Code of Ethics and the corporate policies which it comprises, Enagás sets out its commitment to ensuring compliance with Human Rights, in line with, among others: [\[GRI 102-12\]](#)

- The International Bill of Human Rights.
- Fundamental Principles and Rights of the International Labour Organisation (ILO).
- OECD Guidelines for Multinational Enterprises.

How do we guarantee compliance with Human Rights at Enagás?

Right to decent work	As well as guaranteeing decent work for our employees, we ensure that our suppliers provide all workers at their facilities with legal employment status: we request the necessary documentation and conduct audits.
Right to rest and leisure	Enagás improves and extends the periods and conditions of rest and leisure established in current legislation (flexibility in start times and lunch break, shorter workday during the summer and every Friday throughout the year, division of annual leave into a maximum of 3 periods, etc.).
Abolition of child labour	The Enagás Collective Bargaining Agreement prohibits the company from employing minors of under 16 years of age (Article 28).
Right to family life	Enagás improves and extends paid leave beyond the provisions of current labour regulations (birth of a child, breastfeeding or death of a close relative, special circumstances, etc.). [GRI 401-3]
	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  41  14 </div> <div style="text-align: center;">  100%  78.60% </div> <div style="text-align: center;">  100%  94.10% </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;"> <p>Maternity/paternity leave</p> </div> <div style="text-align: center;"> <p>Return to work rate of employees who took leave prior to 31/12/2016</p> </div> <div style="text-align: center;"> <p>Retention rate of employees in the company 12 months after returning</p> </div> </div>
Right to freedom of opinion, expression and information	Enagás has various clear and transparent internal communication channels that allow workers to communicate with senior management.
Right to a safe working environment	Enagás' occupational risk prevention management system, certified under OHSAS 18001, provides mechanisms for identifying and preventing incidents (see the chapter on 'Health and Safety').

Freedom of association Enagás employees can freely exercise their right to belong to trade unions in order to promote and defend their economic and social interests without this being the basis for discrimination, and any agreement or decision by the company contrary to this principle is deemed null and void (Article 64).

Right to collective bargaining Enagás has approved a new Collective Bargaining Agreement aligned with the management of human capital (see the chapter on 'Human Capital Management'). In addition, the company also enters into collective negotiations and carries out regular consultations with the legal representation of employees regarding working conditions, remuneration, dispute resolution, internal relations and issues of mutual concern.

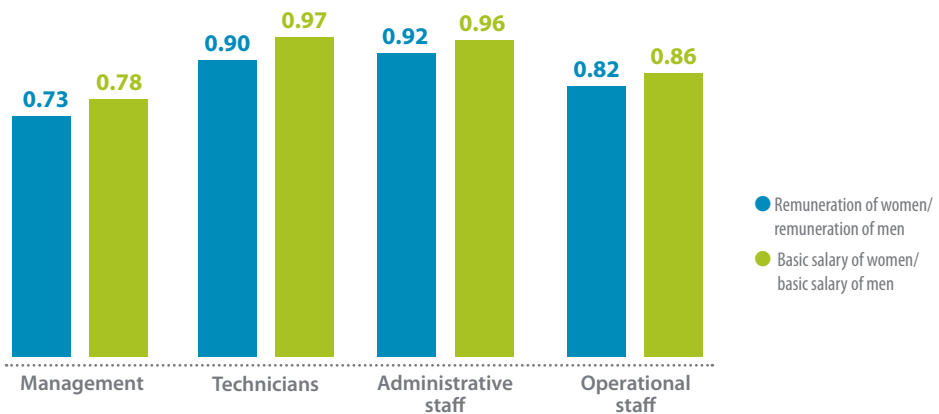
55% of employees are covered by the collective bargaining agreement (100% of operational staff, 91% of administrative staff and 33% of technicians). [GRI 102-41]

Right to workplace non-discrimination and diversity The company has a Diversity Plan and a Prevention and Action Protocol at the disposal of its employees for any situation of workplace harassment. This protocol provides a confidential channel for reporting workplace harassment (canal.etico@enagas.es).

Equal pay The Enagás remuneration model factors in considerations of equality and non-discrimination, establishing differences due solely to the worker's position in the organisation and professional experience. Furthermore, the Enagás Collective Bargaining Agreement sets out different salary levels based exclusively upon objective work criteria.

Ratio of basic salary/average wage of women to men by employee category

[GRI 405-2]



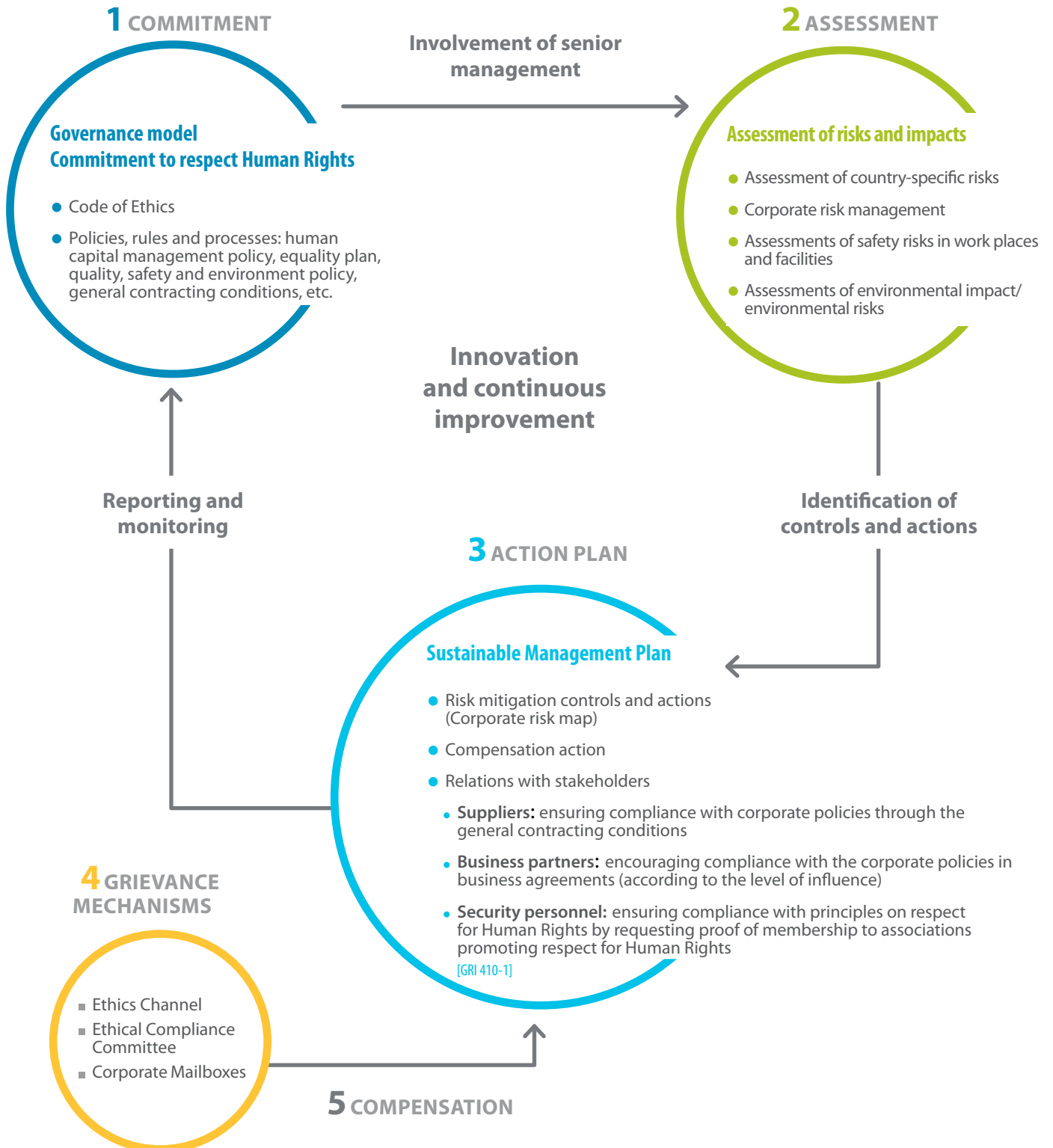
Right to fair and favourable remuneration Part-time employees receive a salary proportional to that of comparable full-time employees, with identical benefits. Furthermore, the minimum salary for an Enagás employee is more than double the statutory minimum wage in Spain.

Right to life, liberty and security of person The company exercises due diligence when rendering its services in order to avoid defects that could harm the life, health or security of consumers or others that could be affected by the defective product, and complies with national laws and relevant international guidelines.

Right of minorities Enagás ensures that owners and users of property affected by the company's acquisitions and activities receive appropriate compensation.

In 2016, an online training programme was launched for all Enagás employees for them to learn the company's methods for ensuring compliance with Human Rights.

Human Rights are addressed using a continuous improvement approach aligned with our Sustainable Management Model.





At Enagás, Human Rights management are addressed using a **continuous improvement approach** aligned with our Sustainable Management Model



Human capital management

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Implementation of the competency model focused on human resources development programmes (skills, assessment, etc.)..
- Collaboration training agreements with European business schools – Energy Delta Institute – and with the most prestigious business schools in Spain.
- Implementation of the Enagás English Campus (*e-learning training* in languages).
- Definition of a professional development model in the technical sphere.
- Second edition of the Women with Talent Programme.
- Plan for management to visit company facilities in order to get closer to employees and improve cross-company communication.
- Initiatives linked to Enagás' adherence to the 'For a Society Free from Gender-Based Violence' network of companies.
- Renewal of the EFR (Family Friendly Company) certification and the Equality badge.
- Approval of the new Collective Bargaining Agreement aligned with the Human Capital Management Policy.

[GRI 103-3]

84

employees have taken part in talent identification programmes

61.75

training hours per employee (€919.96 investment per employee)

[GRI 404-1]

80%

of the workforce underwent a performance assessment^(*)

[GRI 404-3]

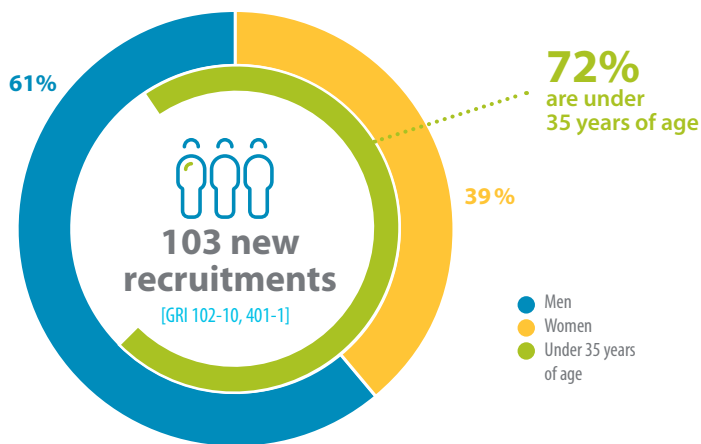
Lines of progress 2017 [GRI 103-3]

- Implementation of *mentoring/coaching* programmes.
- Expansion of the Identification of Potential programmes (Evaluation/Development Centres).
- Implementation of the dual vocational training plan at the company's facilities in order to offer a training plan and a curricular scholarship to recent graduates in vocational training at Enagás facilities.
- Implementation of individualised development plans.
- Approval and publication of corporate directives regarding diversity.
- Renewal of the adherence to the Diversity Charter (inclusion of plurality in the company).
- Implementation of measures for the management of generational, functional and gender diversity.

54

Internal promotions (28% women)

(*) Performance assessment linked to their career development and the increase in their fixed remuneration.



1,337
employees (27% women)

23
employees underwent a competency assessment aimed at their possible promotion to management positions

Strategic Resources Plan

[GRI 103-1]

The management of human capital aims to attract, develop and retain talent, endowing the company with the resources required for it to deploy its strategy.

Within the framework of the 2015-2017 Strategic Resources Plan, Enagás has worked during the year on the following critical areas:

- Organisation and processes, ensuring the sustainability, optimisation and efficiency of our structures and resources.
- Compensation and benefits, ensuring retention and the striving for talent.
- Managing change and technology, driving the agility and flexibility required by the business and the environment (see the chapter on 'Financial and Operational Excellence').
- Culture and commitment, evolving our way of working to seek joint objectives and be involved in their achievement.
- Health and safety, in search of excellence in these spheres, both nationally and internationally (see the chapter on 'Health and Safety').
- Selection, development and training, ensuring that Enagás has the most suitable profiles for the company to achieve its strategy.

Our professionals

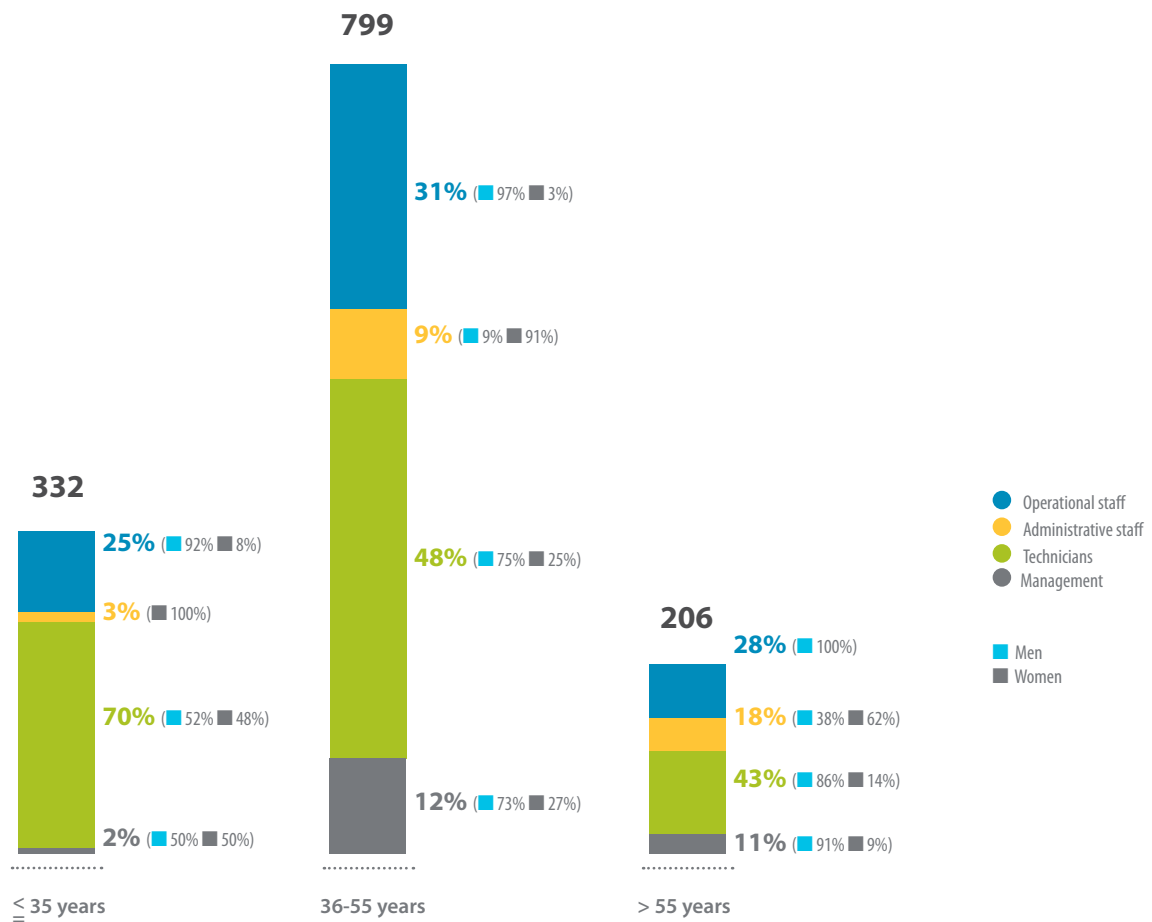
Enagás maintains stable, quality employment levels with high percentages of permanent and full-time contracts.

The distribution of professionals by age group, professional category and gender can be seen below:

	Women	Men
Full-time	93.19 %	99.90 %
Permanent contract	92.10 %	95.36 %

Distribution of the 1,337 employees by age group, employee category and gender

[GRI 102-8, GRI 405-1]





Affiliates

The Enagás employees in each country where the company operates are shown below, including their type (local or expatriate employees).

Country	Total number of Enagás employees	Type of employee		
		Expatriate	Local	Temporary assignment
Peru	9	5	3	1
Mexico	11	2	9	
Sweden	2	2		
Switzerland	1	1		
Belgium	4	4		
Chile	1		1	
France	1	1		
U.S.	1	1		

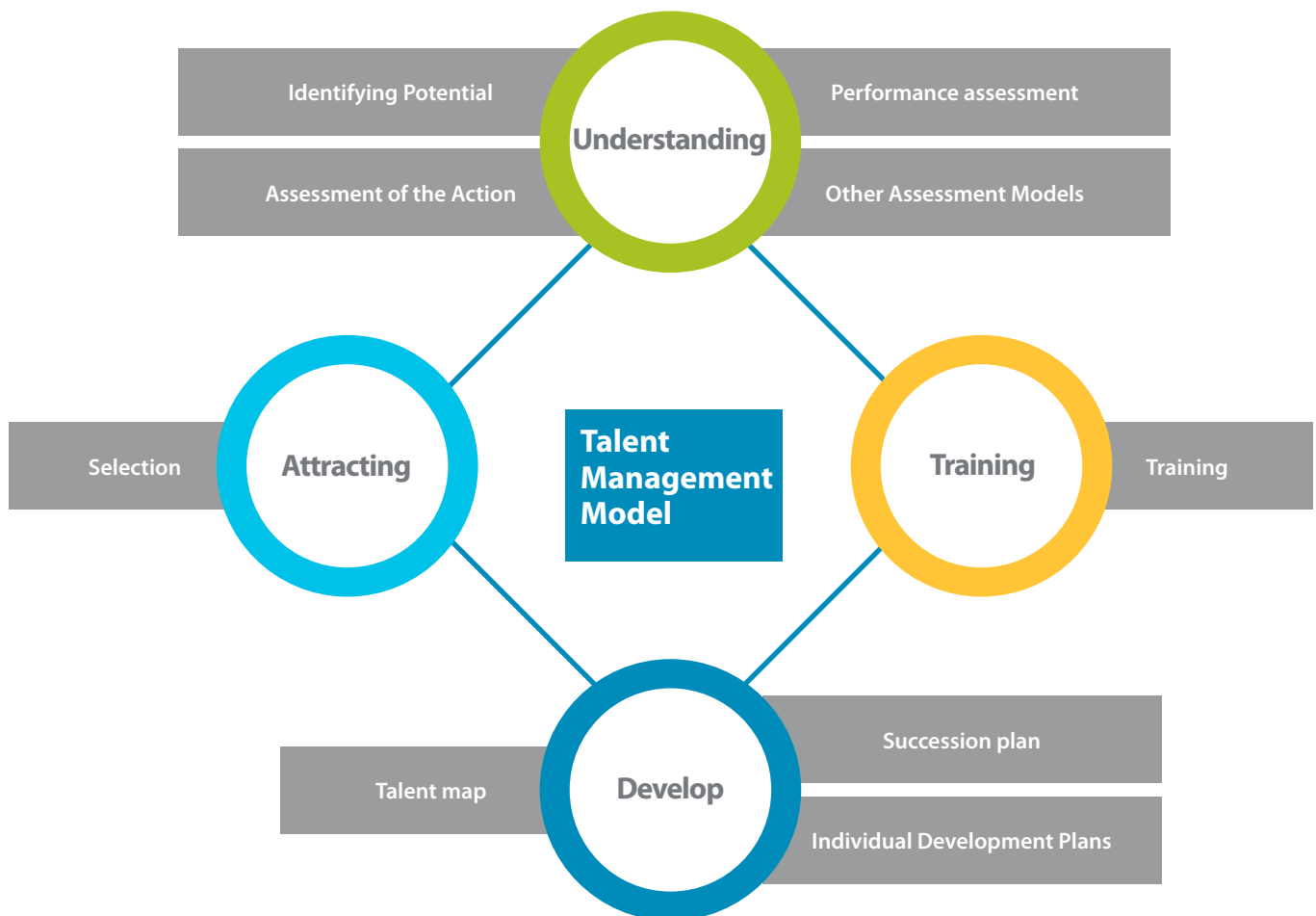
Talent management

Enagás' integrated talent management model aims to boost the achievement of the company's strategic objectives and plans via four principles:

- Attract top talent to Enagás, ensuring the incorporation of highly-qualified people who share Enagás' principles and values.
- Have a good understanding of our in-house talent in order to steer their training and professional development in an effective manner.
- Train our employees continuously, thereby ensuring that they are fully prepared to achieve optimal job performance.
- Develop Enagás' in-house talent by fostering professional career opportunities and mobility within the company.

This model is constantly updated according to the evolution of the company, incorporating new practices that support the achievement of the strategic challenges to be tackled and in a way that is aligned with market trends.

Processes included in the Enagás' talent management model



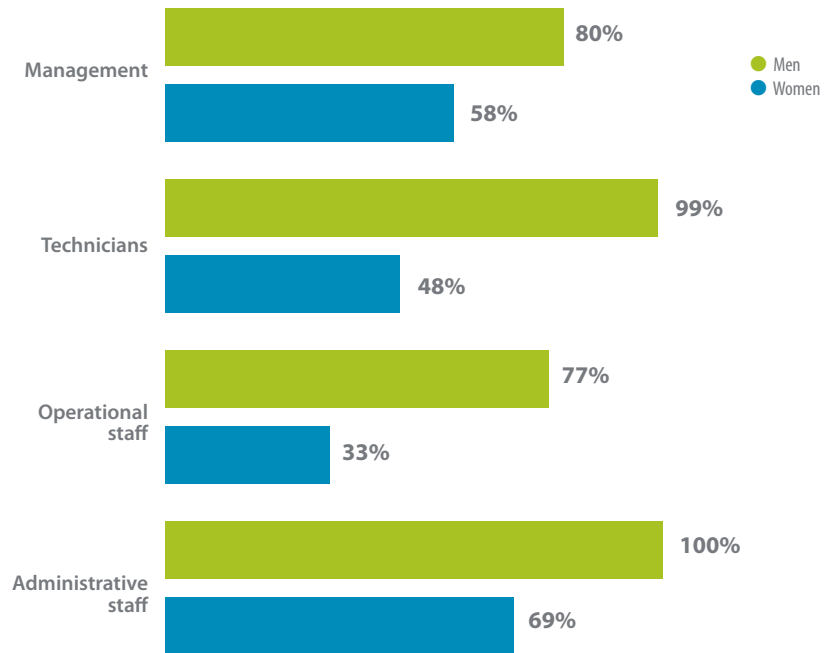
Performance assessment

[GRI 404-3]

Performance assessment is a key element of the Integrated Talent Management Model as it allows the identification of strengths and areas of development of professionals regarding the performance of their work and on which the different development plans are developed. Every year, employees' competencies and skills are assessed and the results are linked to their professional development and increases to their fixed salaries.

The performance assessment process for senior positions includes 180° upward assessments. By using upward assessments, teams assess their superiors and, via the 180° assessment, the Management Committee assesses a part of the management team. This results in a broader idea of the performance of these professionals with a view to creating individualised development plans.

Employees receiving performance assessment by category and gender



Development programmes

With the aim of providing professionals with a way of improving their self-knowledge of skills and competences, Development Centre days are held. The feedback obtained by the participants from these days highlights their strengths and areas of development regarding the corporate competency model. This information, together with other input obtained from other assessment tools, allows individualised development plans to be designed that are adapted to the needs that have been identified.

These plans are approached from a comprehensive perspective that incorporates different methodologies that complement each other.

- Development programs are promoted through on-the-job experience. With this in mind, internal rotation programmes are fostered so that new knowledge can be applied to real situations, and participation in transversal projects or temporary assignments can also be taken advantage of.
- On the other hand, mentoring and/or coaching programmes can also be used. Professionals in the company have received training and are certified in coaching; they are therefore qualified to carry out internal coaching processes.
- Lastly, an extensive programme of training actions are available on the corporate training portal and these are offered both face-to-face as well as via e-learning.

Training

[GRI 404-1, GRI 404-2]

Enagás is committed to training its professionals from when they join the company and throughout their professional career.

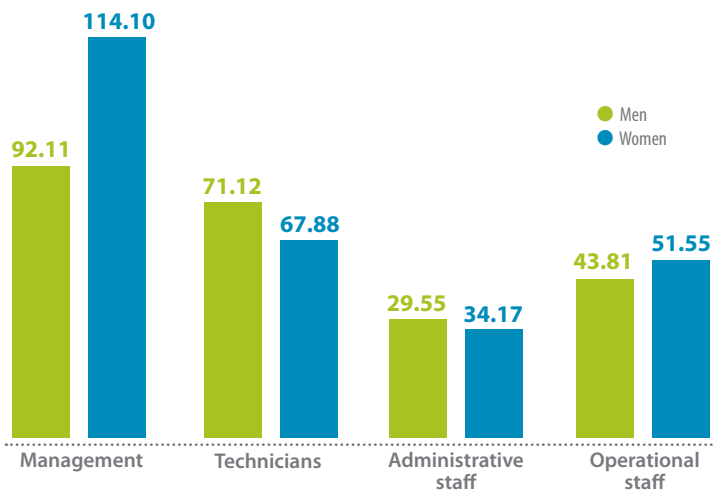
Training begins with Enagás' Welcome Plan which was revised and updated in 2016. It provides information on the culture and values of the company, its business, etc. This plan consists of a block of e-learning on topics such as the Code of Ethics, Risks regarding criminal liability, and Equality, etc. and is mandatory for all professionals. Face-to-face training on Enagás' value chain, given by company executives, offers a global vision of the company' business to its professionals.

In addition, and depending on the type of work carried out by the new employee, a training plan has been designed in areas related to operations, maintenance and administrative management.

The company's face-to-face training is offered at the Enagás Training School where over 10% of the workforce participate as trainers in different programmes (186 trainers in 2016). This face-to-face training in the classroom and in the workplace is complemented by e-learning, mobile training, communities of practice, etc.

Knowledge management is a critical sphere. Therefore, in 2016, a criticality analysis of expert knowledge was initiated in order to prepare a plan to ensure it is passed on in 2017. Workshops have been held in which critical knowledge has been defined and a plan has been designed for the deployment of said knowledge according to the impact it may have on the business and the effort that said transmission may entail.

Training hours per employee



1,404
training courses given

6
employees took part
in coaching/mentoring
programmes

Termination

[GRI 404-2]

Enagás is working to develop transition assistance programmes, aimed at facilitating the employability of employees and the management of career endings resulting from retirement or the termination of employment.

Equal opportunities and diversity

Enagás commits itself, every day, to applying the principle of equal opportunities and non-discrimination. It is a staunch believer of diversity among its professionals through the fostering of a work environment where trust and mutual respect prevail, where integration and the recognition of individual merit are distinctive features of the company.

The company is aware of the wealth that the organisation has due to this confluence of varied knowledge, different skills and experiences and, in order to achieve this commitment, uses its

Comprehensive Diversity Plan as the basis for its strategy which prioritises its focus on the spheres of gender, functional, generational and cultural diversity.

This Plan includes a series of measures whose goal is to ensure the integration of these spheres in the different management areas of the company such as training and professional development, remuneration, health and well-being, communication, customer service and responsible procurement, among others.



Adherence to the Diversity Charter (plurality in enterprise)



Gender diversity

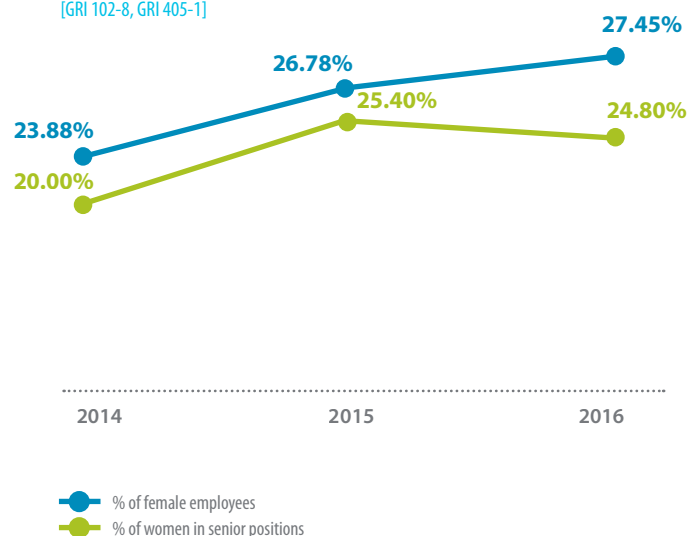
Enagás guarantees equal opportunities for men and women. To this end, it has an Equality Plan that sets out a framework for action to promote effective equality, equity, merit, personal progress, work-life balance, and co-responsibility among all professionals.

With regard to gender diversity, the company has written its first two-year report that tracks the commitments set out in the Agreement signed with the Ministry of Health, Social Services and Equality to increase the presence of women in positions of responsibility; a goal that has been achieved ahead of the conclusion of the Agreement (2014-2017).

In 2016, the company has continued to promote measures aimed at increasing women's participation in positions of responsibility via the Talented Women Development Programme, participation in the Promociona Project, or the mentoring initiative promoted by the Chairman of the company to foster the sharing, development and integration of experiences that showcase the role of women in decision-making positions in different spheres of life.

Evolution of female employees in senior positions

[GRI 102-8, GRI 405-1]



On the other hand, collaboration agreements have been signed with specialised bodies for Enagás' institutional participation in the 3rd Edition of the Race against Gender Violence, the company aims to give visibility to International Women's Day, and to increase the employability of female victims of gender violence.



“Equality at Work” accolade since 2010



Functional Diversity

Enagás considers the integration of functional diversity to be a transversal principle for the company to position itself as a global organisation with regard to its expansion strategy.

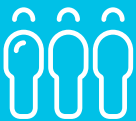
Enagás has launched a series of initiatives aimed at promoting equal treatment and non-discrimination in the field of functional diversity, addressing issues such as job creation, awareness-raising and volunteering.

Among these actions, the launch of online training in the field of functional diversity is aimed at all professionals. Furthermore, collaboration agreements have been signed with specialised bodies,

both to give visibility to International Day of Persons with Disabilities as well as for the implementation of the “Equality for Capabilities” campaign. The aim of this campaign is to offer all its professionals and families an external service of free, personalised advice on matters regarding disabilities.



Bequal seal for the company's commitment to the inclusion of people with disabilities



Generational Diversity

Enagás promotes the favourable development of people management based on: equal opportunities irrespective of age; non-discrimination; respect for generational diversity. It promotes a favourable environment by always respecting current legislation and best business and social practices.

The company has signed the main code of principles of the Generation and Talent Observatory which encourages innovation and promotes active policies of generational diversity based on values and ethics.

In addition, Enagás has joined the Network of Companies that make up this body. It has also actively participated in the study

of intergenerational impact on companies as well as looking at the new challenges that the management of people entails. As part of the study, in 2016 a survey was conducted among Enagás professionals to support research on the Globalisation of “Intergenerational Talent”.



Cultural Diversity

Enagás guarantees the integration into the company of people of different nationalities. It does so without any form of discrimination, thus contributing to the construction of a unique culture of high performance to drive the development of the organisation.

The management of cultural diversity is a relatively new sphere that in recent times has become more relevant as a result of changes in today's society and also due to its clear benefits for the main stakeholders. This sphere thus plays a fundamental role in the high performance culture that the company requires to tackle the main strategic challenges of the present and the future. Enagás is working on the development of a system to measure cultural diversity that will enable it to develop measures in this sphere.



Work-life Balance

[GRI 201-3, GRI 401-2]

For Enagás, work-life balance means reconciling employees' needs and interests with those of the company.

Enagás has been a certified Family-Responsible Company since 2007. In 2016, it increased its score during the recertification process thanks to the 91 reconciliation measures that favour the professional and personal development of every employee; these also help to balance the different dimensions of each person's life and meet their social and health-care needs as well as those of their immediate family.

Some of the relevant measures available to our employees are as follows:

Family

Study support for employees' children.

80% subsidy on special schooling expenses for employees who have children with disabilities.

"Día sin Cole" (No School Day) programme and subsidised urban summer camps for employees' children on workdays throughout the school year.

- Alares Family Support Programme:
- "miAsistente" (myAssistant) personal manager, which takes care of all necessary day-to-day procedures and information.
 - Free handling of diverse procedures in connection to vehicles, maternity and paternity, licences, certificates and reports.
 - Free service for selecting domestic helpers and healthcare personnel.
 - Services for making online wills and living wills, expert legal advice, signings before a notary public and registrations.
 - Specialised treatment and home help service in the event of convalescence, illness or accident.

Health and welfare

Annual medical check-up and flu vaccine campaigns.

90% subsidy on the cost of private medical healthcare insurance for employees and 100% for their children. Medical cover on international trips.

Meal subsidies (canteens, financial aid, restaurant vouchers).

Access to a programme of discounts and exclusive prices on a wide range of online products, services and leisure.

Pension plans for employees with two years' effective or recognised service.

Healthy eating corner at head office.

Help towards sports activities.

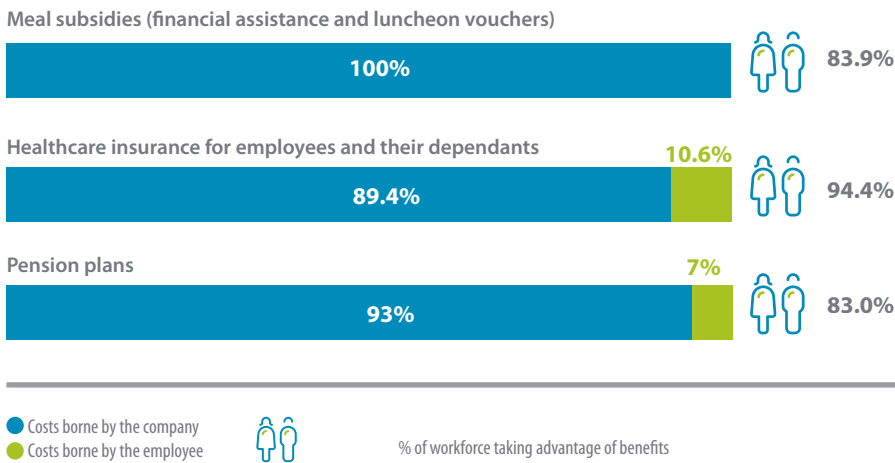
Work flexibility

Flexibility in start times and lunch break.

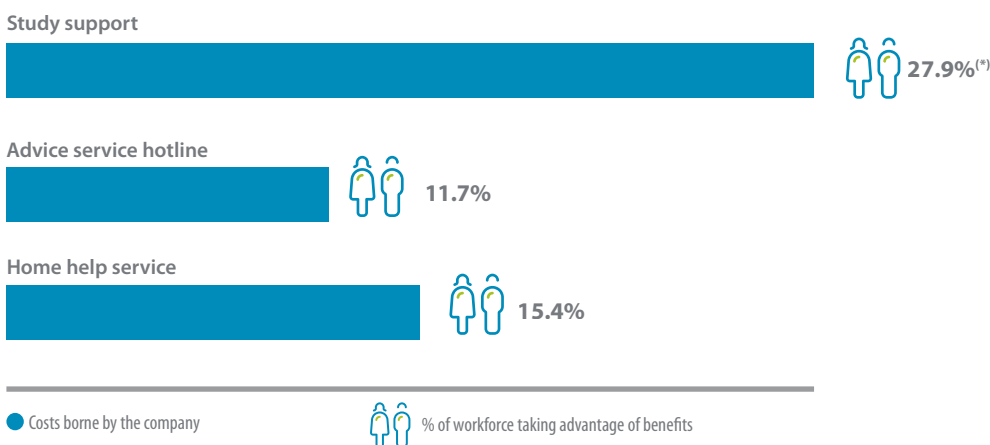
Shorter workday during the summer and every Friday throughout the year.

Division of annual leave into a maximum of 3 periods.

Social benefits related to employees' health and welfare [GRI 201-3, GRI 401-2]



Family-related social benefits most used by employees [GRI 201-3, GRI 401-2]



^(*)Social benefit only available for employees covered by the agreement

efr
 empresa
 Family-Responsible Company,
 Proactive B+ status

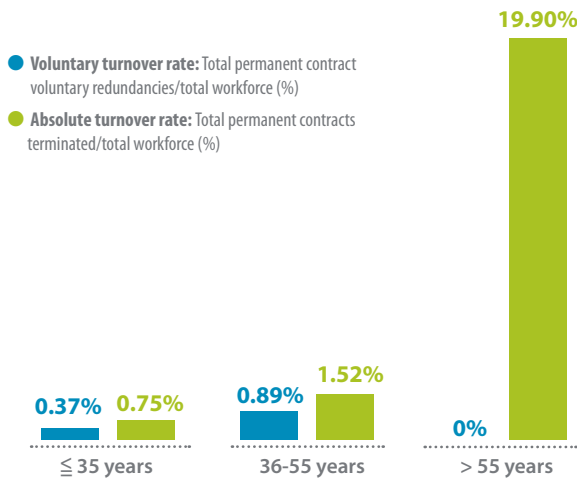
Results and impact on our team

[GRI 103-1]

The commitments undertaken by Enagás in its Human Capital Management Policy, and the measures and actions implemented, translate into high levels of satisfaction and motivation, as reflected by the low turnover rate, the results of the survey on workplace climate and the awards received by the company in this area.

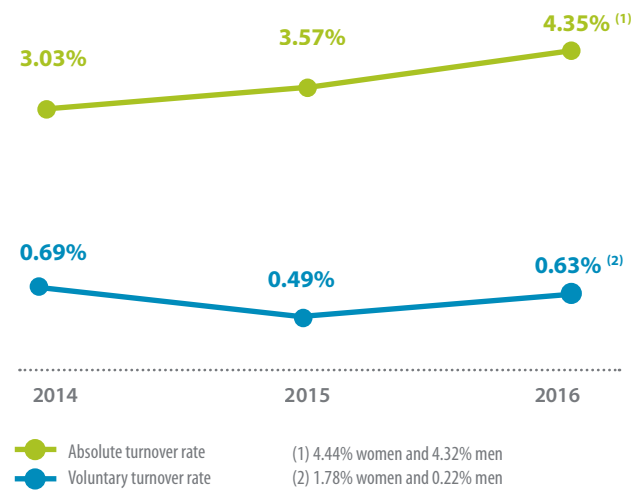
Rate of employee turnover by age group

[GRI 102-8, GRI 401-1]



Evolution of turnover rates

[GRI 102-8, GRI 401-1]



Survey on workplace climate

[GRI 102-21, GRI 103-1]

In 2016 a work-climate survey was carried out that had a 71% response rate (3% more than in 2014) and with a favourable score of 74.85% regarding measures and actions in favour of a positive working environment, compared to 73% from the previous survey. Furthermore, the level of commitment remained at 85%.

As conclusions of the survey, it is important to highlight the professionals' assessment of the information provided by the company regarding the company's activity, as well as the perception by employees on how their work influences the needs of the stakeholders.

Among the areas to be improved were aspects related to compensation and benefits and internal relationships.

Participation increased by **3%** with the level of commitment remaining at **85%**



In 2016, Enagás received the Top Employer certification for the seventh consecutive year





Health and safety

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Conducting workshops on culture and leadership in health and safety.
- Dissemination of the management of change in health and safety processes in new businesses, new activities and markets, and new countries.
- Pilot trial for the map of stakeholders associated with crisis management in Enagás Transporte SAU.
- Collaboration with external crisis management support entities (management of emergency situations for the continuation of the business).
- Analysis of new risks and safety measures associated with socio-cultural change (age, technology, telework, etc.).
- Training in emergency skills and crisis management.
- Actions and campaigns to promote health-related issues (Fundación del Corazón) as well as healthy habits and behaviour (physical exercise and nutrition).

[GRI 103-3]

100%
of activity certified in accordance with OHSAS 18001

4.21
Lost time injury frequency rate (own staff + contractors)

2.89
Rate of absenteeism

13,016 hours
training in health and safety

Lines of progress 2017 [GRI 103-3]

- Procedure for the management of comprehensive change in health and safety processes.
- Road safety certification according to the ISO 39001 standard.
- Implementation of stakeholder maps associated with the management of crisis in the company's gas transmission network facilities.
- Conducting stress management workshops for Enagás professionals.
- Implementation of crisis management agreements with authorities of the different Spanish autonomous regions.
- Certification of the corporate website in accordance with the information security standard (ISO 27001).
- Upgrading of the critical process of the Industrial Control System for certification according to the ISO 27001 Standard.
- Cybersecurity Awareness Plan for the entire company.
- Cybersecurity Training Plan for critical user groups.

0.09
Lost time injury severity rate (own staff + contractors)

Comprehensive safety and security approach

The Enagás approach to comprehensive security is based on integrating the culture of health, safety and security into the setting, people, facilities and reporting processes through the involvement of leaders and the development of health and safety-related behavioural model.

Enagás upholds its position in Spain and internationally in relation to health and safety. In Spain, Enagás takes part in the Health, Safety and Sustainable Development Committee and in its SEDIGAS working group, where common action criteria are established in relation to prevention and safety in the Spanish Gas System. The company also takes part in the Spanish Occupational Hazard Prevention Services Association (AESPLA). This is a forum for sharing knowledge on new lines of action to create a global prevention strategy in the various business sectors. Internationally, the Enagás Group participates on the Marcogaz Sustainability Standing Committee.

Therein, it also participates in the Health and Safety Working Group, which deals with issues related to occupational health and safety of employees in the gas industry.

In the field of information security, Enagás works with the National Centre for the Protection of Critical Infrastructure and the National Institute of Cybersecurity by sharing information and best practices.

In 2016 the company collaborated in the definition of security incident reporting guidelines with the other critical operators as part of the implementation of the law governing the protection of critical infrastructure (LPIC).

The Enagás **comprehensive safety and security approach** is based on the **integration** of the health, safety and security culture into the setting, people, facilities and reporting processes





Occupational Risk Prevention Management

The Enagás Integrated Safety, Health, Environment and Quality System, certified in accordance with OHSAS 18001, contains procedures and rules for identifying and assessing risks, and for reporting incidents/accidents.

Enagás promotes safety throughout its supply chain and requires OHSAS 18001 certification in occupational risks as part of its approval process for suppliers of certain families of products or services. Furthermore, in order to guarantee the coordination of business activities, the company has the Enagás Contractor Access System (SACE) to manage the safety of its suppliers.

This system offers contractors the operating safety procedures applicable to the risks involved in the works they perform.

Enagás has various employee representative bodies where employees exercise their participation and consultation rights. Different committees comprise health and safety officers and management representatives. The Health and Safety Committee⁽¹⁾ meets every three months, while the Group and Enagás Transporte SAU Intercentre Health and Safety Committees meet with a frequency set out in the Collective Bargaining Agreement. [\[GRI 403-1, GRI 403-4\]](#)

On the Intranet there is also a suggestion box available to all Enagás employees.

Awareness

In 2016, a total of 13,016 hours of health and safety training were provided for company employees. [\[GRI 403-2\]](#)

Additionally, in relation to the field of leadership and in the framework of the Guide Project (Health and Safety Culture), practical awareness workshops were conducted and training was provided for executives and managers to enhance leadership and safety-related behaviours. The scope of these actions during the year included the Infrastructure Divisions and it is scheduled to continue throughout the rest of the company.

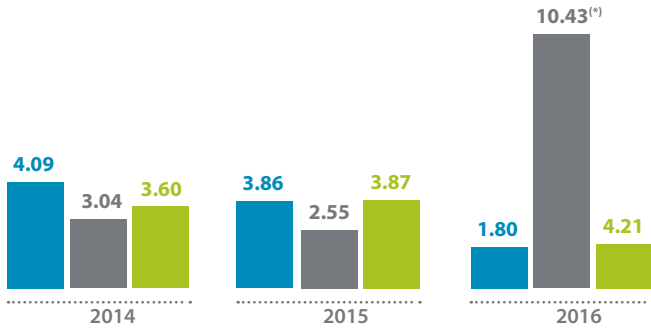
(1) At worksites with fewer than fifty employees at which there is a Prevention Delegate meetings are held on a regular basis.

Health and safety indicators

[GRI 403-2]

Lost time injury frequency rate

Number of accidents causing injuries and sick leave per million hours worked. (Number of accidents leading to sick leave x 10⁶ / number of hours worked).

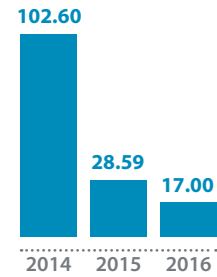


- Lost time injury frequency rate (own staff)
- Lost time injury frequency rate (contractor staff)
- Lost time injury frequency rate (own staff + contractor staff)

(*) With the implementation of the Enagás Contractor Access System (SACE) the reliability of statistics on numbers of hours worked has improved, which explains the difference in the rate compared to previous years (in 2016 there were 9 accidents leading to sick leave, while there were 7 in 2015).

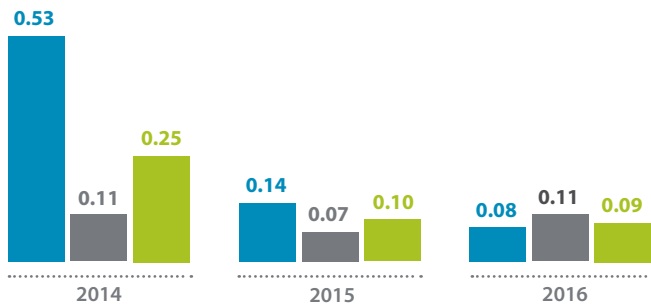
Lost day rate

Total cases with lost days (own staff) / Total hours worked per 200,000



Lost time injury severity rate

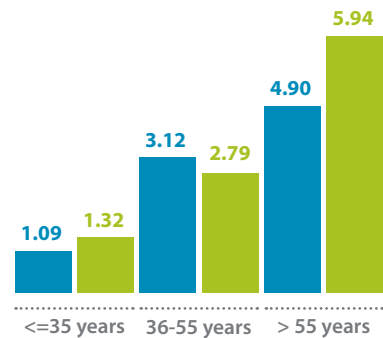
Number of days lost due to accidents per thousand hours worked. (Number of working days lost x 10³ / number of hours worked).



- Lost time injury severity rate (own staff)
- Lost time injury severity rate (contractor staff)
- Lost time injury severity rate (own staff + contractor staff)

Absenteeism rate by gender and age

Hours of absenteeism x 100 / Theoretical hours (workforce of the group x 1,682 hours)



- Women
- Men

Most incidents that occurred in 2016 involved the risk of fire or explosion, both mechanical and physical. The most frequent causes of such incidents include tools and safety equipment and devices.

In relation to cybersecurity incidents, the Enagás IT systems were not subjected to any successful attacks.

Crisis and emergencies management

Enagás has undertaken different actions focused on improving its management of crises and emergencies, among which is training in different aspects of crisis management and the resilience of organisations, and performing emergency drills to which different groups of interest were invited, and to whom training was also given at our facilities.

The company has signed agreements with the Spanish Emergency Services and other groups of interest from the Spanish autonomous regions, and it is a member of RENEM network of the Spanish Military Emergencies Unit, with which it takes part in drills.

Furthermore, work has continued on the preparation of a stakeholder map for managing crises affecting all Enagás Transporte SAU infrastructures of the company so that, in a hypothetical crisis situation, all key people as well as the channels and issues can be identified.

In collaboration with external crisis management support entities, crisis management diagnostics were performed in order to know the action of the different company divisions in potential situations of crisis, and practical sessions were held for the resolution and management of real crises.

Enagás also has different procedures in place to respond to incidents in IT systems, which include roles and responsibilities, steps to take to restore the operability of equipment and systems, recovery times, etc.

Crisis management diagnostics were performed in order to know the action of the different company divisions in potential situations of crisis



Information security

Enagás has a cybersecurity policy approved by the Board of Directors and targeted at efficiently managing the security of information processed by the company's IT systems, as well as the assets involved in these processes. Additionally, as enhanced protection for the critical infrastructures operated by Enagás, a General Policy for the Integral Security of Strategic Infrastructure has been defined in which the processes of physical and logical security have been combined for compliance with the law governing the protection of critical infrastructure (LPIC).

The Enagás security management model is applicable to cybersecurity and is based on international and national regulations, in order to provide, through all means within its reach and in proportion to the

threats detected, the resources required so that the organisation has an environment that is aligned with the established business and cybersecurity targets.

In 2017 Enagás is working on certification if its system of information security management in accordance with ISO 27001.



Healthy Workplace

Enagás has received the Healthy Workplace certification. The Integrated Healthy Management System encompasses aspects and information regarding the physical working environment, psycho-social environment, personal health resources and community participation.

Medical service actions [\[GRI 403-2\]](#)

1,591 medical consultations	176 cases of vaccinations against flu, tetanus, hepatitis A and B, and typhoid	948 medical check-ups
-----------------------------	--	-----------------------

In 2016 the medical service provided assistance by attending to 1,591 consultations. Distinction can be made between the vaccination and prevention campaigns. The vaccination campaign dealt with flu, tetanus, hepatitis A and B, and typhoid (176 vaccinations in 2016), while the prevention campaign dealt with high blood pressure and cardiovascular and prostate-related risks.

Health check-ups are offered to all the company's employees. These are voluntary and in all cases guarantee the employee's informed consent before the examinations, tests and analyses are carried out, as well as the confidentiality of the personal medical data obtained. A total of 948 medical check-ups were performed this year.

Awareness

The company conducted a number of campaigns regarding health, healthy habits, and work-related stress, with a total of 26 actions (publicised via the company's Intranet, Blue and Green magazine, and dissemination by means of the prevention suggestion box, among others). [\[GRI 403-2\]](#)

Enagás has signed an agreement with the Spanish Heart Foundation through which it has joined the Programme of Companies Promoting a Healthy Heart. Through this agreement, the company aims to foster simple habits among its employees that help them to improve their cardiovascular health and, consequently, gain better quality of life.

The company has also joined the Healthy Cities project, an initiative promoted by the health insurer Sanitas, which has the aim of encouraging health and well-being at home and in the workplace.

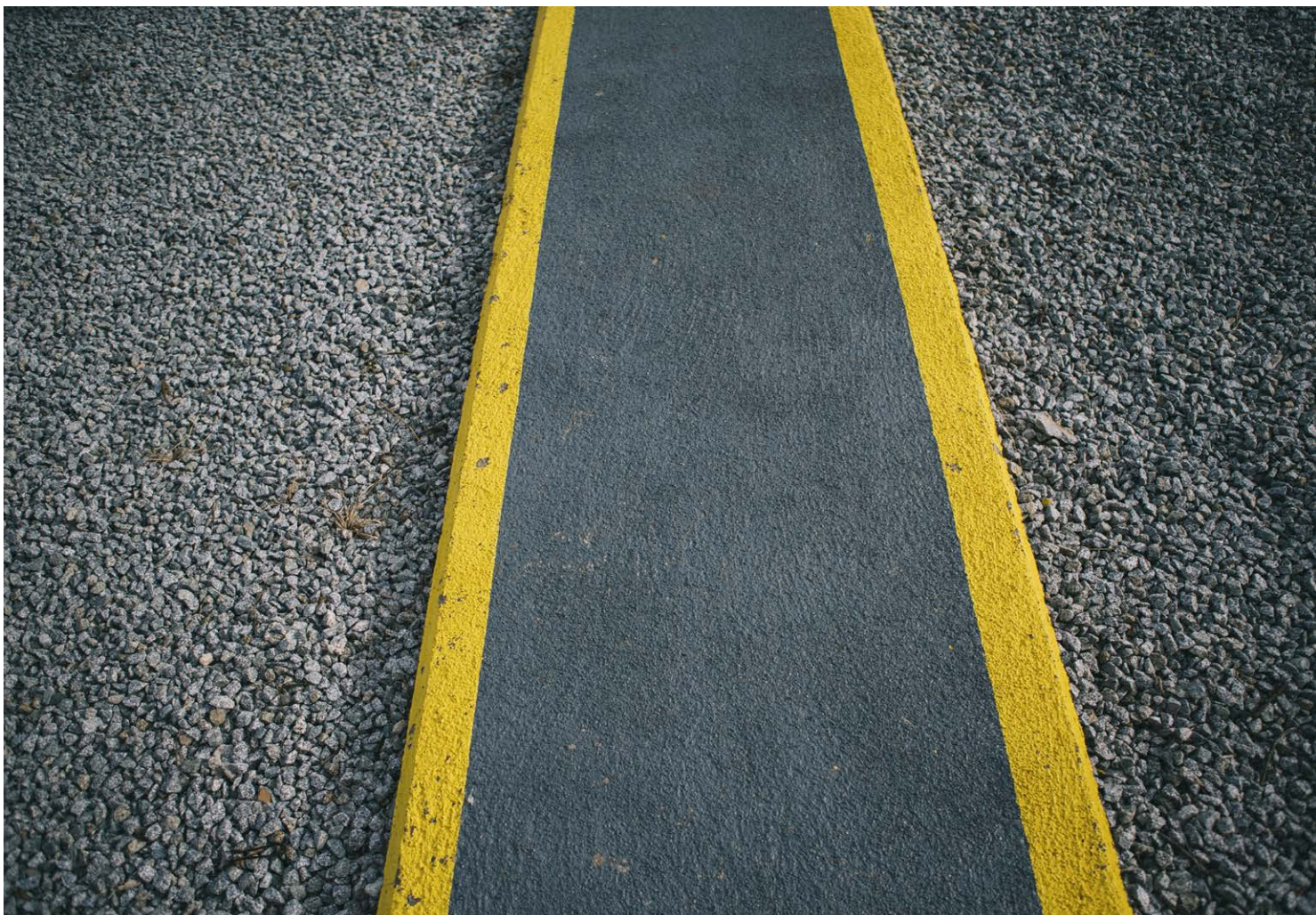
Road safety system

Given the geographically scattered nature of its facilities, dangers on the road are among the most significant work-related risks to which employees are exposed. For this reason, work has been carried out to implement a Road Safety Management System, incorporated into the Integrated Safety, Health, Environment and Quality System and rolled out under the conditions required by the UNE-ISO 39001 standard, in whose framework the Road Safety Guidelines were approved, and a protocol of vehicle use and the Guide to Good Road Safety Practices were defined.

Awareness

Training was provided in 2016 in driving in 'preventive driving' in order to improve driving and develop safe and efficient attitudes by means of:

- The identifications of risks in daily driving.
- The practice of driving techniques that enable unsafe or risky situations, and therefore accidents, to be avoided.
- The development of vehicle maintenance routines.
- The individual commitment from participants to improve their driving skills.





Community outreach

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Development of volunteering initiatives in line with the company's values, in social, environmental, cultural, sporting, leisure and free time aspects.
- Donation of €100,000 to Cáritas to help cover the basic needs of the most disadvantaged groups.
- Participation in the 8th edition of the Give and Gain Day of the corporate volunteering initiative, an initiative promoted by Forética.
- Participation in the Company Solidarity Day, an initiative promoted by the NGO Cooperación Internacional.
- Agreement with the food bank of the Red Cross to collaborate in the campaign to gather toys and items for children from all over Spain.

[GRI 103-3]

0.5%
social action investment with respect to profit

1,475
hours of corporate volunteering

Lines of progress 2017 [GRI 103-3]

- Launch of the solidarity cent campaign as a driver for innovative management in the Enagás corporate volunteer programme.
- Strengthen the commitments to raise awareness about gender violence gained by training aimed at female victims of gender violence.
- Initiatives aimed at the employability of vulnerable groups.
- Maintain voluntary initiatives regarding health-care (children, the elderly and people with disabilities).
- Encouraging the value of teamwork through team cohesion initiatives, new areas.
- Maintain our presence in initiatives such as Give and Gain Day (Forética) and Company Solidarity Day.

223
employees took part in corporate volunteering initiatives

15
corporate volunteering initiatives

Impacts derived from our activities

Enagás, through its activities in developing, operating and maintaining gas infrastructures, reinforces and guarantees the security of the energy supply, and fosters the use of natural gas instead of other, more polluting fossil fuels, such as oil or coal.

What is more, natural gas is of great importance to improving competitiveness as it allows efficient industrial technologies to be introduced that improve both the intensity of energy use and the industry's competitiveness, thereby creating direct and indirect jobs.




Reduction of the dependence on more polluting fossil fuels



Industrialisation/ Greater industrial competitiveness



Generation of direct and indirect employment



Strengthening the security of supply

In both pipeline construction and pipeline routing surveys, Enagás takes great care over measures to minimise the impact on local flora and fauna. As far as possible, the company also avoids laying pipelines through private land, though in the case of Spain, where there is a large number of private properties per kilometre of pipeline (15 on average), it is essential to apply a regulated procedure that affords transparency in the undertaking of infrastructures and equality before the law for all Spanish citizens.

This procedure involves public information and consultation with all affected parties. Compensation is established through a scale of standard rates based on the nature of the property and crops. Any persons subject to forced expropriation who do not agree with the compensation offered may appeal, at no cost, to the regional expropriation court, which will determine the fair price payable. [\[GRI 413-2, GRI OG10\]](#)

Social investment

[GRI 413-1]

The objective of Enagás' social investment is to contribute to the social and economic development of local communities, giving priority to those regions in which we operate, through sustainable social action models.

Through dialogue and collaboration with stakeholders, we maximised the positive social impact of our initiatives, whether through volunteering, sponsorships, patronage or donations.



Each year the company prepares the Social Action Plan, which includes details of all the planned initiatives, containing sufficient information to enable the impact of the project to be monitored and subsequently assessed. The procedure for managing sponsorships, patronage and donations establishes the criteria for the reception, approval and follow-up of collaboration requests (financial contributions).

Enagás' Corporate Volunteering Programme "En nuestras manos" (In Our Hands)

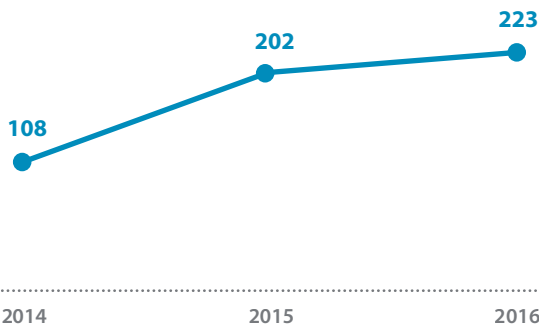
Enagás employees participate in the company's corporate volunteering programme "En nuestras manos" (In Our Hands), giving up their time and bringing their skills and talent.

The company also has a Volunteer Portal, a platform that strengthens and extends the existing programme. It encompasses special days organised by the company as well as over 1,200 national and international collaboration opportunities, both face-to-face and virtual, put forward by NGOs.

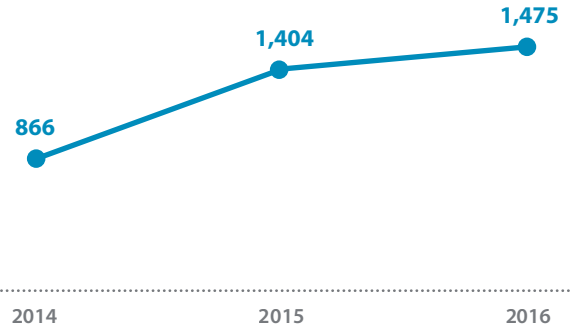
In 2016, the corporate volunteering programme also included specific initiatives aimed at enhancing the employability of people at risk of social exclusion, along with others aimed at boosting team cohesion at Enagás. Furthermore, we addressed issues relating to environmental protection, health, social welfare, economic development, education and youth, all of which attracted a high level of involvement on the part of our employees.

In 2016, we carried out 15 initiatives, in which 223 employees dedicated a total of 1,475 working hours. This required an investment of €162,739 by the company to cover programme management costs.

Employees who took part in corporate volunteering initiatives



Hours devoted to volunteering initiatives



Sponsorship, patronage and donations

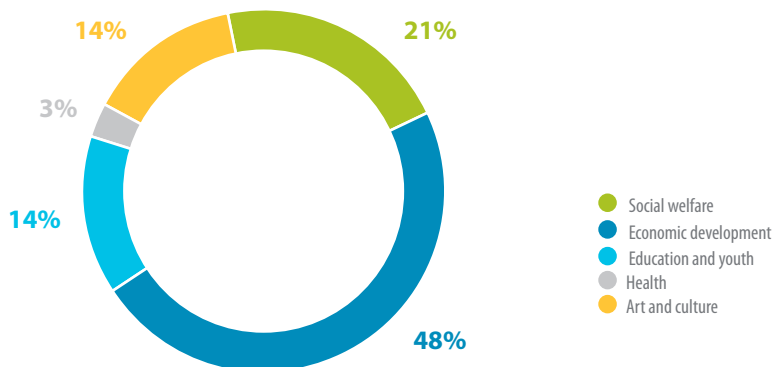
Enagás collaborates in social projects through sponsorships (institutional activities), patronage (social and cultural activities and initiatives) and donations. [\[GRI 413-1\]](#)

In 2016 financial contributions amounting to €2M were distributed as follows:

Of the donations carried out in 2016, our collaboration with Cáritas, for the fifth year in a row, should be highlighted. This donation is part of Enagás' social action policy, which aims to collaborate with projects that make a difference to people's welfare, particularly that of the most disadvantaged.

Furthermore, we made in-kind donations of all IT equipment, mobile phones and discontinued promotional material estimated at a value of €30,000.

Areas of contribution





Environmental management

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Development of corporate directives regarding biodiversity.
- Extension of the ISO14001 certification to head office (Enagás, S.A. and Enagás GTS).
- Implementation of a system for used oil generated at our infrastructures
- Analysis of the extension and the EMAS certification for the Serrablo and Yela storage facilities.

[GRI 103-3]

100%
of activity certified in
accordance with ISO 14001

126,181 m³
of water consumption

[GRI 303-1]

Lines of progress 2017 [GRI 103-3]

- Adherence to the Biodiversity Pact.
- EMAS verification of the Serrablo and Yela storage facilities.
- Creation of a general plan on noise reduction, customised for each facility.
- Creation of a general plan to reduce the consumption of water, customised for each facility.
- Creation and execution of a plan to disseminate information regarding the environment.
- Creation, approval and publication of a Consumption Control Procedure for every infrastructure together with technical control instructions for each facility.
- Dissemination and segregation campaign regarding residue at the company's head office.

826 t of NO_x

3,981 t
of waste generated

14 t de SO_x

39 t of CO

Environmental management

Enagás undertakes its environmental commitments (as outlined in the Health and Safety, Environment and Quality Policy) via its Environmental Management System. In 2016 the scope of the certification system according to ISO 14001 was extended to the head office, meaning that 100% of Enagás' activity is ISO 14001 certified. Likewise, analysis for the EMAS certification of the Serrablo and Yela storage facilities has been presented, and they would join the regasification plants in Huelva and Barcelona that already have this certification.



Impact studies and assessment of environmental issues [GRI 304-1]

Enagás studies the environmental impact of all its construction, operation and maintenance activities by means of environmental assessments. What is more, for infrastructure construction projects, and based on their type and on applicable regulations, environmental impact studies are carried out which include both the impacts themselves and the measures taken to mitigate them, while also establishing stakeholder consultation procedures.

On-site environmental audits carried out on **5 facilities**

Channels for dialogue with stakeholders



Environmental mailbox



Corporate website



Informative sessions



Consultation processes

Environmental monitoring is carried out through environmental audits of works, environmental surveillance, assessments of legal compliance in all installations and monitoring of environmental indicators and improvement plans.

Environmental monitoring carried out on **517 km** of pipeline

Biodiversity protection

During the development of infrastructures, Enagás carries out activities aimed at protecting and preserving flora and fauna, thereby mitigating any impact on biodiversity. Such activities start with on-site reconnaissance before any work commences in order to check for the presence/absence of species along the route.

In addition, after the construction work, Enagás returns the affected areas to the way they were by reforesting the entire area.

In 2016, a number of construction projects were carried out using the corridors of other existing infrastructures and existing accesses to the work area were also used, thus reducing the damage to soil and waters.

In addition, narrow work tracks were used for the Morelos gas pipeline construction project and 270,263 m² were recovered by means of soil loosening, topsoil replacement and reconstruction of boundaries.

In addition, narrow work tracks and variable routes were used for the Euskadour Compression Station, thus reducing any effect on the vegetation and soil.

Enagás is working on the conceptual study for interconnection of the South Transit East Pyrenees project as part of the Project of Common Interest on the "Interconnection point between Spain and France at Le Perthus, Eastern Spain-France Axis (now known as MidCat)". This study

is being carried out in order to find the best corridors, from an environmental standpoint, to develop during the subsequent phases of the project, as well as to indicate the location of the interconnection point on the border between France and Spain. This is done taking into account the environmental constraints and restrictions outlined in European, Spanish and French regulations as well as also the technical limitations of the construction of the gas pipeline.

[GRI 304-2, GRI 304-3, GRI 064]

Water management

At Enagás, we do not consume water in our production processes. The company has thus not stated significant risks linked to water shortages in the yearly assessments that are conducted in line with the company's risk management model. In addition, environmental risk assessments are conducted at each of our infrastructures as water is considered to be one of the most important environmental aspects within the environmental management system (consumption and compliance with legal limits of water intake).

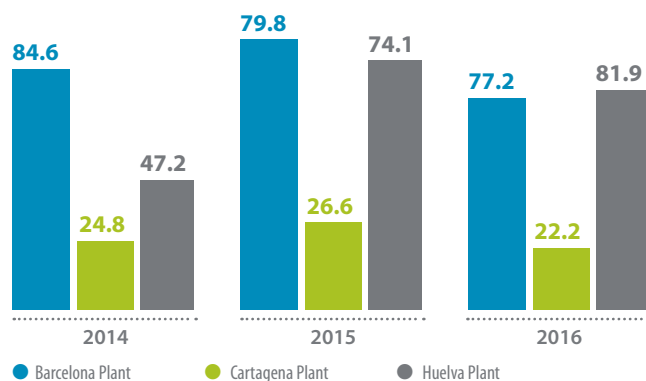
At Enagás the seawater intake is used for the floodwater or seawater vaporisers at the regasification plants. This water is returned under the same conditions as those in which it was withdrawn (the temperature decrease is minimal and does not affect the marine ecosystem) and is directly proportional to the quantity of regasified gas. [GRI 303-2]

Seawater withdrawn and returned to its source (hm³) [GRI 303-2]

Barcelona Plant limit: 490.5

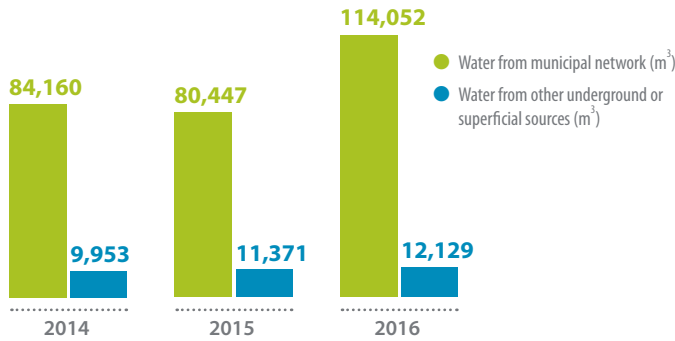
Cartagena Plant limit: 297.8

Huelva Plant limit: 170.0



Consumption of water by source (m³)

[GRI 303-1]



The company's consumption of water is due to uses such as sanitation, irrigation and fire-fighting equipment. The company therefore has various measures aimed at reducing water consumption such as better techniques for irrigation and sanitation.

In 2016 there was an increase in water consumption due to a leak in a pipe at the Barcelona regasification plant.

In 2016, Enagás reported on its performance, risks and opportunities in the area of water through **its participation in CPD Water**



The wastewater discharged by Enagás is comparable to urban waste. In 2016, we discharged 9,131 m³ of water into the public mains and 9,106 m³ of water into septic tanks or the sea. [GRI 306-1]

Spillage and waste control

With regards to spillage, the company carries out preventive measures such as dual-wall underground tanks, which are inspected regularly to ensure that they are watertight, and the placement of containment troughs and trays.

Accidental spillage in 2016 was: [GRI 306-3]

50.3 litres of gasoil

499.25 litres of oils

2 litres of battery electrolyte solution

15 litres of water with methanol

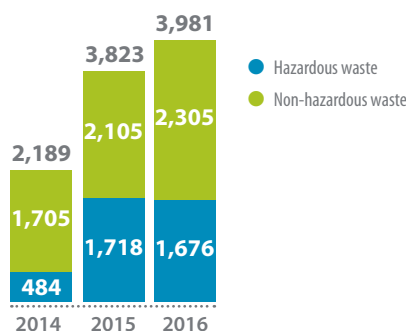
Corrective actions include damage assessment, land decontamination and replenishment, removal and treatment by the waste manager and preparation of the incident report.

Waste generated and managed (t)

Enagás has implemented a system of segregation, management, storage and delivery to authorised managers of hazardous and non-hazardous waste.

Enagás mainly generates waste through facility and equipment maintenance. The company's objective is to recycle and recover this waste wherever possible.

[GRI 306-2]



Enagás has recycled **61% of the residue generated**

Noise control

Noise at Enagás' facilities is produced by the operation of regulators, turbines, vaporizers and pumps.

Every facility carries out an environmental noise measurement report around its perimeter, in line with the limits set out in municipal by-laws or legislation that is in force.

Enagás conducts annual noise measurement campaigns at its facilities in order to minimise noise pollution. In 2016, a total of 47 noise measurements were conducted at the regasification plants, 6 compression stations and at 38 sites. In addition, actions to minimise noise levels

at regulation stations were conducted and silencers were installed at sites 15.02 Tortosa (Tarragona) and 15.06A Cabanes (Castellón). Different technical alternatives put forward by specialised companies have been studied for the regasification plant in Cartagena.

Atmospheric emission control

The main non-GHG emissions at our facilities are CO, SO_x and NO_x. There are also emissions of less significant gases. Emissions are produced in the process of natural gas combustion by different plant equipment.

The energy efficiency measures and targets for reducing CO₂ emissions (see the chapter on 'Climate Change and Energy Efficiency') are directly related to the reduction of these atmospheric emissions.

[GRI 305-7]

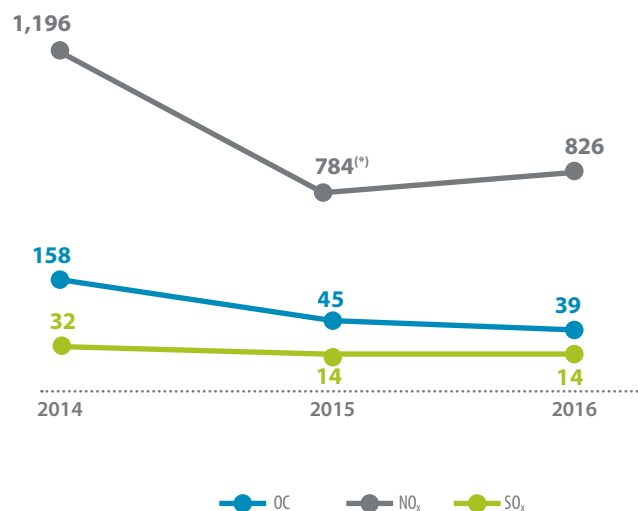
Enagás carries out regulatory and voluntary atmospheric checks (self-checks) at all its combustion sites.

These control actions are as follows:

- Legalisation of the point of emission and inclusion in the Logbook.
- Initial regulatory inspection (conducted by an authorised inspection organisation (AIO)).
- Annual TESTO check (carried out with their own resources (Analysing team and Enagás employees)).
- Periodic regulatory inspections.

Both the regulatory inspections and the internal TESTO checks are planned annually for every facility as part of the Atmospheric Monitoring Programme.

GHG emissions (t)



(*) This figure has been modified from that included in the 2015 Annual Report due to the detection of an error.



Climate change and energy efficiency

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Setting a target for reducing CO₂ emissions by 30% in 2016–2018 compared to the previous three years, included in the multi-annual remuneration for all employees.
- Setting company objectives for 2016 linked to energy use (natural gas and electricity), power generation from own clean resources and reduction of fugitive emissions.
- Implementation of the 2016 Enagás Energy Efficiency and Emissions Reduction Plan with 8 studies and 30 energy-saving measures identified.
- Recognition by CDP of leadership in climate change action (joining the CDP Climate A List).
- Registration with the Carbon Footprint, Compensation and Carbon Dioxide Absorption Project Registry of the Spanish Ministry of Agriculture and Fisheries, Food and Environment, with the obtention of 'calculation' status for 2013, 2014 and 2015.
- Membership of the Action Exchange Initiative of the CDP Supply Chain programme for the promotion of energy efficiency and greenhouse gas emissions reduction among our suppliers.
- Obtention of Green Fleet certification (Master level) awarded by AEGFA and IDAE.

[GRI 103-3]

5%

Carbon Footprint reduction (scopes 1 and 2) compared to 2015

290,549 t CO₂e
CO₂ emissions

263,540 t CO₂e
Scope 1 emissions

27,010 t CO₂e
Scope 2 emissions

Lines of progress 2017 [GRI 103-3]

- Approval of corporate directives regarding climate change and energy efficiency.
- Energy management system certification according to the ISO 50001 standard.
- Implementation of the 2017 Enagás Energy Efficiency and Emissions Reduction Plan.
- Voluntary carbon offsetting.

464 GWh

energy savings in the use of natural gas

85

suppliers invited to take part in the CDP Supply Chain programme

Commitment to action on climate change

[GRI 103-1]

Our approach to climate change management is 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.

At Enagás we have taken on a public commitment by joining the WE MEAN BUSINESS initiative to leverage the opportunities for economic growth, employment and prosperity offered by the transition towards a low-carbon economy.

Our commitments include:

- Reporting information on climate change through our Carbon Footprint verified in accordance with the ISO 14064 standard, the Annual Report and the response to CDP. What is more, we incorporate specific information on climate change in our communications to investors.

- Setting a carbon price for the 2015-2020 period, in order to fully incorporate environmental externalities into our business and investment decisions.

- The promotion of policies towards a low-carbon economy by taking part in different platforms, associations and forums.

In addition, Enagás has joined the Action Exchange Initiative of the CDP Supply Chain Programme for the promotion of energy efficiency and greenhouse gas emissions reduction among our suppliers.



In 2016 Enagás was recognised by CDP as **world leader** for action against climate change. The company was included on the **Climate A List** of 193 companies with the most outstanding performance against climate change



Promotion of policies towards a low-carbon economy

[GRI 103-1]

Enagás is committed to 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.

Participation in different platforms, associations and forums

Enagás is involved in different platforms, associations or forums such as the International Gas Union, Marcogaz, GASNAM, (Iberian Association For Gas-Powered Mobility), the Spanish CO₂ Platform or the GECV (Spanish Group for Green Growth), in order to promote policies that favour the replacing of highly polluting fossil fuels by natural gas for the transformation towards a low-carbon economy. Enagás also takes part in international forums such as the International Energy Forum, Atlantic Energy Forum, FUNSEAM (Foundation for Energy and Environmental Sustainability), Oxford Institute for Energy Studies, etc., and is a founding member of GIE (Gas Infrastructure Europe) and ENTSO-G (European Network of TSOs - Gas) within the framework of the European Union, in order to strengthen this position.

Promoting the use of natural gas as a fuel

Enagás is coordinating the CORE LNGas hive project for the development of infrastructures in Spain and Portugal that support the use of Liquefied Natural Gas (LNG) as an alternative fuel in sea (bunkering), rail and road transport. This initiative enjoyed collaboration from

universities, port authorities, energy companies, etc. and is aligned with the implementation of Directive 2014/94 on the development of alternative fuels and Directive 2012/33 on reducing the sulphur content of fuel for maritime use.

Furthermore, the company is promoting the use of liquefied natural gas as an alternative to petroleum for heavy vehicles.

Promoting the use of biogas as a fuel

Enagás is also promoting the use of biogas both in Spain and beyond. This fuel is complementary to natural gas in certain applications, such as industrial usage and the transport sector. Connecting biogas supply points to the gas network is both environmentally and economically beneficial.

Enagás, through its stake in the Swedish TSO Swedegas, promotes the development of biogas in Sweden, which is a world leader in biogas production. Through Swedegas, Enagás is working with various biogas producers to connect their facilities to the gas transmission network, thereby providing them with an environmentally optimal way to transmit the product to the end user.

Enagás is committed to the use of gas as the **least polluting** fossil fuel, and therefore key to the power generation mix for meeting **emission reduction targets**

Carbon Footprint

[GRI 103-1]

Enagás monitors its emissions, energy saving targets and the company's emissions reductions on a monthly basis. Furthermore, each year the company verifies its Carbon Footprint in accordance with the ISO 14064 standard, with a reasonable level of assurance.

In 2016 Enagás registered its carbon footprint in the Carbon Footprint, Compensation and Carbon Dioxide Absorption Project Registry of the Spanish Ministry of Agriculture and Fisheries, Food and Environment, with obtention of 'calculation' status for 2013, 2014 and 2015.

Evolution of scope 1 and 2 emissions

Enagás reduced its carbon footprint by 5% compared to 2015. This reduction was mainly due to the reduction in emissions at regasification plants, partially the result of the major energy efficiency and emissions reduction efforts made by the company at these facilities in recent years. The implementation of technical and operational measures have allowed the boil-off gas produced during normal plant operations and at lower production levels to be recovered, which would otherwise have been dealt with by flaring. The further reduction in tanker loading activities has led to the reduction of gas flaring during these types of operations

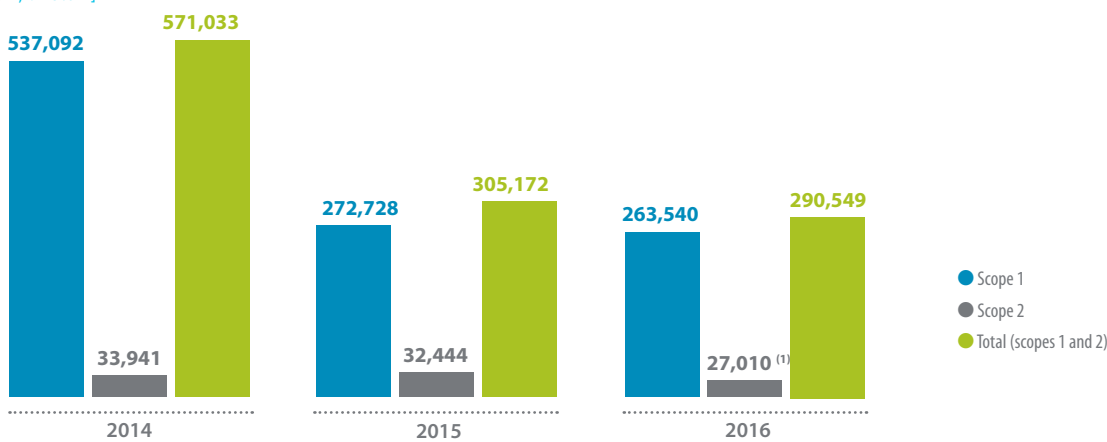
to zero. As a consequence, emissions from natural gas flaring at regasification plants were reduced by 83% in 2016 compared to the previous year.

However, the move to a market-based methodology for calculating emissions produced by electricity consumption has allowed the calculation of these emissions to be adjusted with the use of emission factors from distributors instead of the factor from the national energy mix.

Enagás has reduced **its carbon footprint by 5%** compared with 2015

Evolution of Scope 1 and 2 emissions (tCO₂e)

[GRI 305-1, GRI 305-2]



(1) The reduction in electricity consumption was mainly due to a shift in methodology, encouraged by leading climate change entities, which consisted of a change in approach from location-based accounting system, whose emission factor took into account the national energy mix, to a market-based one which takes into account the specific emission factors of its shippers.

Scope 1 and 2 emissions by source type and gas type

Approximately 67% of the Enagás carbon footprint corresponds to emissions of CO₂, mainly produced during the combustion of natural gas in stationary sources, i.e. turbocompressors, boilers, flares, etc.

Emissions of CH₄, which account for approximately 32% of this footprint, are mainly due to fugitive emissions (22%) and natural gas venting (10%). Venting may occur as a result of operation

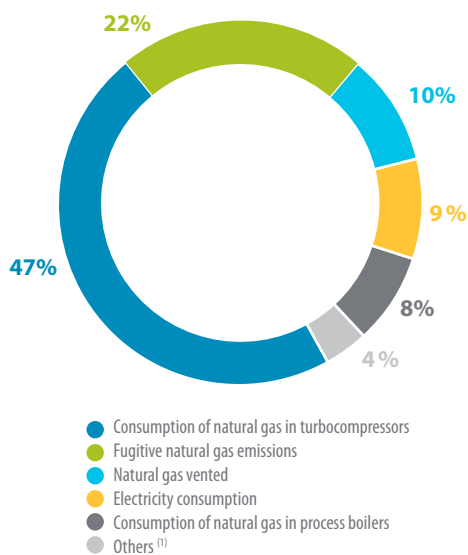
and maintenance, operating safety, pneumatic valves and analysis equipment (chromatographs, etc.)

Refrigerant gases (HFCs) are practically insignificant alongside the other two gases.

Most of the Enagás greenhouse gas emissions in 2016 originated from natural gas use in turbocompressors.

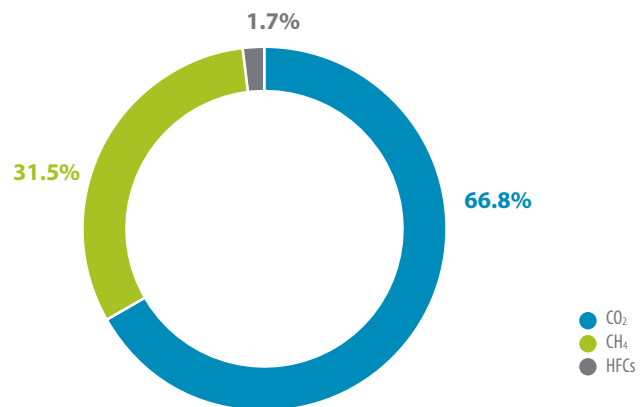
Scope 1 and 2 emissions by source type

[GRI 305-1, GRI 305-2]



Scope 1 and 2 emissions by gas type (tCO₂e/year)

[GRI 305-6]



(1) Including HFCs, flares, vehicle fleet, vaporisers, HVAC and natural gas-powered standby generators, and diesel-powered generators and fire protection pumps.

Emission intensity (scopes 1 and 2) [GRI 305-4]

The emission intensity indicators improved with regard to the previous year owing to the greater effect that the 5% Carbon Footprint reduction compared to the indicators of turnover (1% increase), employee numbers (constant in 2016) and gas output (2% reduction).

	2014	2015	2016
Intensity of emissions per employee (tCO ₂ e/employee)	473	228	217
Intensity of emissions by turnover (CO ₂ e/€m)	1,405	739	697
Intensity of emissions by gas output (tCO ₂ e/GWh)	1.44	0.82	0.79

Emission rights trading strategy

48% of emissions included in Carbon Footprint scopes 1 and 2 are included in the EU Emissions Trading System (EU ETS).

The Enagás emission rights trading strategy approved by the Board of Directors identified the need to purchase approximately 100,000 rights until 2020.

[GRI 201-2]

The Board of Directors approved and revised **the Enagás emissions trading strategy**



Scope 3 emissions [GRI 305-3]

In 2016, and for the third year running, we took part in the CDP Supply Chain initiative, inviting our main suppliers to report on their climate change targets and performance. As in the previous years, the information obtained was included in our inventory of scope 3 emissions. [GRI 308-2]

Each year Enagás verifies its Carbon Footprint in accordance with the **ISO 14064 standard**

Scope 3

1. Acquisition of goods and services	Emissions derived from the extraction, fabrication and transport of acquired goods and services.	127 tCO ₂ e
	Emissions arising from the use of paper and office materials.	25 tCO ₂ e
2. Capital Goods	Emissions derived from the extraction, fabrication and transport of equipment acquired for production.	93 tCO ₂ e
3. Activities related to energy production (not included in scopes 1 or 2)	Emissions due to the extraction, production and transport of fuel consumed directly by Enagás: natural gas.	21 tCO ₂ e
4. Upstream transmission and distribution	Emissions generated by the consumption of fuels derived from helicopter and ship transport services (from the plant to the platform of the Gaviota underground storage facility).	1,427 tCO ₂ e
5. Waste generated during operation	Emissions derived from the transport, management and treatment of waste generated at Enagás facilities.	89 tCO ₂ e
6. Work-related journeys	Emissions derived from work-related journeys by Enagás employees (aeroplane, train and taxi).	2,060 tCO ₂ e
7. Journeys to and from work by employees	Emissions derived from journeys to and from work by Enagás employees.	1,002 tCO ₂ e
15. Investments	Emissions, excluded Scopes 1 and 2, from those companies in which Enagás has a stake but not financial control. In this case, the verified 2015 emissions were included from these companies: Bahía de Bizkaia Gas, S.L, Compañía Operadora de Gas del Amazonas, S.A.C. (COGA), GNL Quintero S.A., Sagunto S.A. Regasification Plant (Saggas), Terminal de LNG de Altamira, S. de R.L. de C.V	106,173 tCO ₂ e
SCOPE 3 TOTAL		111,015 tCO₂e

Emission reduction targets

For the last 5 years, Enagás has set annual energy intensity targets at each of its facilities, which it also links to employees' variable remuneration.

In addition, the company has set long-term goals, such as cutting emissions by 30% over the 2016–2018 period compared to 2013–2015, which has been included in long-term variable remuneration.

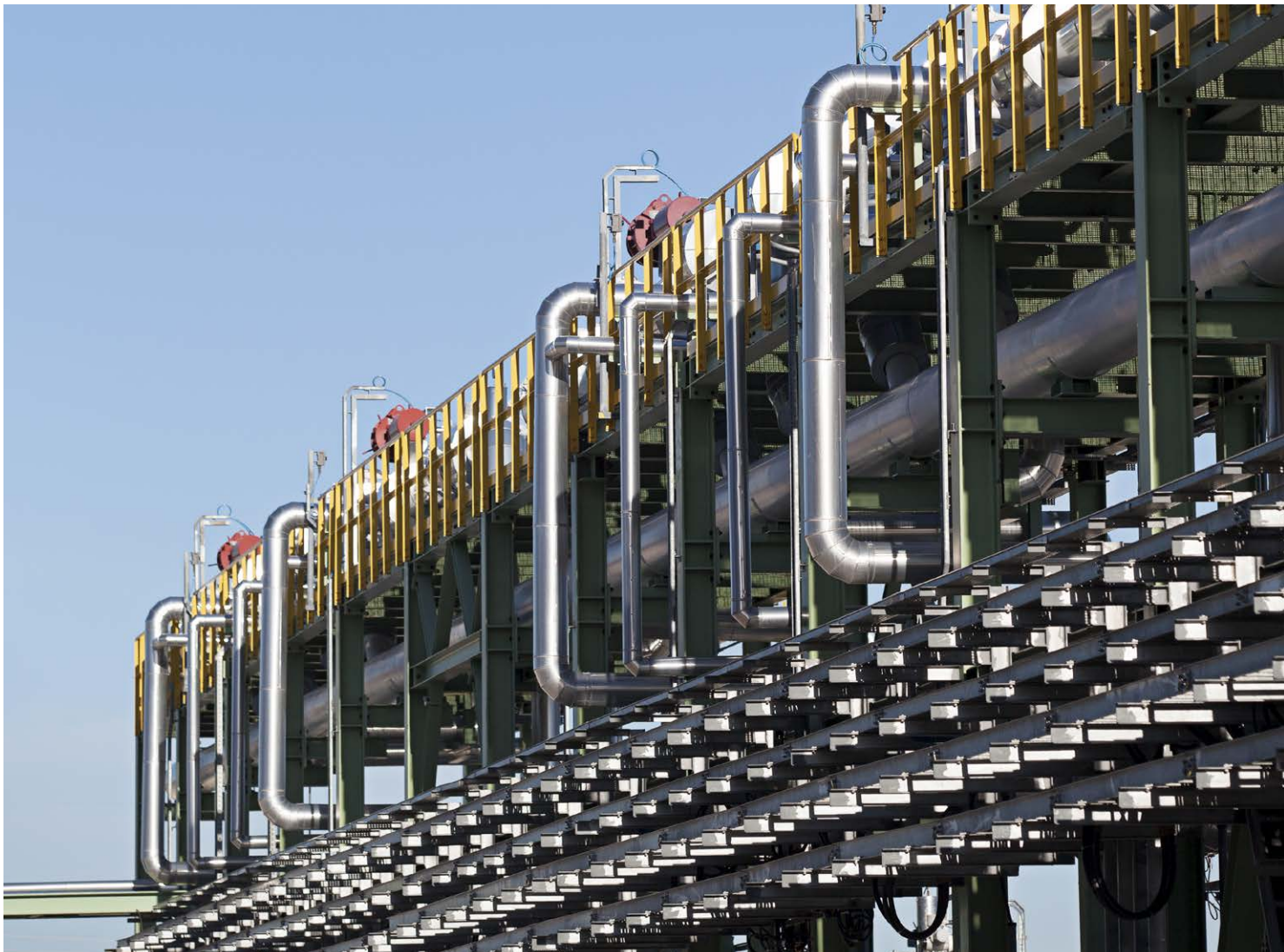
The reduction in the 2016 Carbon Footprint is an important advance towards this goal, which is already at 38% of being met.

The company has also set a long-term target for the self-generation of 35% of its own electrical energy requirements from clean sources by 2020.

Enagás has also made progress in this respect. It has incorporated a clause referring to guarantees of origin in its contracts, which contains a provision to deliver 25% of the electricity consumed by its regasification plants in Barcelona, Cartagena and Huelva, and 100% of that used by its R&D laboratory in Zaragoza with a Guarantee of Origin (GO). This increases

the amount of electricity procured from the grid from renewable sources and with a zero emission factor, which in 2016 accounted for 20% of the electricity for consumption sourced from the Spanish power grid.

Self-generated electricity from renewable, clean or efficient sources in 2016 accounted for 12.5% of total consumption (20 GWh), with part of this electricity delivered to the national grid and the other part used at Enagás facilities. Investment in self-generation in 2016 amounted to €880,000. [\[GRI 062, GRI-063\]](#)



Energy efficiency emissions reduction

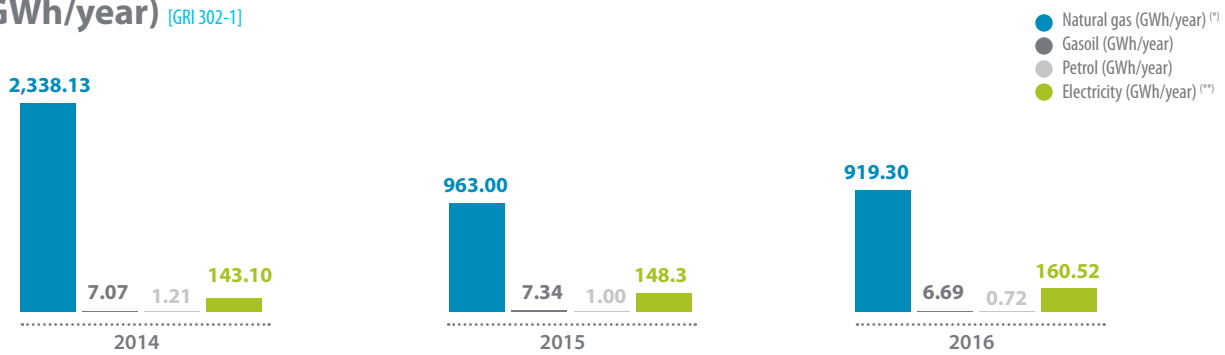
[GRI 103-1]

At Enagás, energy efficiency has a key role in emissions reduction and considerable efforts have been made in this regard. The energy efficiency measures implemented in 2016 were able to prevent the emission of 92,224 tCO₂e into the atmosphere.

Natural gas savings of 464 GWh were achieved mainly through the installation of end-of-pipeline gas compressors that allow the recovery and reinjection of boil-off gas generated during operating situations at low-level production stages

at the Cartagena and Huelva regasification plants. Both actions meant an investment of almost €23M. The total cost of energy efficiency measures put into place in 2016 came to €25.5M. [GRI 201-2]

Energy consumption (GWh/year) [GRI 302-1]



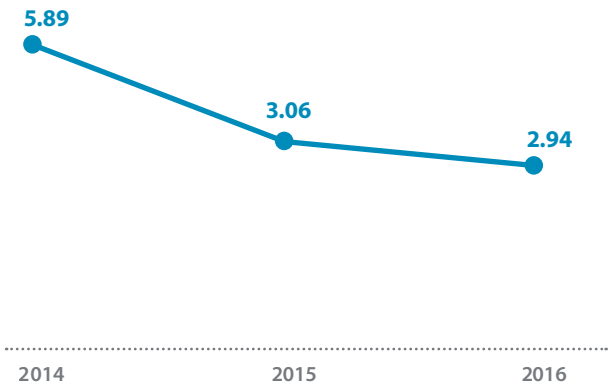
(*) 2014 and 2015 figures were adjusted based on the actual higher calorific value (HCV) of the gas transported by Enagás in those years.

(**) Previous Annual Reports only reported the consumption of electricity sourced from the grid. This report replaces that concept with that of total electricity consumption (both from the grid and self-generated).

[GRI 102-48, GRI 102-49]



Energy intensity (MWh natural gas consumed/GWh national demand)^(*) [GRI 302-3]



The energy efficiency measures implemented in 2016 were able to prevent **the emission of 92,224 tCO₂e** into the atmosphere

(*) 2014 and 2015 figures were recalculated taking into account the new adjusted figures for natural gas consumption.

[GRI 102-48, GRI 102-49]



4 Creation of value for our stakeholders

The energy efficiency measures implemented in 2016, along with the corresponding savings, are set out below:
[\[GRI 302-4, GRI 302-5, GRI 305-5\]](#)

Actions aimed at reducing GHG emissions (Energy Efficiency Measures)	Energy savings achieved in 2016	Emission reductions achieved in 2016
Installation of end-of-pipeline gas compressors that allow the recovery and reinjection of boil-off gas to the basic gas pipeline in situations where operations were below the technical minimum at the Cartagena and Huelva regasification plants.	373.5 GWh _{NG} (although this involves an associated consumption of 7.0 GWh _{elec})	72,733 tCO ₂ e
Diversion of the tanker Dukhan from the Huelva plant to the Cartagena plant (EOC 6 March 2016).	81.7 GWh _{NG}	16,509 tCO ₂ e
Upgrading TC2 compressor at the Almendralejo CS.	4.8 GWh _{NG}	961 tCO ₂ e
Use of nitrogen instead of natural gas in the flare molecular seal (CB 101) on the Huelva Regasification Plant jetty.	2.7 GWh _{NG}	537 tCO ₂ e
Regulation of the pressure in flare pilot burners at the Cartagena and Barcelona regasification plants, achieving the corresponding savings in natural gas.	0.1 GWh _{NG}	17 tCO ₂ e
Replacement of the pneumo-hydraulic actuators with electric actuators in positions 1–13 Guitiriz and 1–15 Abegondo.	0.5 GWh _{NG}	864 tCO ₂ e
Optimisation of RMS control loops in order to reduce the outlet gas temperature and adjustments to the water recirculation pumping system in the heating circuit (pilot tests at five facilities).	0.8 GWh _{NG} 0.9 GWh _{elec}	195 tCO ₂ e
Installation of variable frequency drivers on primary LNG pumps (P3001A and P3000B) at the Barcelona regasification plant.	0.4 GWh _{elec}	153 tCO ₂ e
Detection and repair of compressed air and nitrogen leaks at the Cartagena and Huelva regasification plants.	0.1 GWh _{elec}	43 tCO ₂ e
Modification of operations in order to exploit the connection between the impulse and return ducts of the seawater circuit at the Cartagena plant.	0.4 GWh _{elec}	176 tCO ₂ e
Installation of a trigeneration plant in Zaragoza and a microgeneration unit in Ágreda.	0.4 GWh _{elec} (although this involves an associated consumption of 0.6 GWh _{GN})	36 tCO ₂ e
Total		92,224 tCO₂e

Sustainable mobility

One of the Enagás strategic priorities is to encourage the substitution of more polluting fossil fuels with natural gas, contributing to reduce emissions in the transport sector.

Thus, the company's Sustainable Mobility Plan includes different initiatives to foster the use of natural gas-powered vehicles (compressed natural gas, CNG) and optimise travel arrangements in order to reduce environmental impact:

- The launch of a plan for employees in which the company subsidises the purchase of a new natural gas vehicle and provide loan guarantees.
- The purchase of gas natural vehicles for the company fleet of vehicles for maintenance and executives.
- Obtention of Green Fleet certification from AEGFA and IDAE, which recognises that the Enagás fleet meets strict environmental respect and sustainability standards, having obtained the certification at Master level, which is the most stringent.
- The installation of CNG filling stations at company facilities, such as the pilot programme the Paterna facility, to supply natural gas to the Enagás fleet vehicles.

The company is also working on the launch of a car sharing initiative at the company head office, which will allow employees to share their vehicles for the commute between home and work.



Reduction of fugitive methane emissions

[GRI 305-5]

Fugitive emissions account for 22% of the company's Carbon Footprint.

Enagás has implemented a programme to reduce fugitive emissions, with the goal of detecting and repairing natural gas leaks in the network. These emissions were reduced in 2016 by 8% compared to the previous year as a result of the repair work carried out on components with leaks in the course of 2015.

These components were identified during the 2013–2015 detection and quantification campaign carried out by an external ENAC-certified company according to the ISO 17025 standard,

and utilising a hybrid method based on the detection of a leak with an infrared camera and subsequent measurement with a portable FID device according to the UNE-EN 15446 standard. The process of repairing leaks was finished in 2016, and the results of the final actions are reflected in the 2017 Carbon Footprint. In addition, Enagás has put forward a new challenge for 2017, consisting of the quantification and minimisation of these uncontrolled methane emissions through the planning of a new campaign to be included within the maintenance schedules for the different facilities and which will be conducted regularly and continuously.



Management of the main climate change-related risks [GRI 102-29, GRI 102-31, GRI 201-2]

By applying the company's risk management model (see the 'Risk Management' section), Enagás has identified the following risks related to climate change:

Type of risk	Description	Mitigation measures	Probability	Impact
Risk derived from regulatory changes	International agreements aimed at the development of zero-emission energy sources, particularly renewable ones, which may impact the demand for natural gas.	<ul style="list-style-type: none"> Promotion of new uses for natural gas to substitute more polluting fossil fuels (see the 'Promotion of policies towards a low-carbon economy' section). Promotion of natural gas as a support for the development of more competitive renewable energies. 	Low	Low
	Increased costs associated with compliance with laws governing CO ₂ emissions.	<ul style="list-style-type: none"> Setting the target of 30% reduction in emissions for 2016–2018, linked to variable employee remuneration. Energy efficiency and emissions reduction plan (see the chapter on 'Energy efficiency and emissions reduction'). Setting a carbon price for the 2015–2020 period, in order to fully incorporate environmental externalities into our business and investment decisions. Carbon offsetting programme. 	Low	Low
Risk derived from physical parameters	Unpredictable weather patterns, with fluctuations in temperature extremes that could cause catastrophic natural disasters, such as flooding, and therefore impact natural gas demand.	<ul style="list-style-type: none"> Environmental certification (ISO 14001 and EMAS) Emergency response action plans. Procedures for investigation and monitoring of incidents. Development of natural gas demand and peak demand scenarios that determine the infrastructure to develop in order to guarantee secure supply. Policies regarding catastrophic material damage, such as that caused by flooding, earthquakes, volcanic eruptions, tropical cyclones, etc). Emergency response action plan for the Spanish Gas System. Insurance policy covering catastrophic damage. 	Low	Low



Supply chain

[GRI 103-1, GRI 103-2]

Milestones 2016 [GRI 103-3]

- Launch of the annual performance assessment on environmental, social and ethical aspects (ESE) on the company's supply chain.
- Expansion of the performance/reliability assessment of suppliers to new company departments.
- Finalisation of two new projects regarding efficiency, sustainability and innovation within Enagás' Suppliers Circle.
- Implementation of the electronic Supplier Management platform.

[GRI 103-3]

1,800
approved
suppliers

59%
of approved
suppliers are critical

Lines of progress 2017 [GRI 103-3]

- Development of collaborations with suppliers as part of the Entrepreneurship Programme (Open Innovation).
- Expansion of product or service families within the scope of the reliability analysis (including critical criteria).
- Incorporation of sustainability criteria for the review of the new accreditation procedure (reputational, reconciliation, equality and disabilities).
- Definition of the risk levels and action plans associated as a consequence of the results of the performance assessment conducted with suppliers.
- Assessment of risks regarding legal compliance and reputational risks of suppliers included at the Repro platform (categories 1 and 2 and the main ones in category 3).
- Conducting audits on critical suppliers via their participation in the Achilles *working group* (derived from the ESG risk assessment conducted in 2016).

10.28%
of orders assessed
in reliability analysis

39
suppliers audited
on management systems

27.1%
of approved suppliers
assessed in accordance with
CSR criteria

Our supply chain

[GRI 102-9]

Suppliers must be approved in order to work with Enagás. The company currently works with 1,800 approved suppliers, which are classified in families according to the products or services they offer.

- **Suppliers of works and services:** IT & communication suppliers, engineering, etc. In 2016, 328 service providers carried out work at Enagás facilities. [GRI 102-8]

- **Suppliers of supplies:** Electrical equipment suppliers, piping manufacturers, rotary machine manufacturers, manufacturers of instrumentation and control devices, among others.

Providers are in turn classified by category according to security and cost. Product and service suppliers that represent a higher cost and security risk are classified as "main" or "critical" (categories 1 and 2). Enagás has 1,065 suppliers of this type. In 2016, we began working with 20 new suppliers and stopped working with 9 suppliers because they discontinued their activity, merged with third parties or for breach of contract. [GRI 102-10]

Contracting suppliers

[GRI 102-9]

A high percentage of procurement carried out by Enagás is done for facilities located in Spain. This means that contracting for most works and services is done with Spanish companies as their implementation makes contracting easier.

In its international activities, Enagás promotes the use of local suppliers in the country where the services or materials are to be procured, as is the case in Mexico, Chile and Peru. To that end, we are continuously seeking and contacting new local suppliers that we can use in said countries, providing they meet Enagás' approval requirements.

[GRI 204-1]

Volume of supplier management

[GRI 204-1]

	Works and services	Supplies
Number of orders	3,813 (97% in Spain)	5,071 (98% in Spain)
Order value (€Mn)	142.3 (89% in Spain)	35.5 (79% in Spain)

4 Creation of value for our stakeholders

In 2016, Enagás was awarded, for the third year in a row, the “Purchasing Diamond” prize at the 7th edition of the event organised by the Spanish Association of Purchasing, Contracting and Procurement Professionals (AERCE).

This award highlights the knowledge strategy and market analysis conducted in order to pinpoint the most qualified suppliers to carry out the renovation project at the head office, promoting values of transparency and competence.

Choosing the most qualified suppliers has allowed the company to optimise costs and reduce the risks associated with the supply chain thanks to the numerous requirements and certifications requested during the selection process; this also offers a higher guarantee and better utility of the products purchased.

In addition, in 2016, Enagás set the goal of conducting audits of its critical suppliers linked to the variable remuneration of employees. This goal aims to be a continuation of the environmental, social and ethical (ESE) performance evaluation of the company’s supply chain during the year and whose results have been integrated into the risk assessment outlined in the next point.



Supply chain risk management

[GRI 102-21, GRI 308-1, GRI 308-2, GRI 414-1, GRI 414-2]

Enagás' suppliers meet the following approval requirements:

- 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.

- Requirement for certifications for suppliers of certain product or service families: quality (required from 48% of critical suppliers), environment (required from 28% of critical suppliers) and occupational risk prevention (required from 23% of Enagás' critical suppliers).

As a consequence of these approval requirements, as well as additional aspects, Enagás carries out the following assessments on their suppliers, in areas of the supply chain where risks have been identified (quality, environment, security, work-related issues, compliance and corporate responsibility):

Global assessment areas	Assessment aspects	Critical suppliers assessed	Assessment results	Impact of the assessment
Quality	Availability of ISO 9001 certification.	510 suppliers, 15 of which are new, were required to have this certificate.	98% of the suppliers required to have this certificate are in possession of it.	Focus on continuous improvement and on the management of processes with our suppliers.
	Reliability analysis (assessment of aspects such as technical quality, meeting deadlines and the quality of the service provided).	Assessment made of 246 suppliers, belonging to 92 product categories.	95% of suppliers received scores above the acceptable level (50/100). The cumulative average results obtained since 2011, by supplier type, are as follows: ● Suppliers of equipment and material: 77.70/100. ● Civil work and facility assembly suppliers: 76.95/100. ● Service providers: 79.72/100.	Following this analysis, Enagás reported the resulting assessment to each company, and their position compared to the average for each category. They were also informed of all deficiencies identified so that they could work to improve them. Meetings were held with suppliers with particularly poor scores to assess the results and propose corrective measures.
Environment	Availability of ISO 14001 certification.	298 suppliers, 10 of which are new, were required to have this certificate.	93% of the suppliers required to have this certificate are in possession of it.	Focus on continuous improvement and on the management of processes with our suppliers.
	Environmental impact during construction of infrastructures (on-site environmental audits).	14 critical suppliers of construction work in domestic projects were audited.	21% of audited suppliers have passed the audit without significant non-compliance. The negative impacts detected relate to document deficiencies in waste management and environmental management procedures, failure to conduct emergency drills and environmental monitoring inspections.	Process improvement. 100% of the suppliers audited have implemented actions to mitigate their environmental impact.

4 Creation of value for our stakeholders

Global assessment areas	Assessment aspects	Critical suppliers assessed	Assessment results	Impact of the assessment
Environment		45 suppliers responded to the CDP Supply Chain questionnaire on climate change (85 were invited to take part).	76% of suppliers indicated that they have integrated climate change into their business strategy and 58% of them have emission reduction targets. ^(*)	Supplier emissions information is included in Scope 3 of our Carbon Footprint.
	Impact in relation to climate change.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	35% of the suppliers surveyed measure their CO ₂ emissions and 14% stated that these had been verified by an external and independent third party. 31% of suppliers have climate change targets 23% of suppliers carry out a risk assessment on climate change. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
	Availability of a public environmental management policy.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	71% of the respondents have a public environmental management policy. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
Labour	Social Security status of permanent staff at Enagás facilities.	328 service providers that performed work at Enagás' facilities in 2015.	100% of providers have documentation accrediting the social security registration status of their employees.	Work performed while respecting employees' labour rights.
	Collective Bargaining Agreement and/or trade union representation.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	77% of the suppliers surveyed are covered by a Collective Bargaining Agreement and/or the workers are represented by independent trade unions. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
Diversity and reconciliation	Gender Equality Plan.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	52% of suppliers surveyed have implemented a Gender Equality Plan. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
	Reconciliation measures.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	60% of suppliers have policies or measures to foster the work-life balance of their employees. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.

^(*) The assessment results refer to performance figures for 2015.

Global assessment areas	Assessment aspects	Critical suppliers assessed	Assessment results	Impact of the assessment
	Existence of OSHAS 18001 certification (approval requirement).	246 suppliers, 8 of which are new, were required to have this certificate.	93% of the suppliers required to have this certificate are in possession of it.	Focus on continuous improvement and on the management of processes with our suppliers.
	Information/ Documentation included in the Enagás Contractor Access System (SACE) tool.	83 documental audits were conducted on 72 suppliers who have carried out work at Enagás facilities.	48% of the audits had favourable results.	Limited access to Enagás facilities by suppliers who did not pass the audit favourably.
Safety	Occupational Risk Prevention measures.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	100% of suppliers are covered by occupational risk prevention measures with regard to safety. ⁽¹⁾	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
	Monitoring accident rates.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	98% of suppliers conduct monitoring of the accident rate of their workers. ⁽¹⁾	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
	Legal obligations relating to tax and Social Security, existence of penalties or non-compliance.	1,800 (all approved suppliers).	100% meet their obligations.	Guarantee of legal compliance and performance of work while respecting employees' labour rights.
Compliance	Environmental non-compliance.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	1% of suppliers did not comply with one or more legal obligation and/or were fined or sanctioned (>€10,000) related to the environment (emissions, discharges, residue, etc.) over the past 4 years. ⁽¹⁾	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
	CSR certification.	While Enagás does not require any supplier to have CSR certification in order to work with the company, it does value those that have it positively.	7 critical suppliers approved by Enagás have CSR certification.	Focus on continuous improvement and on the management of processes with our suppliers.
Corporate Responsibility	CSR score(1): ethics, Human Rights, labour practices (workforce structure, hiring of disabled people, etc.), safety, the environment, stakeholder engagement, quality and transparency...	487 main suppliers rated (15 are new). Moreover, audits were conducted on 39 critical suppliers using Achilles.	Enagás has a detailed score for each supplier and a comparison with the average of the suppliers included in the platform. As a result of these assessments and audits, agreed-upon actions are proposed and monitored in subsequent visits.	Extension of Enagás' commitment to the sustainability of the supply chain.

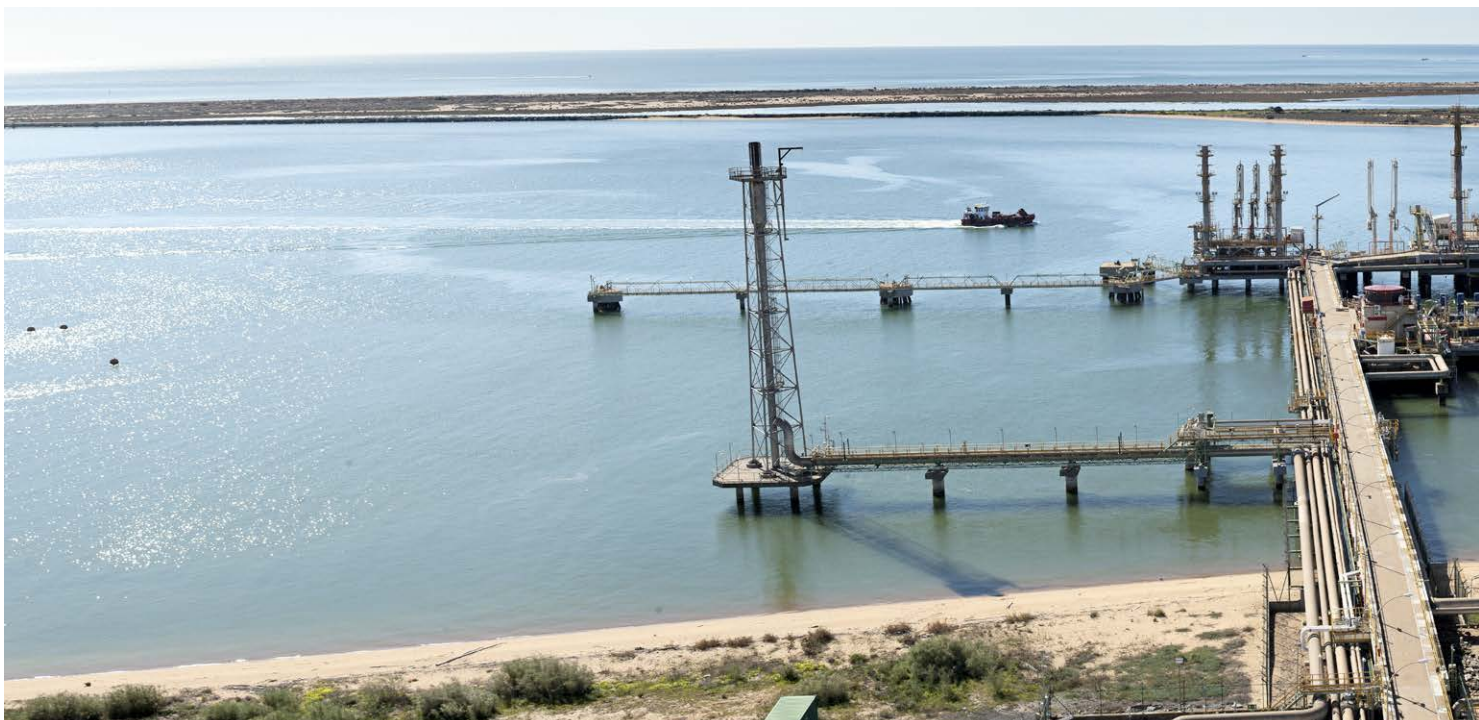
(1) Assessment carried out using the Achilles Repro platform.

(*) The assessment results refer to performance figures for 2015.

4 Creation of value for our stakeholders

Global assessment areas	Assessment aspects	Critical suppliers assessed	Assessment results	Impact of the assessment
Ethics	Code of conduct and policies regarding corruption and bribery.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	78% of suppliers have implemented a Code of Conduct and 60% have a policy, action guidelines or directives regarding matters of corruption and bribery. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
Human Rights	Human Rights Policy and identification of vulnerable groups.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	50% of suppliers are publicly committed to Human Rights (e.g. Global Compact Principles) that cover both direct and indirect activities (third parties who are clients or suppliers), while only 18% have identified vulnerable groups regarding Human Rights (indigenous communities, children, etc.). ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
Risks	Risk control and management systems.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	75% have a risk control and management system and 69% report the results of the analysis to senior management at least once a year. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.
Philanthropy	Policy regarding philanthropy.	Assessment carried out with 117 suppliers, representing 49% of billing and 46% of the amount paid.	42% of suppliers have a policy/directives/procedure that specify the goals and areas to which they contribute to financially (donations, sponsorships, patronage, etc.), with their time (volunteering), and in-kind. ^(*)	Identification and communication of improvement actions to 100% of the suppliers who were analysed.

^(*) The assessment results refer to performance figures for 2015.



Collaboration with suppliers

The goal of Enagás' Suppliers Circle initiative is to identify and develop collaboration projects with our approved suppliers. We thus contemplate the likelihood that new, non-approved suppliers can participate in the initiative through collaborations that involve new business opportunities and/or undertaking projects related to efficiency, sustainability and innovation.

This initiative is linked to the company's corporate entrepreneurship programme.

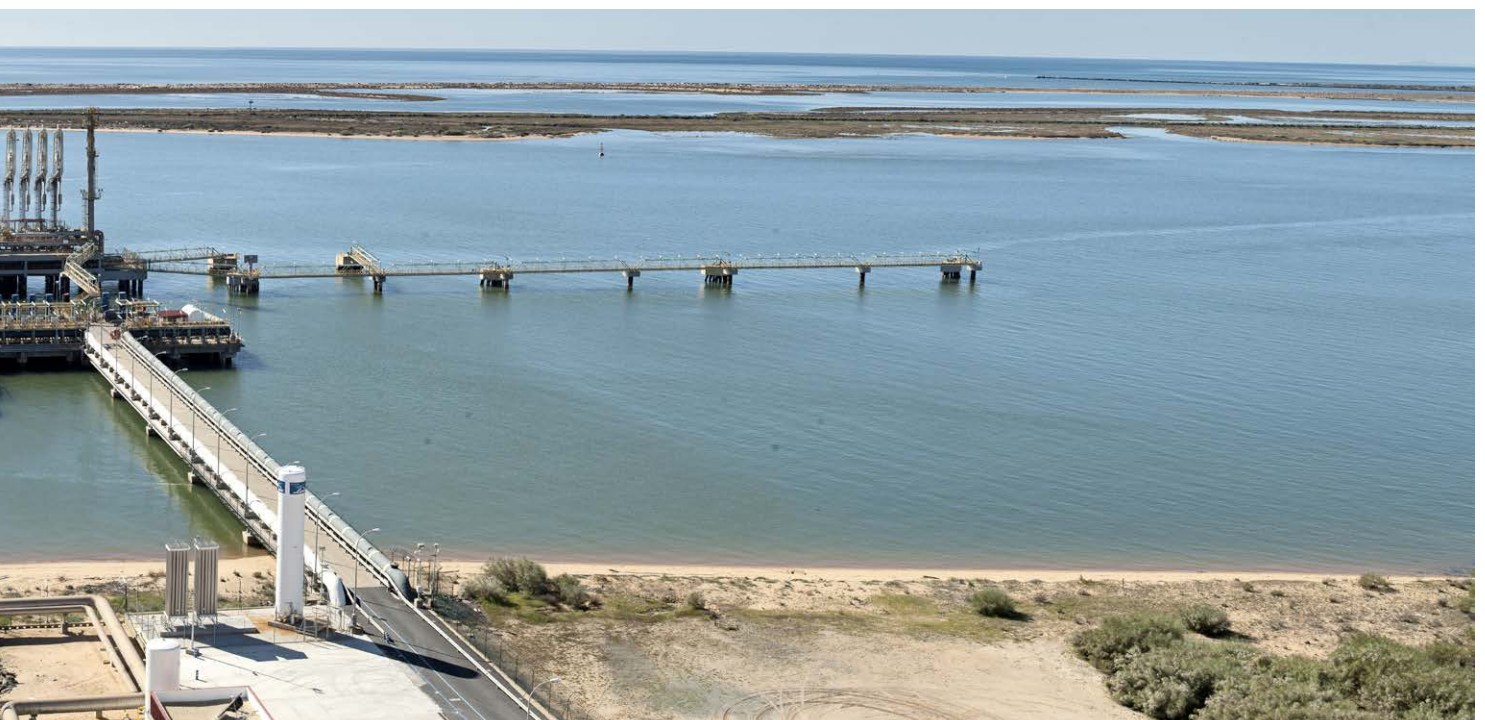
As part of the framework for this Enagás initiative, two projects were finalised in 2016. The first of these regards the renewal of the marketing agreement for the proGas software tool to allow it to be more competitive in the market and thus promote its commercialization for Enagás customers. Under the agreement, Enagás continues to own proGas' intellectual property rights and both parties are committed to promoting its commercial use and facilitating its commercial success.

ProGas is a computer application that allows the thermo-physical properties of natural gas and LNG to be calculated. The tool allows the transmission properties of natural gas and the conditions of the phase change from liquid to vapour to be determined. It is thus possible to carry out energy balances and simulate processes in which natural gas and LNG are involved.

As a result of this agreement, it is expected that, as of the end of the year, Enagás will have a new, free version of this software available exclusively to the company's employees.

The second project consists of the signing of an agreement for the implementation of a new fiscal management system (SIGEFI). This system, that is unique on the market, allows the integration and exchange of information between all the areas of the company in order to improve the efficiency of fulfilling tax obligations, favouring the digital transformation of the company and fostering an agile, efficient

and secure response for tax management and reporting. The SIGEFI technological solution aims to respond to the demands that companies currently require from a fiscal point of view, both in terms of compliance with their tax obligations that are constantly changing, as well as with regard to the transparency of their procedures and their tax information.



5

Economic indicators [_123](#)

Social indicators [_125](#)

Environmental indicators [_127](#)



Key indicators

Economic indicators

Economic performance and cost efficiency [GRI 102-7]

	2007	2008	2009	2010	2011	2012	2013 ⁽¹⁾	2014 ⁽²⁾	2015	2016
EBITDA (€ Mn)	596.0	636.2	701.3	780.8	885.5	934.3	995.9	939.8	900.5	882.6
EBIT (€ Mn)	408.3	433.1	484.7	530.9	585.9	618.4	649.8	589.6	602.0	610.5
BDI (€ Mn)	238.3	258.9	298.0	333.5	364.6	379.5	403.2	406.5	412.7	417.2
Dividends (€ Mn) ⁽³⁾	143.0	155.3	178.8	200.1	237.0	265.7	302.4	310.4	315.1	331.4
Investments (€ Mn)	508.6	776.9	901.6	796.3	781.4	761.4	531.4	625.0	530.2	912.2
Net Debt (€ Mn)	1,942.7	2,351.3	2,904.0	3,175.3	3,442.6	3,598.6	3,657.8	4,059.0	4,237.0	5,088.7
Shareholders equity (€ Mn)	1,344.8	1,456.1	1,593.4	1,738.8	1,867.4	2,014.9	2,118.4	2,218.5	2,318.9	2,373.7
Assets (€ Mn)	3,976.0	4,717.8	5,779.9	6,829.1	7,717.4	8,083.4	7,043.5	7,711.8	7,751.9	9,248.0
Net Debt / EBITDA ^(*)	3.3x	3.7x	4.1x	4.1x	3.9x	3.8x	3.7x	4.2x	4.5x	5.2x
Coverage ratio (EBITDA/ Interest)	9.8x	7.9x	9.6x	9.9x	9.0x	8.4x	8.0x	7.4x	8.0x	8.3x
Net Debt / Total Assets	48.9%	49.8%	50.2%	46.5%	44.6%	44.5%	51.9%	52.6%	54.7%	55.0%
Net Debt / Net Debt + Shareholders Equity	59.1%	61.8%	64.6%	64.6%	64.8%	64.1%	63.3%	64.7%	64.6%	68.2%
Average cost of debt	4.3%	4.7%	3.3%	2.7%	2.8%	2.5%	3.0%	3.2%	2.7%	2.4%
ROE after tax ^(**)	18.5%	18.5%	19.5%	20.0%	20.2%	19.6%	19.5%	18.7%	18.2%	17.7%
ROCE after tax ^(***)	8.8%	8.5%	8.7%	7.9%	8.0%	7.9%	8.1%	6.8%	6.8%	6.5%
Headcount (31 December)	985	1,008	1,046	1,047	1,126	1,178	1,149	1,206	1,337	1,337

(*) Net debt/EBITDA adjusted for subsidiaries' dividends.

(**) Net Profit/average shareholders' equity.

(***) EBIT/(Average net debt + average shareholders' equity).

(1) 2013 data were adjusted in application of IFRSs effective at 1 January 2014.

(2) In 2014, and in accordance with IFRS 11, BBG and Altamira are now consolidated under the equity method.

(3) The figures reflect total dividends for the year (interim dividend + complementary dividend).

Stock market performance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Share price (31 Dec)	19.99	15.56	15.43	14.92	14.29	16.14	19.00	26.19	26.00	24.12
Dividend	0.60	0.65	0.75	0.84	0.99	1.11	1.27	1.30	1.32	1.39^(*)
Capitalisation (€ Mn)	4,771.6	3,714.7	3,682.5	3,560.7	3,411.0	3,852.6	4,534.8	6,251.3	6,207.1	5,759.4
Number of shares (million)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7

(*) Distribution of the 2016 gross dividend of €1.39 per share is subject to approval at the General Shareholders Meeting.

Economic value generated and distributed [GRI 201-1]

	2009	2010	2011	2012	2013	2014	2015	2016
Economic value generated (EVG)	901.5	1,000.80	1,154.80	1,199.30	1,261.9	1,227.2	1,221.6	1,218.3
Economic value distributed (EVD)	565.7	617.5	727.6	769.2	845.4	801.5	862	894.0
Suppliers	137.2	147.3	193.1	168.1	184.6	198.3	193.4	203.9
Society (tax and social action investment)	127.7	144.3	164.9	179.8	172.2	102.6	166.3	136.3
■ Investment in social action	0.8	1.3	2.2	1.6	1.6	1.6	1.9	2.2
■ Tax	126.9	143	162.6	178.2	170.6	101.0	164.4	134.1
Employees (personnel expenses)	60.7	67.2	67	79	82.3	84.7	96.3	108.8
Capital providers (dividends paid to shareholders and financial result)	240	258.7	302.6	342.4	406.3	415.9	406	445.1
■ Dividends paid to shareholders	178.8	200.1	237	265.7	302.4	310.4	315.1	331.7
■ Financial result	61.2	58.6	65.6	76.7	103.9	105.5	90.9	113.4
Economic value retained (EVR)	335.9	383.3	427.2	430.1	416.5	425.7	359.6	324.3

Financial and non-financial ratings

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Standard & Poor's	AA-	AA-	AA-	AA-	AA-	BBB	BBB	BBB	A-	A-
Fitch	A2	A2	A2	A2	A2	A-	A-	A-	A-	A-
Dow Jones Sustainability Index ⁽¹⁾	67	77	75	78	88	83	85	84	85	91
CDP (transparency / performance)	-	-	-	70/B	83/B	85/B	83/B	91/B	99/B	A List

(1) Enagás has been a member of the DJSI since 2008, and went to the top of its sector in 2011.

Social indicators

Corporate Governance

	2011	2012	2013	2014	2015	2016
Number of Directors	15	13	15	15	13	13
Independent Directors	53.3%	61.5%	60%	60%	62%	62%
Board gender diversity	13.4%	15.4%	20%	20%	23%	23%
Non-Audit Fees	27.2%	13.6%	3.2%	3.4%	4.38%	0%^(*)
General Shareholders' Meeting quorum	57%	55.8%	53.1%	52.9%	54.8%	50.8%

(*) The reduction of "non-audit services" is explained by the change in the existing criteria for rating a service as such, following the implementation of the new Law 22/2015 on Auditing, which came into force on 17 June 2016. Specifically, the fact that "non-audit services" should not exceed 70% of the fees received for audit services has led to certain recurring work carried out by the auditor during the 2015, is now carried out another auditing firm.

Supply chain

	2011	2012	2013	2014	2015	2016
Approved suppliers (no.)	1,989	2,010	1,875	1,745	1,781	1,800
Critical/approved suppliers	52.1%	51.8%	54.4%	59.1%	59%	59%
Orders assessed in reliability analysis (%)	-	11.6%	18.9%	24.4%	11.5%	10.28%
Suppliers audited on management systems (no.)	-	31	51	61	33	39
Percentage of approved suppliers assessed in accordance with CSR criteria (%)	-	-	25.05%	27.05%	26.6%	27.1%

Ethical compliance and Human Rights

	2011	2012	2013	2014	2015	2016
Reports received via ethics channel (no.)	-	2	2	4	4	3
People trained in issues related to ethical compliance (cumulative figure) (no.)			128	200	1,217	1,214

Human capital [GRI 102-7]

	2011	2012	2013	2014	2015	2016
Employees (no.)	1,126	1,118	1,149	1,206	1,337	1,337
Net job creation (%)	7.55%	-0.71%	2.77%	4.9%	11%	0%
Voluntary employee turnover (%)	0.8%	0.46%	0.45%	0.69%	0.49%	0.63%
Absenteeism (%)	3.65%	2.33%	2.46%	2.50%	2.51%	2.89%
Workforce gender diversity (%)	22.47%	22.45%	22.8%	23.88%	26.78%	27.45%
Senior management gender diversity (%)	14.06%	15.87%	18.84%	20%	25.4%	24.8%
Investment in training per employee (€)	956.2	898.25	1,192	1,041	894	920
Training per employee (hrs)	48.92	45.77	52.00	59.6	49.8	61.8

Customer satisfaction

	2011	2012	2013	2014	2015	2016
Rate of shippers satisfaction with transmission	80%	82.5%	83%	82.2%	82.7%	84.3%
Rate of satisfaction of transmission companies and distributors with transmission	76.7%	78.3%	79%	77.1%	89.2%	84.7%
Rate of satisfaction of shippers with the technical management of the Spanish Gas System	76.7%	83.5%	80.5%	78.6%	78.3%	86.2%
Rate of satisfaction of transmission companies and distributors with the technical management of the Spanish Gas System	76.7%	78.7%	81.2%	72.6%	83.3%	79.2%

Occupational health and safety [GRI 403-2]

	2011	2012	2013	2014	2015	2016
Lost time injury frequency rate (own staff)	7.51	9.01	5.31	4.69	3.86	1.80
Lost time injury frequency rate (contractor staff)	7.08	6.36	9.32	3.04	2.25	10.43
Lost time injury severity rate (own staff)	0.07	0.37	0.25	0.53	0.14	0.08
Lost time injury severity rate (contractor staff)	0.2	0.28	0.36	0.11	0.07	0.11
Work-related fatalities of own staff (no.)	0	0	0	0	0	0
Work-related fatalities of contractor staff (no.)	0	0	0	0	0	0

Impact on local communities

	2011	2012	2013	2014	2015	2016
Social action investment / net profit (%)	0.6%	0.4%	0.4%	0.4%	0.5%	0.5%
Participation of employees in corporate volunteering initiatives (% of workforce)		5%	8.5%	9%	15.1%	16.68%
Time spent on volunteer work (hrs)		400	640	866	1,404	1,475

5%
reduction of the
Carbon Footprint
(scopes 1 and 2)

€2.2MN
Investment in
social action

Environmental indicators

Environmental management and fighting climate change

	2011	2012	2013	2014	2015	2016
Scope 1 CO ₂ emissions (t eq CO ₂)	264,679	387,651	479,175	537,092	272,728	263,540
Scope 2 CO ₂ emissions (t eq CO ₂)	52,752	61,377	36,079	33,941	32,444	27,010
Own consumption of natural gas (GWh) ^(*)	1,025	1,672	1,932.1	2,338.1	963.0	919.30
Electricity consumption (GWh) ^(**)	201.5	186.7	150.0	143.1	148.3	160.52
Electricity generation / consumption (%) ^(***)	1.9%	5.4%	6.8%	4.7%	8.0%	12.5%
Waste generated (t)	3,722	3,913	3,455	2,189	3,823	3,981
Waste recycled (%)	59%	48%	63%	15%	40%	61%
Area occupied in protected areas (km ²)			3.7	4	4	4

(*) Data for 2013, 2014 and 2015 have been adjusted based on the current HHV (Higher Heating Value) of the gas transported by Enagás during those years.

(**) Previous Annual Reports only reported the consumption of electricity sourced from the grid. This report replaces this concept with total electricity consumption. (both from the grid and from its own generation sources).

(***) Indicator recalculated taking into account total electricity consumption.

[GRI 102-48, GRI 102-49]

6

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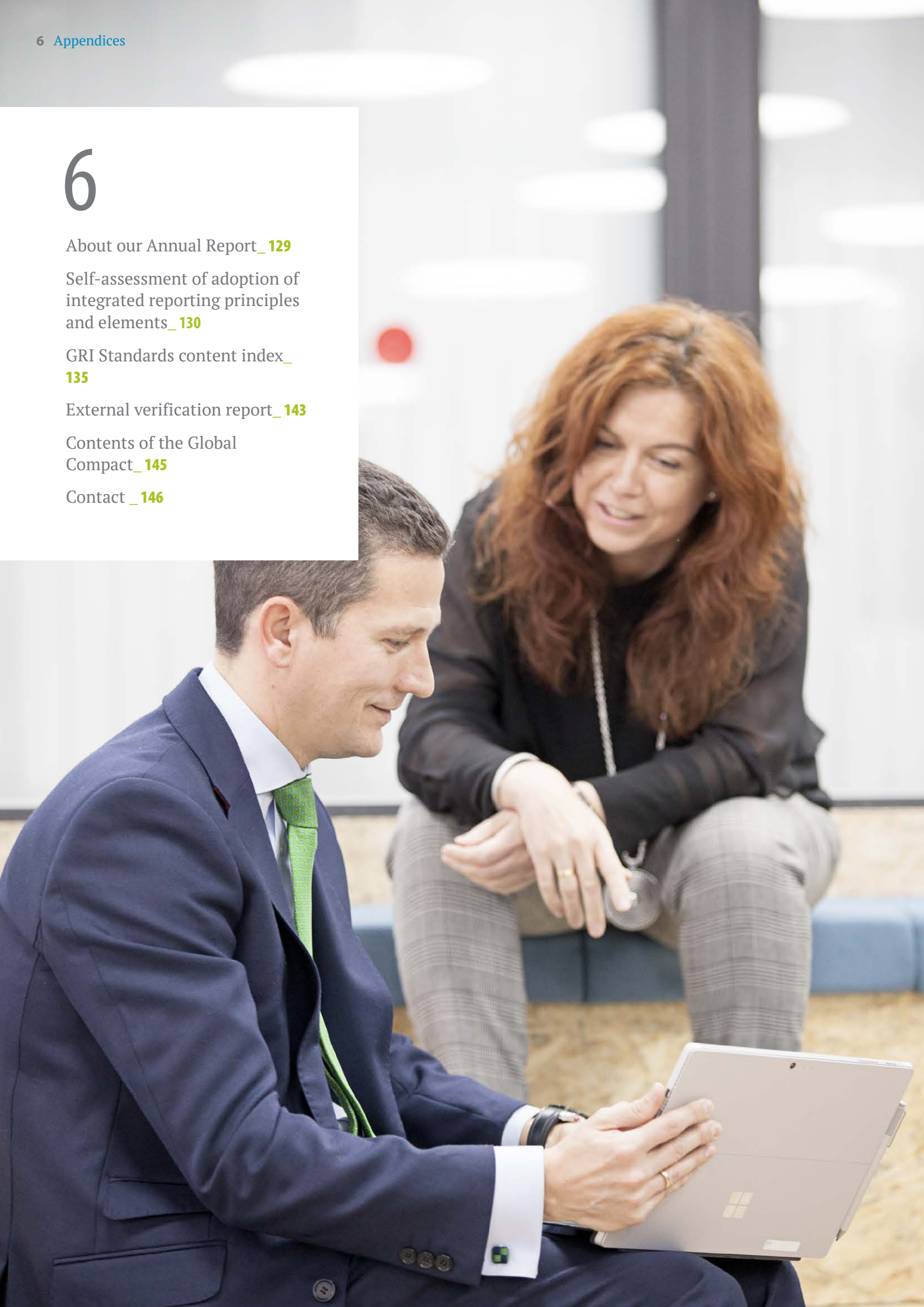
Self-assessment of adoption of integrated reporting principles and elements_ **130**

GRI Standards content index_ **135**

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Contact _ **146**



Appendices

About our Annual Report

[GRI 102-1, GRI 102-5, GRI 102-50, GRI 103-1]

Scope of the financial and non-financial information

The scope of this report includes the information on FY 2016 and is limited to Spain, where the Enagás Group (Enagás S.A., Enagás Transporte S.A.U., Enagás GTS S.A.U., Enagás Internacional S.L.U. and Enagás Financiaciones S.A.U.), hereinafter "Enagás", carries on its business. The following criteria have been applied to the information reported herein:

- The financial information is presented in accordance with the consolidation principles applied in the financial statements.
- Non-financial information relates to operations that are fully controlled by Enagás (100% ownership), including those of Enagás Transporte Norte, in which it holds a 90% stake. The chapters on Human Capital Management and Environmental Management include indicators whose scope encompasses information on affiliates due to the impact of the issues discussed. This applies to biodiversity indicators (the impacts of infrastructures construction in Mexico are included) and workforce indicators (Enagás employees from Enagás México S.A. de CV and Enagás Perú SAC are included).

[GRI 102-45, GRI 102-48, GRI 102-49]

For further details on the scope of the financial information, refer to the Financial Statements, section 2.4 'Basis of consolidation'.

Standards and principles used in its preparation

The following standards and principles were used in preparing this 2016 Annual Report:

- This report has been prepared in accordance with the GRI Standards: Comprehensive option. These guidelines from Global Reporting Initiative (GRI) define the principles and content for compiling sustainability reports, and are subjected to GRI's Context Index Service. The content of the report has been verified by EY. [GRI 102-56]
- The principles in the Integrated Reporting Framework, published by the International Integrated Reporting Council, IIRC (www.theiirc.org), for which Enagás participated in the Integrated Reporting Pilot programme. Enagás is a member of the Integrated Reporting Business Network.
- The principles of standard AA1000: inclusivity, materiality and responsiveness.
- The Sustainable Development Goals approved by the United Nations General Assembly, which Enagás integrates in its strategy and are set out in the Appendix 'Our contribution to the Sustainable Development Goals'.
- The 10 principles of the UN Global Compact, as set out in the Appendix 'Global Compact content index'. [GRI 102-12]

Self-assessment of adoption of integrated reporting principles and elements

Together with other leading companies in international reporting, Enagás took part in a pilot programme of the International Integrated Reporting Committee (IIRC) to establish a common framework for the preparation of integrated reports and enable participants to share best practices. Enagás is a member of the Integrated Reporting Business Network.

Enagás is committed to integrated reporting as a way of clearly and concisely presenting relevant issues affecting the company's capacity to create and maintain value in the present and future.

Since 2012, Enagás has been progressing towards an integrated report in its Annual Reports. In 2016, the company continued in this line, making significant progress in terms of Strategic Focus and Connectivity

Strategic focus and future orientation

The report reflects key strategic aspects such as context of operation, which includes the outlook for the natural gas sector and the impact it will have on business, based on those established by the company's growth drivers.



Enagás is committed to integrated reporting as **a way of clearly and concisely presenting** relevant issues affecting the company

Additionally, the conclusions of the Enagás 2040 project are included, on which the company has been working with the aim of defining a long-term strategy that guarantees the future growth of Enagás in the context of energy transition, positioning the company with a model of long-term sustainable growth, based on value creation for the company as a whole and for its shareholders.

The company also identified the main risks derived in the context of operation and of its business model. Furthermore, it includes the outlook from the Executive Chairman regarding the ability of the company to meet its long and short-term goals, providing an assessment

of past performance and on future growth and strategies.

The commitment of leaders responsible for sustainability and opportunity and risk management, together with the performance and targets in each of the material issues, shows that the company is prepared to deliver its strategy, i.e. how to generate value in the present and in the future.

Connectivity of information

The report reflects the relationship between different information blocks, primarily:

- The context of operation and the business model, from which the company's perceived risks, opportunities, growth drivers and strategy are derived.
- Strategy and Corporate Governance, through which we leverage opportunities and manage risks, all of which is aimed at creating value, while taking into account the impact on business and society.
- The company's short and long-term objectives, aligned with the strategic drivers and linked to employees' variable remuneration, through which we ensure compliance with the strategy.
- The management of risks and opportunities, along with their impact, and the controls and mitigating actions in various areas of management.
- Our contribution to the Sustainable Development Goals (SDG), through the Sustainable Management Plan structured in accordance with our material issues (see the chapter on 'Our contribution to the SDG: Sustainable Management Plan'). Performance and objectives in each of the material issues are aimed at fulfilling our strategy.
- Our value creation process, prepared in accordance with the capital model,



includes in the different chapters the main inputs and impacts on the material issues generated by our activity (see the chapter on 'Creation of value for our stakeholders').

- Also included are navigation icons, hyperlinks and cross-references that facilitate reading and understanding of the connections between different contents.

Responsiveness and stakeholder inclusiveness

[GRI 102-46]

Enagás' Annual Report 2016 targets its main stakeholders.

The company has identified its stakeholders classified according to the different areas of relation, identified by the material issues. In 2016, we have addressed the creation of local and country-specific stakeholder maps in order to establish community outreach plans and identify the material issues in greater detail (locally and internationally).

As in previous years, the 2016 Annual Report has been drafted applying the principles of standard AA1000: inclusivity, materiality and responsiveness.

Materiality and conciseness

[GRI 102-44, GRI 102-46]

The report contains all the necessary information to be able to respond to the information relevant to the main stakeholders. This information was determined through Enagás' materiality analysis process.

As a result of this materiality analysis, Enagás has identified nine material issues defined at a high level, the details of which are included in this report in each chapter of the section 'Creation of value for our stakeholders'.

Enagás updates its materiality matrix, both with feedback from its stakeholders and with its process of strategic reflection. Thus, in 2016 aspects of climate change, ethics and local communities took on

greater relevance for the company (see the chapter on 'Materiality analysis').

Furthermore, though beyond the scope of the report, we continue moving forward in the reporting of key issues in which Enagás worked throughout the year at our affiliates. An example of this is the information regarding greenhouse gas emissions by our subsidiaries and affiliates (scope 3 emissions).

In order to include in the Annual Report only that which is material, we have separated the Integrated Annual Report and the detailed information on the Financial Statements and Corporate Governance Report. The Integrated Annual Report includes the more relevant data from these publications.

At the same time, the corporate website includes other aspects that constitute non-material information or static information (management models, policies, etc.).

Reliability

Both the financial and non-financial information from 2016 was audited and verified, respectively, by the same auditors: EY.

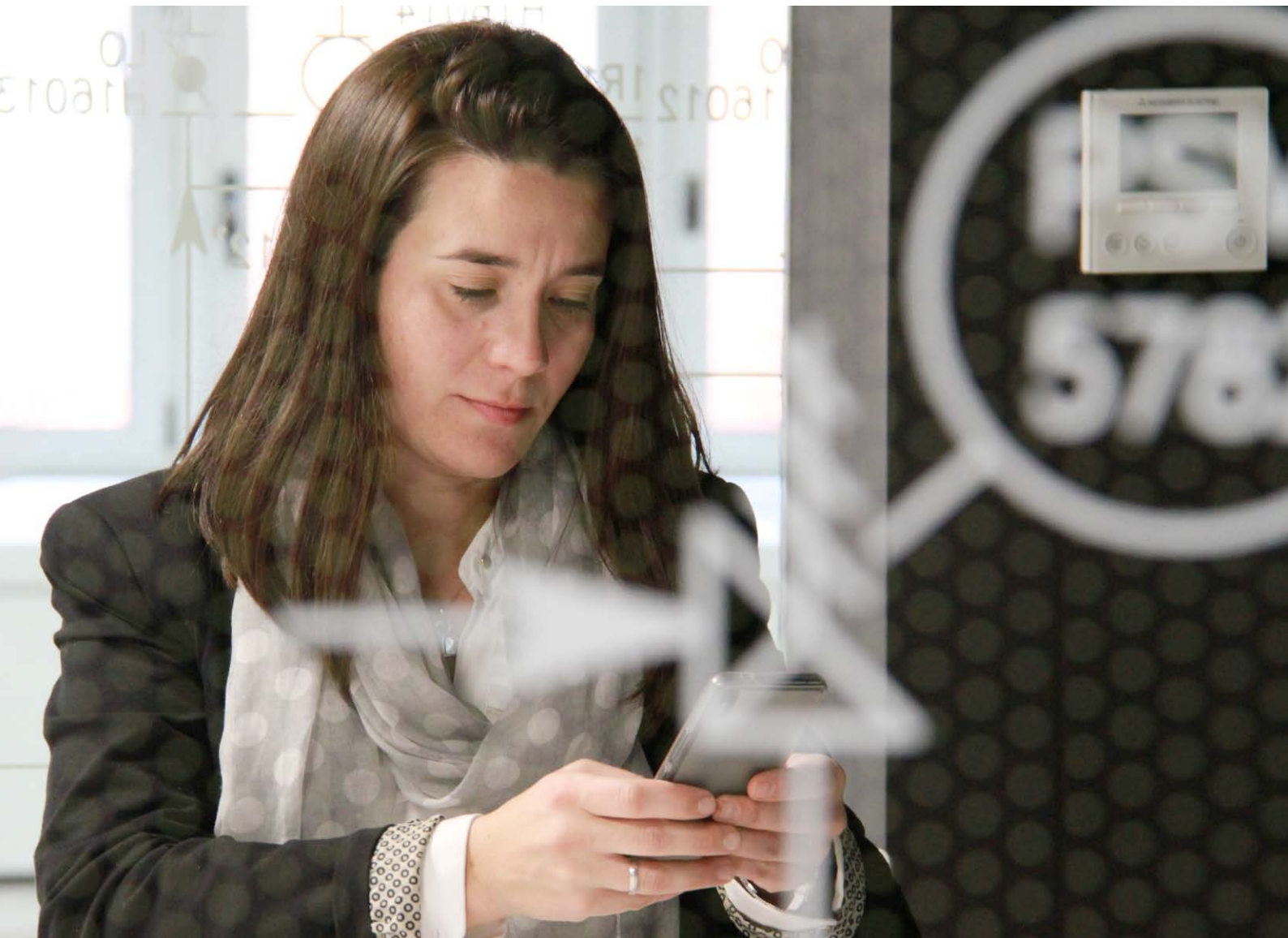
EY audits our financial statements and examines information relating to the ICFR system, expressing an opinion on its effectiveness.

They also verify non-financial information with a limited level of assurance and a reasonable level of assurance for the following indicators:

- Occupational health and safety indicators. Lost time injury frequency rate (own staff) and lost time injury severity rate (own staff).
- Human Resources indicators. Development of human capital, workforce and labour relations.

Enagás is continuing to review its indicators so as to achieve higher levels of assurance in the future.





Comparability and consistency

The 2016 Annual Report takes account of the content and indicators recommended in the GRI Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), particularly with regard to the Oil & Gas sector supplement. Therefore, it provides an internal and external benchmark for comparison based on internationally recognised principles and content.

Furthermore, the indicators included in the 2016 Annual Report are defined so as to facilitate comparison with reports for prior year and other companies in

the sector, using studies, CSR indexes and benchmarking projects as references. For example, the emissions reported in the chapter on 'Climate Change and Energy Efficiency' are those included in the Enagás Carbon Footprint report prepared for the first time in 2013.

Furthermore, customer satisfaction surveys are standardised for the respondents in terms of structure and rating levels, to facilitate comparison with other companies in the energy sector. Enagás is also involved in a benchmarking project with natural gas transmission companies internationally to compare the occupational health and safety, and environmental indicators, among others.

Integrated reporting framework content

Content element	Aspects included	Sections	Pages
Overview of the organisation and its external environment	Activities and material issues	Our business model Materiality analysis	11-13 34-35
	Mission, vision and values	Our business model	11-13
	Supply chain description	Our supply chain	11-13
	Operating context	Where we operate	14-15
		Operating context	21
Shareholder composition	Our shareholder structure	18-19	
Governance	Corporate Governance structure	Governing Bodies	41-45
	Board selection and self-assessment	Performance of the Governing Bodies	48-49
	Good Corporate Governance practices implemented	Good Governance	40-49
	Remuneration for the Board linked to value creation in the short, medium and long term	Remuneration of the Board of Directors	46-47
Opportunities and risks	Management of opportunities arising from future outlook	Operating context	21
		Long-term view / Enagás 2040	25-27
	Management of risks associated with future outlook	Risk management	28-31
		Long-term view / Enagás 2040	25-27
	Management of opportunities and risks in the supply chain	Supply chain risk management	117-120
Collaboration with suppliers		121	
Strategy and resource allocation	Growth strategy	Our strategy	22-24
	Strategy		
Business model	How Enagás creates value from its resources and business processes	Our contribution to the SDG	36-37
		Creation of value for our stakeholders	39-121
Performance	Sustainable management model	Sustainable Management Model	33
	Key company performance indicators	Enagás in 2016	8-9
		Key indicators	123-127
	Performance in material issues measured by indicators	Good Governance	40-49
		Financial and operational excellence	50-55
		Ethical compliance and Human Rights	56-67
		Human capital management	68-81
		Health and safety	82-89
		Community outreach	90-93
		Environmental management	94-99
Climate change and energy efficiency		100-113	
Supply chain	114-121		
Outlook	The opportunities, challenges and uncertainties the organisation may encounter in pursuing its strategy	Operating context	21
		Long-term view / Enagás 2040	25-27
	Risks associated with the business and implementation of the strategy	Risk management	28-31

GRI Standards content index

[GRI 102-55]



General content

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
Organisation profile			
	102-1 Name of the organisation	129	
	102-2 Activities, brands, products and services	11	
	102-3 Location of the organisation's headquarters	14-15, 146	
	102-4 Location of operations	14-15	
	102-5 Nature of ownership and legal form	129	
	102-6 Markets served	14-15	
	102-7 Scale of the organisation	123, 126	
	102-8 Information on employees and other workers	70, 75, 80, 115	
	102-9 Supply chain	115	
	102-10 Significant changes in the organisation and its supply chain	18, 69, 115	
	102-11 Precautionary principle and approach	28-31	
	102-12 External initiatives	37, 64, 129	
	102-13 Associations of which the organisation is a member	Enagás is also involved with the governing bodies of a number of Spanish associations and organisations such as Sedigas, Enerclub and Instituto Elcano, and international bodies such as IGU, ENTSO, GIE, EASEE Gas, GIGNL and UNECE. It also cooperates with regulators, both directly and through industry associations, to propose regulatory improvements, whether directly or as part of consultations by the regulators.	
Strategy			
	102-14 Statement from senior decision-maker	4-7	
	102-15 Key impacts, risks and opportunities	21, 28-31	
Ethics and integrity			
	102-16 Values, principles, standards and rules of the organisation	58	
	102-17 Mechanisms for evaluating and reporting ethical issues	63	

**GRI 102:
General content
2016**

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
	Governance		
	102-18 Governance structure	33	
	102-19 Delegation of authority	33	
	102-20 Executive-level responsibility for economic, environmental and social topics	33	
	102-21 Processes for consulting stakeholders on economic, environmental and social topics	17, 33, 36, 49, 81, 117-120	
	102-22 Composition of the highest governance body and its committees	42	
	102-23 Chair of the highest governance body	42	
	102-24 Appointment and selection of the highest governance body	Article 8 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás.	
	102-25 Conflicts of interest	INTERNAL CODE OF CONDUCT IN MATTERS RELATING TO SECURITIES MARKET OF ENAGÁS (pp. 8-14) Article 25 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás.	
GRI 102: General content 2016	102-26 Role of the highest governance body in the setting out of goals, values and strategy	12	
	102-27 Collective knowledge of highest governance body	49	
	102-28 Evaluating the highest governance body's performance	48	
	102-29 Identification and management of economic, environmental and social impacts	28-29, 33, 113	
	102-30 Effectiveness of risk management processes	28-29	
	102-31 Analysis of economic, environmental and social aspects	28-29, 33, 113	
	102-32 Function of the highest governance body in the preparation of the Annual Report	33	
	102-33 Communicating critical concerns	49	
	102-34 Nature and total number of critical issues	49	
	102-35 Remuneration policies	24, 46-47	
	102-36 Process for determining remuneration	46	
	102-37 Stakeholders' involvement in remuneration	46	

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
	102-38 Ratio between the remuneration of the employee with the highest remuneration in each country with significant operations and the median total compensation for employees	The total compensation ratio was 31.3	
	102-39 Ratio between the percentage increase in the remuneration of the employee with the highest remuneration compared to the median total percentage increase for employees	The percentage increase in total compensation ratio was 0.23% in 2016	
Approach to stakeholder engagement			
	102-40 Stakeholder list	34	
	102-41 Collective Bargaining Agreement	65	
	102-42 Identification and selection of stakeholders	17, 19, 34	
	102-43 Stakeholder engagement	17, 19, 34	
	102-44 Identified concerns and aspects of interest	17, 19, 34-37, 132	
Practical information for the presentation of financial statements			
GRI 102: General content 2016	102-45 Entities included in financial consolidation	129	
	102-46 Definition of the content of the report and its scope	34, 132	
	102-47 List of material issues	35, 39	
	102-48 Restatements of information	108, 109, 127, 129	
	102-49 Reporting changes	108, 109, 127, 129	
	102-50 Period covered by the report	129	
	102-51 Date of most recent previous report (if any)	2015	
	102-52 Reporting cycle	Yearly	
	102-53 Point of contact	146	
	102-54 Statement of reporting according to GRI Standards	129 This report has been prepared in accordance with the GRI Standards: Comprehensive option	
	102-55 Table indicating the location of GRI Contents	135-142	
	102-56 External verification	143-144	

Key issues

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
Good Governance			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 40, 42-43, 46, 48, 129	
	103-2 Management approach and its features	42-45	
	103-3 Evaluation of management approach	40	
GRI 419: 2016 Socioeconomic compliance	419-1 Non-compliance with laws and regulations in the social and economic area	No significant sanctions or fines were received in the social and economic area	
Financial and operational excellence			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 50-55, 129	
	103-2 Management approach and its features	50-55	
	103-3 Evaluation of management approach	50	
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	124	
	201-2 Financial implications and other risks and opportunities for the organisation due to climate change	21, 25, 28-29, 105, 108, 113	
	201-3 Obligations of the organisation for employee benefit programmes and other pension plans	78-79	
	201-4 Financial assistance received from governments	The Group benefits from a deduction in corporate tax due to its R&D&I activities. When calculating corporate tax for 2016, the Group posted a deduction for this item of 680,000 euros	
Ethical compliance and Human Rights			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 56-67, 129	
	103-2 Management approach and its features	56-67	
	103-3 Evaluation of management approach	56	
GRI 205: Anti- corruption 2016	205-1 Business units assessed for risks related to corruption	The risk of corruption is included in the risk of fraud and unauthorised activities. Every business unit was analysed for corruption risks	
	205-2 Communication and training in anti-corruption matters	56, 62	
	205-3 Measures taken in response to incidents of corruption	63	
	OG12 Operations/facilities where involuntary resettlement took place, the number of resettled households and how their livelihoods were affected in the process	Expropriations resulting from Enagás activities did not involve involuntary resettlement of communities	
	OG13 Number of process safety events taking place in operations, by activity	No process safety events were reported according to the API RP 754 standard	

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
GRI 410: Security practices 2016	410-1 Security personnel trained in politics and Human Rights related procedures	66	
	412-1 Operational sites that have been subject to Human Rights reviews or impact assessments	The impact assessments performed by Enagás at all its operational sites are: - Country risk assessment - Risk mapping - Assessments of safety risks in jobs and facilities - Assessments of environmental impact/ environmental risks	
GRI 412: Human Rights assessment 2016	412-2 Employee training on relevant Human Rights policies or procedures	57	
	412-3 Significant investment agreements and contracts that include Human Rights clauses or that underwent Human Rights screening.	56	
	GRI 415: Political contributions 2016	415-1 Political contributions	60-61
Human capital management			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 68-69, 80-81, 129	
	103-2 Management approach and its features	68-81	
	103-3 Evaluation of management approach	68	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	69, 80	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	78-79	
	401-3 Parental leave	64	
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	68, 74	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	74	
	404-3 Percentage of employees receiving regular performance and career development reviews	68, 73	
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	42-43, 70, 75	
	405-2 Ratio of basic salary and remuneration of women to men	65	

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
Health and safety			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 82-87, 129	
	103-2 Management approach and its features	82-87	
	103-3 Evaluation of management approach	82	
GRI 403: Occupational health and safety 2016	403-1 Workforce represented in health and safety committees	84	
	403-2 Absenteeism rate, occupational diseases, lost days, and total number of work-related fatalities	84, 85, 88, 126	
	403-3 Workers with high incidence or high risk of diseases related to their occupation	Through its evaluation systems for health and safety-related risks, Enagás has not identified workers at risk of work-related diseases	
	403-4 Health and safety topics covered in formal agreements with trade unions	84	
Community outreach			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 90-93, 129	
	103-2 Management approach and its features	90-93	
	103-3 Evaluation of management approach	90	
GRI 411: Rights of indigenous peoples 2016	411-1 Incidents of violations involving rights of indigenous peoples and measures taken	No incidents of violations involving rights of indigenous peoples were identified in 2016	
	413-1 Operations with local community engagement, impact assessments, and development programmes	92-93	
GRI 413: Local communities	413-2 Operations with significant actual or potential negative impacts on local communities	91	
	OG10 Number and description of significant disputes with local communities and indigenous peoples	91	
	OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned	No decommissionings took place in 2016	
Environmental management			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 94-99, 129	
	103-2 Management approach and its features	94-99	
	103-3 Evaluation of management approach	94	
GRI 303: Water 2016	303-1 Water withdrawal by source	94, 98	
	303-2 Water sources significantly affected by withdrawal of water	97	
	303-3 Water recycled and reused	Enagás does not reuse water in its processes	

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
GRI 304: Biodiversity 2016	304-1 Sites adjacent to or located within protected areas and areas of high biodiversity value outside protected areas	96 Enagás infrastructures occupy a surface area of 4 km ² of lands included in the Natura 2000 network (SACs/SPAs).	
	304-2 Significant impacts of activities, products and services on biodiversity	97	
	304-3 Habitats protected or restored	97 Monitoring and verification is conducted internally.	
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Enagás takes into consideration special protection areas and habitats of international interest listed by the International Union for Conservation of Nature (IUCN), along with the protection of the cultural heritage associated with them, in addition to the Spanish national and regional conservation lists	
	OG4 Number and percentage of significant operational sites in which biodiversity risk has been assessed and monitored	97	
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	98	
	306-2 Waste by type and disposal method	98	
	306-3 Significant spills	98	
	306-4 Transport of hazardous waste	There are no cross-border movements of the waste produced by Enagás	
	306-5 Water bodies affected by water discharges and/or run-off from the reporting organisation	Enagás does not discharge any wastewater into water courses located in protected nature reserves or considered to be of particular ecological value	
	OG5 Volume and disposal of formation or produced water		Not applicable. Not applicable to Enagás activity, as it does not have production water
	OG6 Volume of flared and/or vented hydrocarbons	Methane is the main flared and/or vented hydrocarbon. In 2016, the volume of natural gas flared and/or vented amounted to 2,347,864 Nm ³	
OG7 Drilling waste (drill mud and cuttings). Strategies implemented for its treatment and elimination		Not applicable. As shown in the graph in the 'Enagás: good new energy' section the company's activity commences with tanker offloading at its regasification plants or at international connections in the pipeline network. Therefore, as it is not involved in extraction activities, Enagás does not generate drill mud	

GRI Standard	Contents	Pages/ Reference/ Direct response	Omissions
GRI 307: Environmental compliance 2016	307-1 Non-compliance with environmental laws and regulations	No significant sanctions or fines were received in the environmental area	
Climate change and energy efficiency			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 100-103, 108, 129	
	103-2 Management approach and its features	100-113	
	103-3 Evaluation of management approach	100	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	108	
	302-2 Electricity consumption outside the organisation	9, 21	
	302-3 Energy intensity	109	
	302-4 Reduction of energy consumption	110	
	302-5 Reductions in energy requirements of products and services	110	
	OG2 Total amount invested in renewable energy	107	
	OG3 Total amount of renewable energy generated by source	107	
GRI 305: Emissions 2016	305-1 Direct emissions (scope 1)	103-104	
	305-2 Indirect emissions (scope 2)	103-104	
	305-3 Indirect emissions (scope 3)	106	
	305-4 Emission intensity ratio	105	
	305-5 Reduction of greenhouse gas emissions	110, 112	
	305-6 Emissions of ozone-depleting substances	104	
	305-7 NO _x , SO _x and other significant air emissions	99	
Supply chain			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	35, 114-121, 129	
	103-2 Management approach and its features	114-121	
	103-3 Evaluation of management approach	114	
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	115	
GRI 308: Environmental assessment of suppliers 2016	308-1 New suppliers that were screened using environmental criteria	117-120	
	308-2 Negative environmental impacts in the supply chain and actions taken	117-120	
GRI 414: Social assessment of suppliers 2016	414-1 New suppliers that were screened using social criteria	117-120	
	414-2 Negative social impacts in the supply chain and actions taken	117-120	

External verification report

[GRI 102-56]



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INDEPENDENT REVIEW REPORT OF THE SUSTAINABILITY INFORMATION INCLUDED IN THE ENAGÁS GROUP'S 2016 ANNUAL REPORT

To the Management of Enagás, S.A.:

Scope

As commissioned by the Management of Enagás, S.A. (hereinafter Enagás), we have carried out the review of the sustainability information included in the 2016 Annual Report (hereinafter the Report) and in the GRI Standards content index included in the Annex. This information has been prepared in accordance with:

- GRI *Sustainability Reporting Standards* (GRI Standards) and the *Oil and Gas Sector Supplement*.
- The principles stated in the AA1000 Assurance Standard Guide 2008 issued by AccountAbility (Institute of Social and Ethical Accountability).

The scope considered by Enagás Group for the preparation of the Report is defined in the section "About our Annual Report" included as an annex of the attached Report.

The preparation of the sustainability information, as well as its content, is the responsibility of the Management of Enagás, which is also responsible for defining, adapting and maintaining the management and internal control systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- The guidelines for reviewing Corporate Responsibility Reports, issued by the Spanish Official Register of Auditors of Accounts (ICJCE).
- Standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with the following scopes:
 - Reasonable scope of assurance for the indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1 and GRI 405-1, included in the GRI Standards content index as an Annex.
 - Limited scope of assurance for the rest of indicators included in the aforementioned content index.
- Regulation AA1000 AccountAbility Assurance Standard 2008, with a type 2 moderate level of assurance.

Applied procedures

Our review consisted in requesting information from Enagás' corporate managers and the various business units participating in the preparation of the Report, applying processes and analytical procedures, and sampling review tests as described in the general terms below:

- Interviews with the staff in charge of the preparation of the sustainability information in order to gain a deep understanding of how the objectives and sustainability policies are considered, set into practice and integrated within Enagás Group's global strategy.

- Reviewing the processes for the compilation and validation of the sustainability information included in the attached Report.
- Checking the processes held by Enagás Group in order to define the material aspects and stakeholder participation.
- Reviewing the adaptation of the structure and content of the sustainability information as indicated in the GRI Sustainability Reporting Standards of the *Global Reporting Initiative* and the *Oil and Gas Sector Supplement* in accordance with the comprehensive option and the principles of regulation AA1000 APS 2008.
- Checks on selected samples of the quantitative and qualitative information of the indicators included in the GRI Standards content index in the Annex, as well as their adequate compilation from data supplied by information sources. The review tests have been defined to provide the aforementioned assurance levels.
- With regard to the indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1 and GRI 405-1, several interviews with the responsible staff for the management and the reporting systems of this information have been carried out. A general understanding of the IT internal controls has been obtained, through specific checks on the most relevant.
- On site visit to the regasification plant in Barcelona, which has been selected according to a risk analysis, and where it has been taken into account both quantitative and qualitative criteria in order to review specific indicators.
- Concordance analysis between the information included in the Annex "Self-assessment of adoption of integrated reporting principles and elements" about the progress in the elaboration of the Report under an integrated report approach based on the principles and the elements of the international framework for integrated reports of the *International Integrated Reporting Council*, and the information included in the Annual Report.
- Verification of the fact that the information regarding energetic consumption and greenhouse gases included in the Report has been reviewed by independent third parties according to the standard ISO 14064-3.
- Checking that the financial information included in the Report has been audited by independent third parties.

These procedures have been applied on the sustainability information included in the attached Report, with the aforementioned scope.

The scope of our review, except for the indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1 and GRI 405-1, is considerably lower than a reasonable assurance report. Therefore, the degree of assurance is also less extensive. This report in no case should be considered as an audit report.



Independence

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).

Our work has been performed by a team of sustainability experts with a wide experience in reviewing this type of information.

Conclusions

In our opinion, the indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1 and GRI 405-1, which have been reviewed with a reasonable level of assurance, have been prepared and presented, in all their significant aspects, according with the GRI Standards sustainability reporting guideline, which includes the data reliability, the adequacy of the information presented and the absence of significant deviations and omissions.

Moreover, as a result of our limited review, we conclude that no matter came to our attention that would indicate that the rest of sustainability information included in the Report has not been prepared, in all its significant aspects, according to the GRI Standards sustainability reporting guideline and the Oil and Gas Sector Supplement, which includes the data reliability, the adequacy of the information presented and the absence of significant deviations and omissions, with regard to the review of the GRI Standards content index included as an Annex.

In relation to the implementation by Enagás Group of the AA1000 APS 2008 Regulation, no matter came to our attention that would indicate that Enagás Group has not applied the principles of inclusivity, materiality and responsiveness according to the information included in the Annex "About our Annual Report".

Recommendations

We have presented to the Management of Enagás our recommendations with regard to the improvement areas regarding the implementation of the principles stated in the regulation AA1000 APS (2008). The most significant recommendations refer to:

- **Inclusivity:** The Company holds mechanisms for the identification of stakeholders. We recommend continued expansion in the identification of stakeholders within all the countries in the company's field of activity.
- **Materiality:** The most significant sustainability aspects are identified by the Company. We recommend to include more details for each material aspect in the materiality matrix in order to obtain the most accurate view of materiality for Enagás Group.
- **Responsiveness:** The Company holds mechanisms for the elaboration and communication of the answers to the main stakeholders' expectations. We recommend continued work in the development of communication with new stakeholders identified in all the areas where the company carries out its activities.

This report has been prepared solely for the management of Enagás, in accordance with the terms set out in our engagement letter.

ERNST & YOUNG, S.L.



(Free translation from the Original Report on Independent Review in Spanish dated 20th February 2016. In case of any discrepancy, the Spanish version always prevails.)

Contents of the Global Compact

The Global Compact is an ethical commitment initiative designed so that entities from all countries can adhere to, as an integral part of their strategy and operations, ten universal principles governing conduct and action on matters concerning Human Rights, labour, the environment and the fight against corruption.

Enagás has been a member of the United Nations Global Compact since 2003 and regularly renews its commitment, maintaining a public and transparent record of the progress it has made in this field in an annual report published on the Global Compact website at (www.pactomundial.org).

The links between the ten principles of the Global Compact and the GRI indicators considered in this report are listed in the table below, in accordance with the guidelines for using GRI sustainability reporting in the preparation of a United Nations Global Compact Communication on Progress, published by the United Nations Global Compact Office in May 2007.

To make it easier to identify the activities most directly related to the principles of the Global Compact, Enagás has singled out the GRI indicators that have a direct bearing on these principles. The table below indicates the pages of this report in which this information is contained.

GC	Human Rights	GRI Standard indicators	Pages
1	Companies must support and protect internationally acknowledged fundamental Human Rights within their sphere of influence	GRI 410-1, 411-1, 412-1, 412-2, 412-3, 414-1, 414-2	56, 57, 66, 117-120, 139-140
2	Companies must ensure they are not a party to Human Rights infringements	GRI 410-1, 412-3	56, 66
Labour standards			
3	Companies must support the freedom of association to trade unions and accept in actual practice the collective bargaining process	GRI 102-41	65
4	Companies must support all steps to eradicate forced or coerced labour	Management approach to ethical compliance and Human Rights	58, 64
5	Companies must support the eradication of child labour	Management approach to ethical compliance and Human Rights	58, 64
6	Companies must support the abolition of discriminatory practices in employment and occupation	GRI 401-1, 405-1, 405-2	42-43, 65, 69-70, 75, 80
Environment			
7	Companies must uphold a preventive approach that helps protect the environment	GRI 305-5, Environmental management approach	100-113
8	Companies must promote initiatives that foster greater environmental responsibility	GRI 302-4, 302-5, 304-3, 304-4, 305-5, 306-1, 306-2	97-98, 110, 112, 141
9	Companies must foster the development and dissemination of environmentally friendly technology	GRI 302-4, 302-5, 304-3, 304-4, 305-5, 306-1, 306-2	97-98, 110, 112, 141
Anti-corruption			
10	Entities must work against corruption in all its forms including extortion and bribery	GRI 205-1, 205-3	138, 63

Contact

[GRI 102-1, GRI 102-3, GRI 102-53]

Please address any comments, requests for clarification or suggestions in connection with this report to:

Enagás S.A.

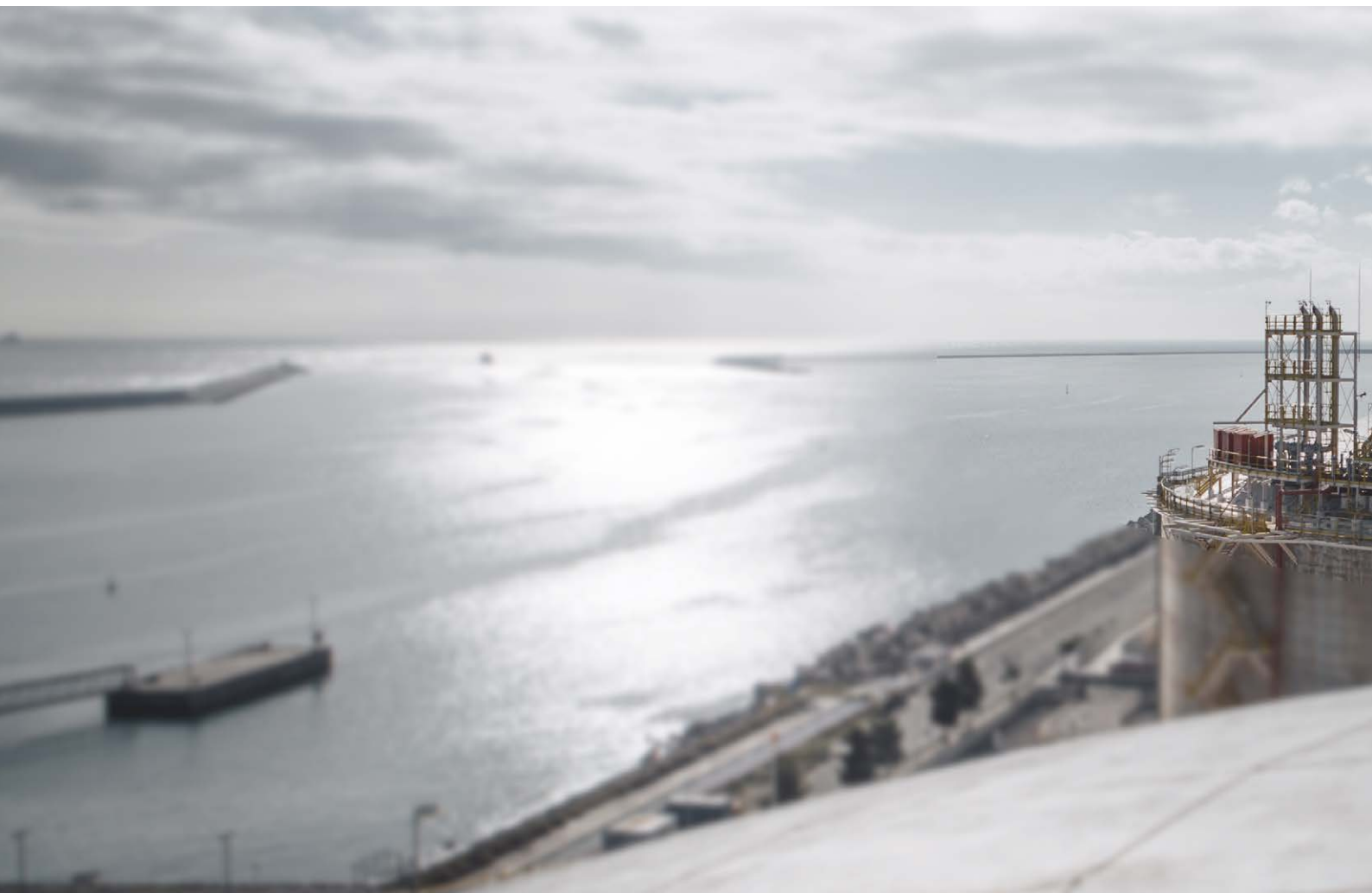
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7



Annual Corporate Governance Report For Listed Companies

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

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%

Name or corporate name of indirect shareholder	Through: name or corporate name of the direct owner of the shareholding	Number of voting rights
RETAIL OEICS AGGREGATE	RETAIL OEICS AGGREGATE	2,410,274
BANK OF AMERICA CORPORATION	BANK OF AMERICA CORPORATION	8,627,588

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

A.3 Complete the following tables on members of the Board of Directors holding voting rights through company shares:

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	50	0.00%
MR MARCELINO OREJA ARBURÚA	3,875	0	0.00%
MR RAMÓN PÉREZ SIMARRO	100	0	0.00%
MR ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.02%
MR MARTÍ 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	5.00%

Name or corporate name of indirect shareholder	Through: name or corporate name of the direct owner of the shareholding	Number of voting rights
MR GONZALO SOLANA GONZÁLEZ	INVESTIGACIÓN Y DESARROLLO DE ESTUDIOS APLICADOS, S.L.	50

% 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 ANTONIO LLARDÉN CARRATALÁ	69,711	0	69,711	0.03%
MR MARCELINO OREJA ARBURÚA	27,744	0	27,744	0.01%

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: 11,630 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: 16,091 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: 3,249 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

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

Yes No

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

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

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.

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 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

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

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

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

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	
27/03/2015	0.09%	46.28%	0.00%	8.42%	54.79%
18/03/2016	0.15%	42.89%	0.00%	7.74%	50.78%

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

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 or 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	Representative	Director category	Position on the board	Date of first appointment	Date of last appointm.	Election procedure
MR LUIS VALERO ARTOLA		Independent	DIRECTOR	28/04/2014	28/04/2014	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS ANA PALACIO VALLELERSUNDI		Independent	DIRECTOR	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR GONZALO SOLANA GONZÁLEZ		Independent	DIRECTOR	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	24/04/2013	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR RAMÓN PÉREZ SIMARRO		Independent	DIRECTOR	17/06/2004	24/04/2013	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 CARRATALÁ		Executive	CHAIRMAN	22/04/2006	25/03/2014	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR MARTÍ PARELLADA SABATA		Independent	DIRECTOR	17/03/2005	24/04/2013	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS ROSA RODRÍGUEZ DÍAZ		Independent	DIRECTOR	24/04/2013	24/04/2013	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR LUIS JAVIER NAVARRO VIGIL		Other External	DIRECTOR	09/07/2002	25/03/2011	VOTE AT GENERAL SHAREHOLDERS' MEETING
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MR FEDERICO FERRER DELSO	Proprietary	DIRECTOR	25/04/2008	18/03/2016	VOTE AT GENERAL SHAREHOLDERS' MEETING
Total number of Directors						13

Indicate any board members who left during this period.

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 CARRATALÁ	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 proprietary directors	2
% of the Board	15.38%

INDEPENDENT EXTERNAL DIRECTORS**Name or corporate name of Director****MR LUIS VALERO ARTOLA****Profile:**

- Trade Technical Expert and State Economist.
- 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 World Economic Forum's Global Agenda Council and Member of the Executive Board of the Atlantic Council of the United States.
- 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).
- Senior Vice-President and member of the Executive Committee of AREVA (2008-2009).
- Senior Vice-President and General Counsel of the World Bank (2006-2008).
- Secretary General of the International Center for the Settlement of Investment Disputes (2006-2008).
- Member of the Spanish Parliament, Chair of the Joint Committee of the Two Houses for EU affairs (2004-2006).

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

MR RAMÓN PÉREZ SIMARRO

Profile:

- Former Director General of Energy.
- Former General Secretary of Energy and Mineral Resources.
- Former General Technical Secretary of the Ministry of Industry.
- Former lecturer, Universidad Autónoma de Madrid.

Name or corporate name of Director

MS ISABEL TOCINO BISCAROLASAGA

Profile:

- Elective member of the Spanish Council of State.
- Independent Director of Banco Santander.
- 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

MR MARTÍ PARELLADA SABATA

Profile:

- Professor at the University of Barcelona.
- Member of the Board of Trustees and Standing Committee of Hospital Clinic de Barcelona.
- Deputy Chairman and Director of the Barcelona Economic Institute Foundation.
- Trustee of the Energy and Environmental Sustainability Foundation.

Name or corporate name of Director**MS ROSA RODRÍGUEZ DÍAZ****Profile:**

- Doctorate in Economics and Business Administration.
- Lecturer at the Las Palmas de Gran Canaria University's Economics and Business Administration Faculty.
- Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands.
- Former Vice-President of Gran Canaria's Cabildo Council.

Total number of Independent Directors	8
% of the Board	61.54%

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.

Total number of other external directors	1
% of the Board	7.69%

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

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				% of total directors of each type			
	2016	2015	2014	2013	2016	2015	2014	2013
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%	33.33%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	3	3	3	3	23.08%	23.08%	20.00%	20.00%

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

Article 25.2 of the Regulations of the Board of Directors stipulates that the Appointments, Remuneration and Social Corporate Responsibility Committee's duties and responsibilities include establishing a goal concerning the representation of the less-represented gender on the Board of Directors and preparing guidelines on how this goal can be achieved, in line with the recommendations of the Good Governance Code.

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 21 November 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 conclusions

The report by the Appointments, Remuneration and CSR Committee of 9 February 2016 justifying the proposed re-election of a Director for the 2016 General Shareholders' Meeting includes the following:

"The Committee considers that thirteen members is a suitable number for the correct working of the Board, and therefore proposes that this number of Directors is maintained.

After the proposed appointment and re-elections, the Board maintains the number of its majority of independent members. Of its thirteen members, seven are Independent Directors, while the number of women on the Board will remain at three, and these women will moreover exercise important functions within the Board: Ms Isabel Tocino Biscarolasaga is Chair of the Appointments, Remuneration and CSR Committee; Ms Ana Palacio Vallelersundi is Coordinating Independent Director and Spokesperson for the Appointments, Remuneration and CSR Committee; and Ms Rosa Rodriguez Díaz, whose re-election is now put forward, is the spokesperson for the Audit and Compliance Committee.

Since 2012, the company has separated the posts of Chairman of the Board of Directors and Chief Executive Officer and since 2010 it boasts a Lead Independent Director, the post held by Ms Ana Palacio Vallelersundi, providing an additional guarantee that the Board is functioning properly.

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.

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

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 TRANSPORTISTA DE GAS CANARIAS, S.A.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	ENAGÁS CHILE, S.P.A.	BOARD DELEGATE	NO
MR MARCELINO OREJA ARBURÚA	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
MR MARCELINO OREJA ARBURÚA	ENAGÁS EMPRENDE, S.L.U.	JOINT ADMINISTRATOR	YES

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
MS ISABEL TOCINO BISCAROLASAGA	BANCO SANTANDER, 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 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 remuneration ^(*)	4,359
Cumulative amount of rights of current Directors in pension scheme ^(*)	2,401
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 RODRÍGUEZ SUÁREZ	General Manager of Infrastructures
MR JESÚS LUIS SALDAÑA FERNÁNDEZ	General Manager Business Development
MR JUAN ANDRÉS DÍEZ DE ULZURRUN MORENO	General Manager Engineering
MR FRANCISCO BORJA GARCÍA-ALARCÓN 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
Total remuneration received by senior management (thousands of euros)	3,532

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

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 evaluation focused on issues in which the Directors showed an interest or concern in the 2015 evaluation, with few comments by Directors on them, largely because of the new initiatives undertaken in 2016 to improve the preparation and development of the Board and Board Committee meetings. Certain individual areas of improvement were identified and the interest was shown in having specific information on the development of new international projects involving the company. Special attention was paid in this respect in 2016.

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?

Yes No

If applicable, describe the differences.

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

Yes No

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

Yes No

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

Yes No

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 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
Number of Board meetings held without the Chairman's attendance	0

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.

Number of meetings	0
--------------------	---

Indicate the number of meetings of the various board committees held during the year.

Committee	No. of meetings
AUDIT AND COMPLIANCE COMMITTEE	6
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	4

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:

Number of meetings with all members present	10
% of attendances of the total votes cast during the year	100.00%

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

Yes 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
MR FRANCISCO BORJA GARCÍA-ALARCÓN ALTAMIRANO	CHIEF FINANCIAL OFFICER
MR ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN

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.

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.
- 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.
- 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.
- Assessing any proposals made by senior managers regarding changes in accounting practices.
- 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.
- 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

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:

- By ensuring that the company and External Accounts Auditor adhere to the current laws regarding auditor independence.
- 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.
- Establishing the appropriate relations with the External Accounts Auditor in order to receive information on matters that could jeopardise their independence and on potential safeguard measures.
- Authorising services other than those that are prohibited, in accordance with applicable legislation.
- In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
- 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.
- 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.
- 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.

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

Outgoing auditor	Incoming auditor
Deloitte, S.L.	Ernst & Young, S.L.

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

Yes No

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

	Company	Group	Total
Amount of non-audit work (thousands euros)	104	36	140
Amount of non-audit work as a % of the total amount billed by the audit firm	15.00%	8.00%	13.00%

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

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
Number of consecutive years	1	1
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	0.63%	0.63%

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

Yes 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 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 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 No

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.

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	10
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 EIGHT (8) 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 EIGHT (8) 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 authorising clauses	Yes	No

	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
MR MARTÍ PARELLADA SABATA	CHAIRMAN	Independent
MS ROSA RODRÍGUEZ DÍAZ	Member	Independent
MR GONZALO SOLANA GONZÁLEZ	Member	Independent
MR LUIS VALERO ARTOLA	Member	Independent
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Member	Proprietary
% of Proprietary Directors		20.00%
% of Independent Directors		80.00%
% of other External Directors		0.00%

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 (4) of the Committee's members are independent, including the Chairman of the Committee, MR MARTÍ PARELLADA SABATA, and only one (1), SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is a Proprietary Director.

MR MARTÍ PARELLADA SABATA, an Independent 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 2016, the Audit and Compliance Committee met six 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	4

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 2016, the Enagás Committee met four (4) 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							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	20.00%	1	20.00%	1	20.00%	1	20.00%
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	2	33.33%	1	20.00%	1	16.67%	1	20.00%

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 or 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 2016, 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 or 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)
BANK OF AMERICA CORPORATION	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	11,630
RETAIL OEICS AGGREGATE	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,249

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)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	ENAGÁS, S.A	Director	Dividends and other benefits paid	16,091

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): 3,216

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): 1,824

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): 188

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): 2,114

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): 9,464

Brief description of the transaction: Guarantees and sureties extended.

Corporate name of the Group company:

SWEDEGAS, AB

Amount (in thousands of euros): 24,779

Brief description of the transaction: Guarantee commitment.

Corporate name of the Group company:

MORELOS EPC SAPI DE CV

Amount (in thousands of euros): 3

Brief description of the transaction: Gains on sales of assets.

Corporate name of the Group company:

PLANTA DE REGASIFICACIÓN DE SAGUNTO, S.A. (SAGGAS)

Amount (in thousands of euros): 11

Brief description of the transaction: Gains on sales of assets.

Corporate name of the Group company:

ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

Amount (in thousands of euros): 1,940

Brief description of the transaction: Investment commitments acquired.

Corporate name of the Group company:

TRANS ADRIATIC PIPELINE AG

Amount (in thousands of euros): 212,800

Brief description of the transaction: Investment commitments acquired.

Corporate name of the Group company:

ESTACION DE COMPRESION SOTO LA MARINA EPC SAPI DE CV

Amount (in thousands of euros): 3,549

Brief description of the operation: investment commitments acquired.

D.5 Indicate the amount from related party transactions.

148,262 (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:

- e) 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

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

E. 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. 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 approve 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.

- 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 2016, similar to that of 2015, 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 2016 related to its heavy exposure to regulatory risk, as certain regulatory developments had a negative impact on the company. Similarly, certain operational and technological risks were recorded in respect of incidents with infrastructures and systems for minor sums caused by circumstances inherent in operations and business.

Likewise, the agreement for financial closure was not achieved as scheduled by GSP (the company holding the concession for the Southern Peru Gas Pipeline, in which Enagás has a stake), leading to the termination of the concession. Under the terms contained in the concession agreement and other agreements signed between the partners, the Enagás Group is expected to recover its investment in the project.

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 business risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- 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:

F.1.1. 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 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 2013 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
- 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 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.

In 2016, the Finance Department and the Internal Audit Department took part in various training programmes, including: Internal Audit and Risk Management, Data Migration Audit, Cybersecurity and Internal Audit, Internal Control over Financial Information, Definition of Risk Assessment Mapping, Prevention and Investigation of Fraud, among 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. Until 2014, the process followed the COSO (1992) (Committee of Sponsoring Organisations of the Treadway Commission) framework. One of the objects was to help ensure that transactions were recorded faithfully in accordance with the related accounting framework so it could provide reasonable assurance regarding the prevention or detection of errors that could have a material impact on the information contained in the consolidated financial statements. In 2015, the model was adapted to the new COSO 2013 framework set out in its Internal Control-Integrated Framework report.

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. 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 2016, 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 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 29 cycles and 66 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 2016, there were 378 ICFR process controls, approximately 12% 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 2016, there were 849 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.

The Accounting and Tax Department 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 2016 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

There is no other relevant information regarding ICFR at the Group to add to that which we have provided above.

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 2016 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.

Compliant **Explain**

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**

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 **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 **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 **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.

Compliant **Partially compliant** **Explain**

7. The company should live broadcast its general meetings on the corporate website.

Compliant **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 **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 **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 **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

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 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 Explain

14. The Board of Directors should approve a Director selection policy that:

- a) Is concrete and verifiable.
- a) 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 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 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 **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 **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 **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**

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 **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 **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 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

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 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 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 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 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 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 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 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 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 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 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 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 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 **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**

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**

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 **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 **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 **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 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 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 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 Partially compliant Explain

46. Companies should establish a risk control and management function in charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board Committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

Compliant **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 **Partially compliant** **Explain**

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant **Explain** **Not applicable**

The amendments to the Articles of Association proposed by the Board of Directors for the 2015 General Shareholders' Meeting include the amendment to article 45 to allow the split of the Appointments, Remuneration and CSR Committee into two separate committees.

The Board of Directors will study when to separate the Appointments, Remuneration and CSR Committee into two separate committees.

49. The Appointments, Committee should consult with the company's chairman and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates that it might consider suitable.

Compliant **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 **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 **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 **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 **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 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 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 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 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 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 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 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 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 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 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 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, 2016.

APPENDIX III.- Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2016.

APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2016.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 13 February 2017.

List whether any Directors voted against or abstained from voting on the approval of this Report.

Yes No

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 2016 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.

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 2015, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2015 of 6,833 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 4,797 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 11,630 thousands of euros.

On 5 July 2016, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2015 of 9,454 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 6,637 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 16,091 thousands of euros.

On 5 July 2016, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2015 of 1,909 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 1,340 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 3,249 thousands of 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.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:

- 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 and administrators, appoint representatives; accept and reject debtors' proposals and appoint members of conciliation bodies.
5. 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.
6. 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.
7. 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.
8. 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.
9. Lease property as the lessor or lessee thereof.
10. Enter into finance lease agreements, subject to such terms and conditions as he may freely determine.
11. 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.
12. 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.
13. 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.

14. 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.
15. 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.
16. 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.
17. 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.
18. 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.
19. 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.

20. 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.
21. 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.
22. Acquire and dispose of intellectual and industrial property rights.
23. Organise, direct and inspect all of the company's services and installations and verify audits of company funds.
24. 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.
25. Grant loans and credits to company staff and agree subsequent renewals, alterations, subrogations and cancellations thereof.
26. 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.
27. 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.
28. 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.
29. 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.
30. 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.
31. 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.
32. 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.
33. 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.
34. 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, which can be jointly executed for any amount with another authorised 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.

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.1.17.-

Mr Federico Ferrer Delso, individual representing the Director SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), is the Deputy Chairman of SEPI.

Explanatory note on section C.1.19.-

Re-election:

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.

Appraisal:

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.-

The new law provides a more restrictive treatment of services other than audit, which are considered to include any verification service other than the audit of annual accounts and the revision of interim financial statements as auditing. In this sense, the law stipulates a limit to services other than audit, which during three consecutive years may not exceed 70% of the average fees paid for audit services.

As stated in Note 2.3 of the Annual Accounts, the entry for services other than audit reported by Enagás on 31 December 2016 accounted for 53% of fees paid for audit services (47% for the group).

By homogeneously applying the criteria of the new law to FY 2015, services other than audit would have totalled 796 thousands of euros (compared to the 59 thousands of euros reported by the company and Group), which represented 57% of the total services rendered by the auditor in 2015 (1,336 thousands of euros for the company and 1,385 thousands of euros 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 comprise 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 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.
 - g) 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, 2015, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2015 of 6,833 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 4,797 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 11,630 thousands of euros.

On 5 July 2016, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2015 of 1,909 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 1,340 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 3,249 thousands of 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 2016, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2015 of 9,454 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2016, a 6,637 thousands of euros interim dividend against 2016 earnings was paid. The total dividend paid therefore stands at 16,091 thousands of euros.

The remuneration received by the Board of Directors in 2016 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 2017 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 rated under normal market conditions..

For the item Services received, the company was invoiced for **34,449 thousands of euros**, and for the item Services rendered, the company invoiced for **14,259 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	2,430
Enagás Internacional S.L.U.	Banco Santander, S.A.	Finance cost	988
Enagás Financiaciones, S.A.U.	Banco Santander, S.A.	Finance cost	435
Total finance cost, other related parties			3,853
Enagás, S.A.	Banco Santander, S.A.	Agent Services	17
Enagás Transporte S.A.U.	Banco Santander, S.A.	Vehicle leasing	146
Enagás Internacional S.L.U.	Newcomer 2000, S.L.U.	Services received	71
Total services received, other related parties			234
Enagás S.A.	Banco Santander, S.A.	Sureties	144,175
Guarantees and sureties received, other related parties			144,175
Total transactions with other related parties			148,262

Transactions with BANCO SANTANDER, S.A.-**Finance costs:**

In 2015, finance costs payable to Santander, S.A. amounted to **3,853 thousands of euros**, of which 2,430 thousands of euros is payable by Enagás S.A., 988 thousands of euros is payable by Enagás Internacional, S.L.U. and 435 thousands of euros is payable by Enagás Financiaciones, S.A.U.

Guarantees and sureties:

Guarantees extended by Banco Santander, S.A. in 2015 amounted to **144,175 thousands of euros**, all of which were granted to Enagás, S.A.

Receipt of services:

Enagás, S.A. incurred expenses of **17 thousands of euros**, as follows:

Services received from Banco Santander				
Item	Amount	Price policy	Payment terms	Guarantees
Agency commission	17	-	-	-

Receipt of services:

Enagás Transporte, S.A.U. incurred expenses of **146 thousands of euros**, broken down as follows:

Services received from Banco Santander				
Item	Amount	Price policy	Payment terms	Guarantees
Vehicle hire	146	-	-	-

Transactions with Newcomer 2000, S.L.U.-**Receipt of services:**

Enagás Internacional, S.L.U. incurred expenses of **71 thousands of euros**, broken down as follows:

Services received from Newcomer 2000				
Item	Amount	Price policy	Payment terms	Guarantees
Advisory services	71	-	-	-

Appendix II.- Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2016

The purpose of this report is to summarize the activities of the Audit and Compliance Committee of Enagás, S.A. during 2016.

Composition during 2016

During the year 2016, the composition of the Committee has remained unchanged.

Chairman

Mr Martí Parellada Sabata, Independent Director.

Members

Sociedad Estatal de Participaciones Industriales (SEPI), represented by its Deputy Chairman, Federico Ferrer Delso. Proprietary Director.

Ms Rosa Rodríguez Díaz, Independent Director.

Mr Gonzalo Solana González, Independent Director.

Mr Luis Valero Artola, Independent Director.

Secretary

Mr Rafael Piqueras Bautista.

As provided in the company's constitutional documents, the Committee called on a number of persons related to matters under their competence for consultation. Accordingly, committee meetings were attended by the Chief Executive Officer (Mr Marcelino Oreja Arburúa), the Chief Financial Officer (Mr Borja García-Alarcón Altamirano), and the Director of Internal Audit (Mr Isidro del Valle Santín). The Chief Risk Officer and the Compliance Officer have also attended meetings of the Committee when the latter has addressed issues related to their functions.

The representatives of the External Auditor (Deloitte, S.L. in 2015 and E&Y in 2016) have also attended regular meetings of the Committee.

Amendment to the legal regulations and corporate texts pertaining to the Audit and Compliance Committee.

The General Shareholders' Meeting of 18 March 2016 agreed to modify Article 44 (Audit and Compliance Committee) of the Articles of Association in order to adapt it to Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 and the wording of Article 529-quaterdecies of the Corporate Enterprises Act by Audit Act 22/2015 of 20 July, and whose integral text is given the following wording:

"Article 44. - Audit and Compliance Committee

The Board of Directors shall appoint from among its members an Audit and Compliance Committee that shall comprise a minimum of three and a maximum of five Directors, based, in particular, on their knowledge and experience of accounting, auditing and risk management. No Executive Director may sit on this Committee.

Overall, the members of the Audit and Compliance Committee shall have the pertinent technical knowledge of the gas industry.

The majority of the Committee must be independent and will be appointed in light of their knowledge and track record in matters of accountancy, auditing, or both. The Committee Chair shall be selected from among the Independent Directors by the Board of Directors and shall not have the casting vote. The Chair must be replaced every four years, and may be re-elected after the lapse of one year from their departure from office.

The Audit and Compliance Committee shall possess functions and competences in the following areas, in addition to those that may be attributed to it in the Articles of Association or the Regulations of the Board of Directors:

- To inform the General Shareholders' Meeting on issues raised in the areas that lie within the Committee's competence and, in particular, 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.
- To oversee the effectiveness of the company's system of internal control, internal auditing and risk management, including taxation risks, as well as discussing with the auditors any significant weaknesses in the internal control system identified during the course of the audit without impinging on its independence. For this purpose, where applicable, recommendations or proposals may be presented to the Board of Directors along with the corresponding time frame in which to deal with them.
- To oversee the process of preparation and presentation of statutory financial reporting and to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
- To formulate proposals for the Board of Directors for selecting, appointing, re-electing and replacing the external auditors, to assume responsibility for the selection process pursuant to the applicable regulations, and regularly evaluate information on the auditing plan and its implementation, in addition to preserving their independence in the exercise of their functions.
- To liaise with the external auditor to obtain information on any issues that could compromise the latter's independence for review by the Committee or any other subjects related to the auditing process. To authorise services, where appropriate, other than those that are prohibited, in accordance with applicable legislation. And to carry out any other disclosure obligations established in legislation on the annual audit process and in auditing standards. In all cases, on an annual basis, the Audit Committee shall receive from the auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them in conformity with the provisions of auditing legislation.
- 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 reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality, that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing of accounts.
- To keep the Board of Directors informed, in advance, on all items provided for in the law, the Articles of Association and the Regulations of the Board of Directors, in particular, in relation to:
 - 1.º the financial information that the company must periodically publish;
 - 2.º the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens and;
 - 3.º Related party transactions.

The meetings of this Committee shall be called by its Chairman and shall be held at least four times a year. The company's external auditor may attend Committee meetings and the Finance Director, head of the Enagás Internal Audit Unit, or any other senior manager of the company or group that the Committee deems appropriate, may also be asked to give account at meetings. The Committee may obtain support and assistance from the aforesaid Executives in the performance of its duties.

The Committee issued its favourable report on the proposed amendments to the aforementioned corporate texts.

Committee activities

The Committee has met six (6) times in 2016. The Chairman of the Committee has reported to the Board the discussions held at each of the meetings of the Committee at the next meeting thereof.

The main areas in which the Audit and Compliance Committee has focused its activity during 2016 are summarized below.

Committee activities relating to the formulation and approval of the Enagás Financial Statements for 2015 Report on the independence of the external auditor. Report on the independence of the External Accounts Auditor.

As in previous years, the Audit Committee was entrusted with the task of discussing and analysing the financial statements prior to their authorization for issue by the Board of Directors. To this end the members of the Committee met with the company's External Auditors (Deloitte S.L.) on 15 February 2016, and also with Enagás' Chief Financial Officer and Director of Internal Audit.

Both the External Auditors and the financial officers of the company offered the Committee their views on the financial statements. Differences in accounting criteria in no case exceeded the materiality threshold above which Deloitte's opinion on the financial statements could be affected. Deloitte informed the Audit Committee that its report would be without reservations or qualifications.

The External Auditors delivered to the Committee a letter in which they state that "in connection with the audit of the consolidated financial statements of Enagás, S.A. and subsidiaries (Enagás Group) for the year ended 31 December 2015, we confirm that to our best knowledge, the team in charge of the audit and Deloitte, S.L., with the extensions that apply to them, have complied with the independence requirements applicable under the provisions of the revised text of the Audit Law, issued by Royal Legislative Decree 1/2011, of 1 July and its implementing regulations." The document then includes below the total amount of the fees paid to Deloitte for the year 2015, classified by type of service.

In turn, the Committee unanimously approved the "Audit and Compliance Committee's Report on the Independence of the External Accounts Auditor" made available to shareholders when publishing the notice of the General Shareholders' Meeting, held on 18 March 2016 and which approved the 2015 financial statements. This report concluded that:

"In view of the information that has been provided, the Audit and Compliance Committee of Enagás has not identified any issues that call into question compliance with the regulations in force in Spain for the audit activity as regards auditor independence and, in particular, the Committee confirms that it has not identified any matters of this nature relating to the provision of additional services to those of the audit, taken individually and as a whole, of any kind".

The following conclusions emerged from the Audit Committee's examination of the 2015 financial statements:

- That the financial statements of Enagás and its Consolidated Group, as submitted to the Committee, gave a true and fair view of the company's equity and results of operations for the year.
- That the financial statements contained sufficient information to be clearly understood, in addition to a sufficient description of the risks faced by the company.
- That the statements respected the generally accepted accounting principles and regulations, on the same terms applied in previous years.
- That the principles of equality of treatment for shareholders and transparency of information reported to the markets had been abided by.

The Committee accordingly resolved to recommend that the Board of Directors of Enagás authorize the financial statements for its issue. At a meeting held on 15 February 2016, the Board of Directors adopted the Committee's recommendation and authorized the financial statements for issue in line with the terms indicated by the Committee. The financial statements and directors' report for 2015 were approved at the General Shareholders' Meeting held on 18 March 2016.

In addition to the above task, as in previous years, the Chairman of the Audit Committee, Mr Parellada, intervened at the Ordinary General Shareholders' Meeting of the company held on 18 March 2016, to explain the most important elements of the financial statements to the company's shareholders and to ensure that they had all the information they needed to be able to vote on the financial statements, which were adopted as proposed by the Board of Directors.

Quarterly accounting reviews.

Throughout 2016, the Committee continued to review the interim financial statements and the limited quarterly reports issued by the auditors.

Specifically it analysed, in conjunction with E&Y, the new auditor for financial years 2016 to 2018, the reports issued by the latter for the first, second and third quarters, respectively. Performing these reviews enables the Committee to minimize the impact of any accounting issues arising in the course of the year, and the members of the Committee and Board of Directors to keep abreast of the opinions of the company's external auditors on annual developments in the balance sheet and income statement.

The Audit Committee considers that both the quarterly reviews carried out by the External Auditor and the committee's own analysis of these reports are essential to ensure strict control over the company's accounting, and they also facilitate the issue of an unqualified audit report at year-end.

The Committee also reviews and approves financial information disclosed by the company each quarter, in line with the good corporate governance recommendations it has adopted.

In particular, the Committee prepared a favourable report on the financial statements for the first half-year which, on its recommendation, were approved by the Board of Directors on 18 July 2016.

Internal Control over Financial Reporting System (ICFR).

The Committee has supervised the Internal Control over Financial Reporting System (hereinafter, ICFR) applied by the company. Both the ICFR and its application during the year are described in the Annual Corporate Governance Report which includes the favourable report of the External Auditor as an Annex. The Committee has reported favourably on the proposed Annual Corporate Governance Report.

External auditor.

The Committee has sought to ensure the independence of the external auditor in the performance of its duties. According to the applicable provisions, it has sought the independence declaration and has issued one of its own as set out above. In addition, following the recommendations of the Corporate Governance Code of listed companies, it has produced a specific report on the independence of the Auditor to be made available to shareholders when publishing the notice of the General Shareholders' Meeting. It has also approved the contracts that the company has signed with the external Auditor, ensuring that they do not affect its independence.

After the enactment of the Audit Act 22/2015 of 20 July, which determines the options applicable to Spain from among the provisions of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 regarding the specific requirements for the legal audit of public-interest entities, the Audit and Compliance Committee announced a call for tenders in order to designate the Accounts Auditor for the upcoming years. The tender process, to which several auditing firms of recognised prestige and ability were invited, took place with the highest guarantees of independence in the work conducted by the Committee. Likewise, during this process the Committee took the necessary measures to guarantee that the firm put forward met the requirements of suitability, independence and compatibility required by the aforementioned provisions.

In view of the proposals presented and other aspects for consideration, the Audit and Compliance Committee, in the exercise of the functions attributed to it under Article 529-quaterdecies 4.e) of the Corporate Enterprises Act, put forward to the Board the nomination of Ernst & Young, S.L. as Accounts Auditors for Enagás, S.A. and its Consolidated Group for the years 2016, 2017 and 2018. The General Shareholders' Meeting held 18 March 2016 adopted the following resolution:

"To appoint as Account Auditors for Enagás S.A. and its Consolidated Group the firm Ernst & Young, S.L. for the years 2016, 2017 and 2018. They are also entrusted with the provision of other auditing services that are required by law and that the company may require until the next General Shareholders' Meeting is held."

Related-party transactions.

The Committee has assumed the functions that the discussed legal and corporate texts attribute thereto in relation to related-party transactions. Under the supervision of the Committee, the company has published the required regular information in this respect, as well as that contained in the Annual Corporate Governance Report.

Following the recommendations of the Corporate Governance Code of listed companies, the Committee produced a report on related-party transactions made available to shareholders when publishing the notice of the General Shareholders' Meeting on 18 March 2016.

Internal auditor.

The Committee approved the Annual Internal Audit Plan for 2016 and the Internal Audit Budget for 2016 in its meeting on 15 February 2016. The Committee has ensured that the Internal Audit Department has adequate human and material resources to carry out its function.

The Director of Internal Audit has reported regularly to the Committee on the development of the Annual Plan and the results of the audits.

Risk control in 2016.

The Audit Committee considers the work on risk control to be particularly important. Periodically, the Chief Executive and the Director of Risks have informed the Committee of the state of risk control and management at the company.

The Chief Executive Director and the Director of Risks presented to the Committee an annual risk report corresponding to 2015 and a report for each of the quarters of 2016, together with a final report for the entire 2016.

Report of proceedings of the Ethics Committee

The Committee has examined the activities of the Ethics Committee, and approved its report for 2016. The Committee has been informed in a timely fashion and in detail regarding the incidents arising in relation to the "Ethics Channel". No significant incidents have been detected during the year in question.

Activities subsequent to year-end

In the opening months of 2016, the Committee continued with its usual activities, in particular assisting the Board of Directors in preparing the financial statements. As in the previous financial year, at a meeting on March 2017 the Audit and Compliance Committee issued a prior favourable report on the 2016 financial statements which will be submitted to the 2017 General Shareholders' Meeting for adoption on 13 February.

And for all appropriate legal reasons, it is hereby stated that the Audit and Compliance Committee approved this report at its meeting held on 13 February 2017.

Secretary of the Board of Directors
Rafael Piqueras Bautista
Enagás, S.A.

Appendix III.- Independent Assurance Report on the “Information Regarding the Internal Control Over Financial Reporting (ICFR) System”



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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. (the “Entity”) contained in Section F of the Annual Corporate Governance Report for the year ended December 31, 2016.

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, 2016, 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.



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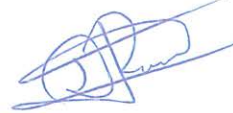
Conclusion

In our opinion, at December 31, 2016, 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, 2016 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.



David Ruiz-Roso Moyano

February 13, 2017

Appendix IV.- Independent Assurance Report on the "Information Regarding The Annual Corporate Governance Report"



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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 2016 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, 2016 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.



David Ruiz-Roso Moyano

February 13, 2017

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Consolidated Financial Statements 2016

Auditor's Report



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Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 34)

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Enagás, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2016, the consolidated income statement, the consolidated statement of recognized income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of Enagás, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit requires performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of Enagás, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions in the regulatory framework for financial information applicable in Spain.

Matter-of-emphasis paragraph

We call attention to the circumstances described in Note 8.1 of the accompanying consolidated financial statements related to the investee Gasoducto Sur Peruano, S.A. This matter does not modify our opinion.

Other matters

On February 16, 2016 other auditors issued their audit report on the 2015 consolidated financial statements, in which they expressed an unqualified opinion.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of Enagás, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.



David Ruiz-Roso Moyano

February 13, 2017

Enagás, S.A. and subsidiaries

Consolidated Financial Statements at December 31, 2016

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2016

(Figures in thousands of euros)

Assets	Notes	12/31/2016	12/31/2015
NON-CURRENT ASSETS		7,960,994	7,072,033
Intangible assets	5	76,419	80,286
Goodwill		25,812	25,812
Other intangible assets		50,607	54,474
Investment properties	7	24,900	24,970
Property, plant and equipment	6	5,002,887	5,183,400
Equity-accounted investments	8 and 32	1,870,973	1,191,105
Other non-current financial assets	8	916,225	518,837
Deferred tax assets	21	69,590	73,435
CURRENT ASSETS		1,286,973	679,885
Inventories	9	18,217	16,881
Trade and other receivables	8 and 10	474,257	426,404
Other current financial assets	8	4,808	7,521
Other current assets		4,237	4,451
Cash and cash equivalents	11	785,454	224,628
TOTAL ASSETS		9,247,967	7,751,918

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2016

(Figures in thousands of euros)

Liabilities	Notes	12/31/2016	12/31/2015
EQUITY		2,462,936	2,391,572
SHAREHOLDER'S EQUITY	12	2,373,681	2,318,911
Issued capital		358,101	358,101
Reserves		1,737,183	1,674,200
Own Shares	12	(8,219)	-
Profit for the year		417,222	412,662
Interim dividend		(132,565)	(126,052)
Other equity instruments	29	1,959	-
NET UNREALISED GAINS (LOSSES) RESERVE	12	74,559	58,226
NON-CONTROLLING INTERESTS (EXTERNAL PARTNERS)	12	14,696	14,435
NON-CURRENT LIABILITIES		5,416,795	4,716,391
Non-current provisions	14	184,367	167,024
Non-current financial liabilities	15	4,888,749	4,192,752
Payables to related parties		-	17
Deferred tax liabilities	21	297,471	306,059
Other non-current liabilities	16	46,208	50,539
CURRENT LIABILITIES		1,368,236	643,955
Current financial liabilities	15	1,194,239	402,754
Trade and other payables	15 and 19	173,997	241,201
TOTAL EQUITY AND LIABILITIES		9,247,967	7,751,918

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Balance Sheet at December 31, 2016

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2016

(Figures in thousands of euros)

	Notes	12/31/2016	12/31/2015
Revenue	22	1,187,994	1,196,366
Revenue from regulated activities		1,146,977	1,159,494
Revenue from deregulated activities		41,017	36,872
Other operating income	22	29,522	25,233
Staff costs	23	(108,754)	(96,301)
Other operating costs	23	(226,271)	(224,948)
Depreciation and amortisation	5 and 6	(271,516)	(289,787)
Impairment losses and gains (losses) on disposal of assets	6 and 7	(458)	(8,600)
OPERATING PROFIT		610,517	601,963
Finance revenue	24	14,257	14,797
Finance and similar costs	24	(121,143)	(108,447)
Exchange differences (net)	24	(867)	630
Change in fair value of financial instruments	24	(5,644)	2,090
NET FINANCIAL GAIN/(LOSS)		(113,397)	(90,930)
Gain (loss) from equity-accounted investments	8 and 32	41,205	46,235
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		538,325	557,268
Income tax	21	(120,157)	(143,587)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		418,168	413,681
Loss attributable to non-controlling interests	12	(946)	(1,019)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		417,222	412,662
Attributable to: Equity holders of the parent		417,222	412,662
BASIC EARNINGS PER SHARE	13	1.75	1.73
DILUTED EARNINGS PER SHARE	13	1.75	1.73

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Income Statement at December 31, 2016

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE AT DECEMBER 31, 2016

(Figures in thousands of euros)

	12/31/2016	12/31/2015
PROFIT FOR THE YEAR	418,168	413,681
INCOME AND EXPENSE RECOGNISED IN EQUITY	(2,422)	21,721
Items that may be reclassified to profit and loss	-	-
Fully consolidated companies	(46,121)	(55,226)
Cash flow hedges	2,604	(15,656)
Translation differences	(48,074)	(43,484)
Tax effect	(651)	3,914
Equity-accounted companies	43,699	76,947
Cash flow hedges	(12,103)	(2,562)
Translation differences	53,003	78,842
Tax effect	2,799	667
TRANSFERS TO THE INCOME STATEMENT	18,755	8,950
Fully consolidated companies	14,267	7,435
Cash flow hedges	19,023	10,326
Tax effect	(4,756)	(2,891)
Equity-accounted companies	4,488	1,515
Cash flow hedges	8,710	2,338
Translation differences	(2,063)	-
Tax effect	(2,159)	(823)
TOTAL RECOGNISED INCOME AND EXPENSE	434,501	444,352
Attributed to non-controlling interests	946	1,019
Attributed to the parent company	433,555	443,333

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Statement of Income and Expense for the year ended at December 31, 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31 2016

(Figures in thousands of euros)

	Note	Capital	Share premium and service	Equity Instruments	Own shares	Profit of the year	Interim dividend	Net unrealised gains (losses) reserve	Non-controlling interested	Total Equity
BALANCE AT BEGINNING OF 2015		358,101	1,578,022	-	-	406,533	(124,142)	27,555	14,247	2,260,316
Adjustments due to changes in policies in 2015		-	-	-	-	-	-	-	-	-
Restatements for 2015 errors		-	-	-	-	-	-	-	-	-
ADJUSTED BALANCE AT JANUARY 1 2015		358,101	1,578,022	-	-	406,533	(124,142)	27,555	14,247	2,260,316
Total recognised income and expense		-	-	-	-	412,662	-	30,671	1,019	444,352
Transactions with shareholders		-	-	-	-	(186,213)	(126,052)	-	(831)	(313,096)
Dividends paid		-	-	-	-	(186,213)	(126,052)	-	(831)	(313,096)
Other changes in equity		-	96,178	-	-	(220,320)	124,142	-	-	-
Transfers between equity items		-	-	-	-	(220,320)	-	-	-	(220,320)
Other variations		-	96,178	-	-	-	124,142	-	-	220,320
BALANCE AT DECEMBER 31 2015		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
BALANCE AT BEGINNING OF 2016		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
Adjustments due to changes in policies in 2016		-	-	-	-	-	-	-	-	-
Restatements for 2016 errors		-	-	-	-	-	-	-	-	-
SALDO AJUSTADO AL INICIO DEL EJERCICIO 2016		358,101	1,674,200	-	-	412,662	(126,052)	58,226	14,435	2,391,572
Total recognised income and expense		-	-	-	-	417,222	-	16,333	946	434,501
Transactions with shareholders		-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Dividends paid		-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Operations Involving Own Shares		-	-	-	(8,219)	-	-	-	-	(8,219)
Other changes in equity		-	62,983	1,959	-	(223,828)	126,052	-	80	(32,754)
Payments Based on Equity Instruments		-	-	1,959	-	-	-	-	-	1,959
Transfers between equity items	Note 15	-	-	-	-	(223,828)	-	-	-	(223,828)
Other variations		-	62,983	-	-	-	126,052	-	80	189,115
BALANCE AT DECEMBER 31 2016		358,101	1,737,183	1,959	(8,219)	417,222	(132,565)	74,559	14,696	2,462,936

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Statement of Changes in Equity at December 31, 2016

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

(Figures in thousands of euros)

	Notes	12/31/2016	12/31/2015
PROFIT BEFORE TAX		538,325	557,268
Adjustments to profit		329,221	338,975
Depreciation and amortisation expense	5 and 6	271,516	289,787
Other adjustments to profit		57,705	49,188
Change in working capital		(128,927)	(23,085)
Inventories		(1,336)	(1,195)
Trade and other receivables	10	(100,448)	(4,817)
Other current assets and liabilities		(89)	344
Other non-current assets and liabilities		949	(1,221)
Trade and other payables	19	(28,003)	(16,196)
Other cash flows used in operating activities		(196,229)	(246,139)
Interest paid		(96,241)	(114,653)
Interest received		14,396	10,898
Income taxes paid	21	(116,442)	(143,656)
Other cash inflows/(outflows)		2,058	1,272
NET CASH FROM OPERATING ACTIVITIES		542,390	627,019
Payments for investments		(912,130)	(539,154)
Subsidiaries and associates	2, 3 and 8	(820,086)	(412,843)
Property, plant and equipment and investment property	5 and 6	(92,033)	(121,159)
Non-current assets held for sale		-	-
Other financial assets		(11)	(5,152)
Proceeds from disposals		12,170	8,944
Subsidiaries and associates		12,170	8,944
Non-current assets held for sale		-	-
Other cash flows from financing activities		86,262	46,568
Other cash inflows (outflows) from investing activities	8	86,262	46,568
NET CASH USED IN INVESTING ACTIVITIES		(813,698)	(483,642)
Receivables (and Payments) for equity Instruments		(8,219)	-
Equity Instruments Acquisition	12	(8,219)	-
Receivables (and Payments) for financial liabilities	15	1,163,354	(157,410)
Issues		4,178,904	1,518,407
Repayments and redemptions		(3,015,550)	(1,675,817)
Dividends paid	12	(322,164)	(313,097)
NET CASH USED IN FINANCING ACTIVITIES		832,971	(470,507)
EFFECT OF CHANGES IN CONSOLIDATION METHOD		-	-
Effect of changes in exchange rates		(837)	309
NET DECREASE IN CASH AND CASH EQUIVALENTS		560,826	(326,821)
Cash and cash equivalents at 1 January		224,628	551,449
CASH AND CASH EQUIVALENTS AT DECEMBER 31	11	785,454	224,628

Notes 1 to 34 to the accompanying Financial Statements are integral part of the Consolidated Cash Flow Statement at December 31, 2016.

1. Group activity

The parent company Enagás, S.A. was incorporated in Spain on July 13, 1972 in accordance with the Spanish Limited Liability Companies Law. Its corporate purpose is:

- The regasification, basic and secondary transport and storage of natural gas, by means of or through the corresponding owned or third-party gas infrastructures and facilities, and the performance of ancillary or related activities.
- The design, construction, commissioning, exploitation, operation and maintenance of all manner of gas infrastructures and complementary facilities, including control, remote control and telecommunications networks of any kind and electric grids, owned by it or third parties.
- The performance of all the duties related to the technical management of the gas system.
- The transport and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, by means of or through the corresponding owned or third-party infrastructure, and the design, construction, commissioning, exploitation, operation and maintenance of all manner of complementary infrastructure and facilities required to this end.
- The business of exploiting the heat, cooling and energy properties associated with or deriving from its core businesses.
- The provision of a range of services, including engineering, construction, advisory and consultancy services, in connection with the businesses constituting its corporate purpose, and participation in activities related to the management of the natural gas market to the extent compatible with the business activities vested in the Company by the law.

The foregoing activities may be carried out by Enagás, S.A. itself or through investees with an identical or analogous corporate purpose, subject to the scope and limits laid down in prevailing applicable oil and gas legislation. Under prevailing legislation, regulated transport and technical management activities of the system must be performed by two wholly-owned subsidiaries (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Accordingly, the following activities also form part of the corporate purpose:

- Management of the corporate group comprising the Company's equity investments in the companies constituting that group.
- The provision of assistance or support services to the Group companies and investees, to which end the Company may also extend any guarantees and securities deemed opportune.

Its registered office is at Paseo de los Olmos, no. 19, 28005, Madrid. The Articles of Association and other public information about the Company and its Group may be consulted on its web page, www.enagas.es, and at its registered office.

Enagás, S.A. is the parent of a group of companies that includes interests in subsidiaries, associates, jointly controlled operations and joint ventures engaged in the natural gas transport, storage and regasification business and which, together with Enagás, S.A., form the Enagás Group (the Group). Consequently, Enagás, S.A. is required to prepare consolidated financial statements for the Group in addition to its own financial statements, which also include information on its interests in subsidiaries, associates, jointly controlled operations and joint ventures.

The consolidated financial statements of the Group and those of each of the entities that compose the Group for 2016, which have served as the basis for the preparation of these consolidated financial statements, are pending approval by their respective Ordinary General Shareholders' Meetings and it is expected they will be approved without any modifications.

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

2. Basis of presentation of the financial statements and consolidation principles

2.1. Basis of presentation

The consolidated financial statements of the Enagás Group for 2016 were prepared based on the accounting records maintained by the parent company and the other entities forming part of the Group, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

For the preparation of these consolidated financial statements, all accounting policies and standards and mandatory measurement bases have been taken into consideration in order to present fairly the equity and financial position of the Group at December 31, 2016, the results of its operations, and the changes in its equity, cash flows and recognised income and expense during the year then ended.

The Consolidated Financial Statements for 2015 of the Enagás Group that are included for comparison purposes have also been prepared in accordance with IFRS as adopted by the European Union in a manner consistent with prior years, except for the standards and interpretations applicable to the Group that entered into force in 2016 (described in Note 2.6) and, if applicable, have been used by the Group in the preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements of the Enagás Group for 2016 were authorised for issue by the directors at their Board meeting held on February 13, 2017. The separate and consolidated financial statements for 2015 were approved by the shareholders of Enagás, S.A. at the General Meeting held on March 18, 2016 and were subsequently filed at the Madrid Mercantile Registry.

Notes 2.4, 2.6 and 3 include a summary of the most significant accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2016.

2.2. Responsibility for the information and estimates made

The information included in these consolidated financial statements is the responsibility of the directors of the parent company (Enagás, S.A.).

The Group's 2016 consolidated financial statements include estimates made by senior management of the Group and of the consolidated entities – subsequently ratified by their directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates relate basically to the following:

- The useful life of intangible assets and the assets recognised as property, plant and equipment (see Notes 3.b and 3.c).
- Provisions for dismantling/abandonment costs (see Note 3.c)
- The measurement of non-financial assets to determine impairment losses (see Note 3.d)
- Recognition of investments accounted for by the equity method (see Note 3.g).
- The fair value of financial instruments (see Note 3.i).
- Recognition of provisions and contingencies (see Note 3.m).
- The calculation of income tax and deferred tax assets (Note 3.p).
- The fair value of equity instruments granted under the long-term bonus plan (see Note 3.r).

Although these estimates were made on the basis of the best information available at December 31, 2016 regarding the facts analysed, it is possible that future events may require them to be modified (upwards or downwards) in the years ahead. This would be carried out prospectively, recognising the effects of the changes to accounting estimates in the consolidated income statement, as is stipulated in IAS 8.

The consolidated balance sheet at December 31, 2016 included negative working capital amounting to 81,263 thousand euros, as a consequence of recognizing trade payables relating to the Gasoducto Sur Peruano, S.A. project (hereinafter GSP) under current liabilities, as disclosed in Note 15. In the opinion of the parent company's directors, this situation will be resolved via the availability of unused credit lines (see Notes 12 and 15) as well as the business plan approved by them.

2.3 Changes in the scope of consolidation

The following changes in the consolidation scope of the Enagás Group occurred during 2016:

- On April 21, 2016, once the deadline for exercising the preferential subscription rights granted to the remaining partners had elapsed without any of them exercising said rights, the acquisition by Enagás Internacional, S.L.U. of an additional 1.64% interest in Transportadora de Gas del Perú, S.A. (hereinafter, TgP), amounting to 31,900 thousand US dollars (28,253 thousand euros) paid to Graña y Montero, S.A.A., became effective.

Subsequently, on December 15, 2016, and once the deadline for exercising the preferential subscription rights had elapsed without any partner exercising said rights, the acquisition by Enagás Internacional, S.L.U. and Carmen Corporation, L.P. (CPPIB) of the totality of interest held by International Power, S.A. in TgP became effective. The transaction amounted to a total of 62,641 thousand US dollars (58,860 thousand euros), with Enagás Internacional increasing its interest held in TgP by 2.96%.

Considering that Enagás Internacional, S.L.U. already held a stake of 24.34% as a result of the previous two acquisitions, its total interest increased to 28.94%, maintaining the significant influence it exercises over the company. Thus, consolidation will still be carried out using the equity method.

- At June 14, 2016, in accordance with the stipulations of article 65 ter. of Law 34/1998 of October 7, for the Hydrocarbon sector, relating to the MIBGAS, S.A., share dispersion, the acquisition by Enagás GTS, S.A.U of a 13.34% stake in the share capital of said company became effective. Said article establishes that MIBGAS, S.A. will act as an operator in the organized gas market and that its shareholders will be made up of any natural or legal persons, with the direct interest held in said company by the Technical Managers of the Spanish and Portuguese gas systems equal to 20%. The acquisition amounted to a total of 400 thousand euros corresponding to shares and 4 thousand euros to the associated share premiums. Given that increased majorities are required for taking relevant decisions, both financial and operational, this represents significant influence and consolidation is carried out using the equity method.
- On July 29, 2016, after approval of the transaction by the regulatory authorities and once the pertinent authorisations had been obtained, the acquisition of an 85% stake in Infraestructuras del Gas, S.A. from Unión Fenosa Gas, S.A. became effective, the former in turn holding 50% of the Sagunto, S.A. regasification plant (hereinafter Saggas). The total price of the transaction amounted to 92,218 thousand euros for the acquisition of shares. Likewise, a participative loan amounting to 14,442 thousand euros was subrogated. Given that Enagás Transporte S.A.U. already held 30% of indirect interest in Saggas via its subsidiary Iniciativas del Gas, S.L., the indirect interest held by Enagás Transporte, S.A.U. in said company increased by 42.5% to reach a total of 72.5%. By virtue of the current shareholder agreements, joint control is maintained over Saggas subsequent to these transactions as increased majorities are required for taking relevant decisions that require the vote of more than one partner. Consolidation is consequently also carried out with the equity method.
- For its part, Infraestructuras del Gas, S.A. consolidates its assets and liabilities using the full consolidation method, recognizing the 15% interest held in Omán Oil Company, S.A.O.C. under "Minority interests" in Equity.
- On July 29, 2016, Enagás Emprende, S.L.U. was incorporated for an amount of 150 thousand euros. This company, domiciled in Spain, is fully owned by Enagás, S.A., which has direct control over it, fully consolidating its assets and liabilities.
- On July 29, 2016, Vira Gas Imaging, S.L. was incorporated for 400 thousand euros. This company, domiciled in Spain, is 49% owned by Enagás Emprende, S.L.U. and is consolidated using the equity method as the latter exercises joint control over it.
- On September 15, 2016, once the deadline for exercising preferential subscription rights had elapsed without any partner exercising said rights, the acquisition by Enagás Chile, Spa. of the 20% interest in GNL Quintero, S.A. (hereinafter, GNL Quintero) held by Endesa Chile, Spa. and amounting to 197,365 thousand US dollars (175,458 thousand euros), became effective. Subsequently, and on November 8, 2016 the acquisition by Enagás Chile, Spa. of an additional 20% of interest held by Aprovisionadora Global de Energía, S.A. (AGESA) in GNL Quintero became effective. This acquisition cost 197,365 thousand US dollars (178,829 thousand euros).

With the closing of this transaction, Enagás Chile, Spa. directly acquired a 40% stake in the share capital of GNL Quintero, which in addition to the 20.4% it already held indirectly via its interest in Terminal de Valparaíso, S.A., increases its total interest in said company up to 60.4%. After these transactions, and by virtue of the current shareholder agreements, joint control over GNL Quintero is maintained and the company is thus consolidated utilizing the equity method.

- On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%. After this transaction, significant influence over the company was maintained and consolidation will therefore continue with the equity method.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the parent company Enagás, S.A. and its subsidiaries, associates, jointly controlled operations and joint ventures at December 31, 2016.

Subsidiaries are considered to be those companies in which Enagás Group meets all of the following requirements:

- It exercises authority over the subsidiary, which is understood to exist when a company holds rights that allow it to direct relevant activities, which are understood to be those that significantly affect the performance of the subsidiary.
- It maintains exposure or rights to variable returns deriving from its involvement with the subsidiary.
- It has the capacity to use its authority to influence the amount of the returns to be obtained from that subsidiary.

Subsidiaries are fully consolidated.

Interests held by minority shareholders in the equity and the results of the Enagás Group's consolidated subsidiaries are presented under the account 'Non-controlling interests (External Partners)' in 'Equity' in the accompanying consolidated balance sheet and under 'Results attributable to external partners' in the accompanying consolidated income statement.

Subsidiaries are consolidated starting on the acquisition date, i.e., the date on which the Group obtains control, and they continue to be consolidated until such control is lost. The financial statements for subsidiaries are prepared for the same period as those of the parent company.

A distinction is made between jointly controlled operations and joint ventures with respect to joint agreements, i.e., those in which the Enagás Group maintains joint control together with one or more partners. Joint control is understood to be shared control by virtue of a contractual agreement that requires the unanimous consent of all of the parties when taking decisions regarding relevant activities.

Jointly controlled operations are considered to be companies in which a contractual agreement provides a right to assets and obligations with respect to liabilities. Stakes in jointly controlled operations are proportionately consolidated.

Joint ventures are those in which a contractual agreement provides a right to the net assets of the business. Shareholdings in joint ventures are consolidated using the equity method. Where the Enagás Group acquires control over companies previously classified as joint ventures, a new estimate is made of the fair value of the previous stake in the equity of the company on the acquisition date, with income or loss recognised in the consolidated income statement for the period.

Associates are considered to be companies over which Enagás Group maintains significant influence, which is understood to be the authority to intervene in the investee company's financial and operating policy decisions, but over which neither control nor joint control is held. These stakes in associates are consolidated using the equity method.

If appropriate, adjustments are made to the financial statements of subsidiaries, investee companies, jointly controlled operations and joint ventures in order to unify their accounting policies with those applied by the Enagás Group.

The consolidation methods of the Enagás Group are described below:

- a. The full consolidation method was applied to wholly-owned investee companies Enagás Transporte, S.A.U., Enagás GTS, S.A.U., Enagás Internacional, S.L.U., Enagás Financiaciones, S.A.U., Enagás U.S.A., L.L.C., Enagás Perú, S.A.C., Enagás México, S.A. de C.V., Compañía Transportista de Gas Canarias, S.A. (hereinafter Gascan), Enagás Emprende, S.L.U. and Enagás Chile, Spa., Gasoducto Villa de Reyes, S.A.P.I. de C.V., and Gasoducto Tuxpan, S.A.P.I. de C.V. This method is also used to consolidate Enagás Transporte del Norte, S.L. and Infraestructuras del Gas, S.A. A 90% stake is held in the former, while an 85% stake is held in Infraestructuras del Gas, S.A., recognizing the 10% interest held by Ente Vaso de la Energía and the 15% interest held by Omán Oil Company, S.A.O.C. respectively, in the "Non-controlling interests (External Partners)" under Equity in the consolidated balance sheet at December 31, 2016.
- b. The companies considered to be jointly controlled operations, Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A., were proportionately consolidated.
- c. Lastly, the equity method has been applied to the companies Morelos EPC, S.A.P.I. de C.V.; Gasoducto de Morelos, S.A.P.I. de C.V.; Morelos O&M, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.; Compañía Operadora de Gas del Amazonas, S.A.C. (hereinafter COGA); Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.; Bahía de Bizkaia Gas, S.L. (hereinafter BBG), Trans Adriatic Pipeline AG (hereinafter TAP), GSP; Terminal de LNG de Altamira, S. de R.L. de C.V. (hereinafter TLA); TgP, Saggas, Iniciativas del Gas, S.L., MIBGAS, Vira Gas Imaging, S.L., Tecgas, Inc., Terminal de Valparaíso, S.A., GNL Quintero as well as Knubbsäl Topholding AB which is the parent company of the Swedegas Group and which includes the indirect participation of Swedegas AB.

The Enagás Group consolidation process took place as follows:

- a. Intra-group transactions: All balances, transactions, income and expenses between fully consolidated companies are eliminated on consolidation. In the case of proportionately consolidated companies, the balances, transactions and gains and losses on transactions with other Group companies are eliminated to the extent of the ownership interest consolidated. Realised gains and losses on transactions between Group companies and equity-accounted investees are eliminated to the extent of the Group's ownership interest in the latter.
- b. Consistency: For investees which apply accounting principles and measurement bases different from those of the Group, adjustments have been made on consolidation, provided that the effect is material, in order to present the Consolidated Financial Statements based on consistent measurement bases.
- c. Translation of financial statements denominated in foreign currencies: The companies included in the scope of consolidation are presented in euros, with the exception of Enagás Internacional, S.L.U.; Enagás U.S.A., L.L.C.; TLA; Morelos O&M, S.A.P.I. de C.V.; Gasoducto de Morelos, S.A.P.I. de C.V.; Morelos EPC, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina, S.A.P.I. de C.V., GSP, TgP; Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.; Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.; Enagás Perú, S.A.C.; Enagás México, S.A. de C.V., Tecgas, Inc., Gasoducto Villa de Reyes, S.A.P.I. de C.V., Gasoducto Tuxpan, S.A.P.I. de C.V., GNL Quintero, Terminal de Valparaíso, S.A. and Enagás Chile, Spa, whose functional currency is the US dollar. In addition, COGA uses the Peruvian Nuevo Sol as its functional currency and Knubbsäl Topholding AB, parent company of the consolidated subgroup of the Swedegas Group, uses the Swedish krona (SEK).

These companies' financial statements were translated to euros in the process of consolidation into the Enagás Group financial statements using the following procedures:

- The assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- The income and expenses for each income statement item are translated at the average exchange rates for the year in which the transactions were performed.
- The resulting exchange differences arising on net assets are recognised as a separate component of equity, as "Translation differences" under "Adjustments due to changes in value".

When a company with a functional currency other than the euro is sold or is derecognised as a result of the loss of control, the translation differences relating to that company recognised in equity are reclassified from equity to profit or loss when the gain or loss on the disposal is recognised.

The exchange rates with respect to the euro of the Group companies' main foreign currencies in 2016 and 2015 are shown below:

Currency	Average exchange rate in 2016	Closing exchange rate at December 31, 2016
US dollar	1.10667	1.05668
New Peruvian Sol	3.86536	3.60100
Swedish krona	9.46999	9.58465

Currency	Average exchange rate in 2015	Closing exchange rate at December 31, 2016
US dollar	1.11035	1.08683
New Peruvian Sol	3.58057	3.78290
Swedish krona	9.35839	9.18248

The effect of the application of the translation process to the net assets of the companies and are integrated globally, whose functional currency is the dollar in the main headings of the Group's consolidated financial statements is as follows:

	Thousand of euros			Conversion to US Dollar
	Consolidated total	Contribution of companies with Euro functional currency	Contribution of companies with US dollar functional currency	
Other non-current financial assets	916,225	650,338	265,887	280,957
Trade and other receivables	474,257	465,361	8,896	9,400
Other current financial assets	4,808	8	4,800	5,072
Cash and cash equivalents	785,454	747,649	37,805	39,948
Non-current financial liabilities	4,888,749	4,330,631	558,118	589,752
Current financial liabilities	1,194,239	1,068,004	126,235	133,390
Trade and other payables	173,997	168,311	5,686	6,008

- d. Elimination of dividends: Intra-group dividends are those recognised as revenue for the year by a Group company and which have been paid by another Group company.

During the consolidation process, the dividends received by fully and proportionately consolidated companies are eliminated by considering them to be reserves of the recipient company and they are included under the heading 'Reserves'. In the case of non-controlling interests in fully consolidated companies, the amount of the dividend relating to the stake held by minority shareholders is eliminated from the heading "Non-controlling interests (External Partners)" under consolidated equity.

- e. Equity method: The investment is initially recognised at cost and it is subsequently adjusted for the changes in net assets at the investee company that are attributed to the investor. The dividends received are recognised as a reduction in the heading "Equity-accounted investments".

Consolidated profit for the year includes the Company's share in the investee's period profits under the heading "Profit on equity-accounted investments" in the accompanying consolidated income statement. If the interest in the losses of an associate or joint venture equals or exceeds the stake held, the loss is no longer recognised under additional losses. Once the interest held by the company is reduced to zero, additional losses will be maintained and a liability is recognised only to the extent that the company has incurred legal or implicit obligations, or has made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the company will again recognise its interest in them only after its stake in those profits equals the share in the unrecognised losses.

The accompanying consolidated statement of recognised income and expense includes the Company's interest in the same statement of that investee company.

The recognition of investments accounted for by the equity method is disclosed in Note 3.g. Note 32 discloses information on the joint ventures of the Group at 2016 year end.

2.5. Comparative information

The information provided as at 2015 is presented solely for comparison purposes with the information for 2016.

2.6. Accounting standards and interpretations

a. Standards, amendments and interpretations in issue and effective in the current year

The accounting policies adopted for the preparation of the consolidated financial statements for the year ended December 31, 2016 are the same as those followed for the preparation of the consolidated financial statements for 2015, except for the adoption, from January 1, 2016, of the following standards, amendments and interpretations issued by the IASB (International Accounting Standards Board) and the IFRS-IC (IFRS Interpretations Committee), and adopted by the European Union for use in Europe:

Approved for use in the European Union		
Standards, amendments and interpretations	Index	Mandatorily applicable in annual periods beginning on or after
Improvements to IFRS 2010-2012 Cycle	Minor modifications to a set of standards.	Annual periods starting February 1, 2015
Amendment to IAS 19: Employee contributions to defined benefit plans	The modification is issued to facilitate the possibility of deducting these contributions from the cost of the service in the same period in which they are paid if certain requirements are met.	Annual periods starting February 1, 2015
Amendment of IAS 16 and IAS 38 - Acceptable methods of depreciation and amortization	It clarifies that income-based amortization methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits of an asset.	Annual periods starting January 1, 2016
Amendment of IFRS 11 - Acquisitions of interests in joint operations	The modification requires that when the joint operation is a business the method of acquisition of IFRS 3 is applied.	Annual periods starting January 1, 2016
Amendment of IAS 16 and IAS 41: Production plants	Modification by which the producing plants will be carried at cost, instead of at fair value.	Annual periods starting January 1, 2016
Improvements to IFRS Cycle 2012-2014	Minor modifications to a set of standards.	Annual periods starting January 1, 2016
Amendment of IAS 27: Equity method in separate financial statements	This amendment is intended to allow for the equivalence of an investor in the individual financial statements.	Annual periods starting January 1, 2016
Amendment to IAS 1: Disclosures Initiative	Various clarifications regarding the breakdowns (materiality, aggregation, order of notes, etc.).	Annual periods starting January 1, 2016
Amendment to IFRS 10, IFRS 12 and IAS 28: Investment Companies	Clarifications on the consolidation exception for investment companies.	Annual periods starting January 1, 2016

Application of the amendments to standards described in the previous section had no material impact on the consolidated financial statements. Furthermore, the preparation of the consolidated financial statements did not include early application of any standards or amendments that were not obligatory.

b. Standards, amendments and interpretations in issue but not effective in the current year

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not become effective, either because their effective date was subsequent to their reporting date or because they had yet to be adopted by the European Union, are as follows:

Approved for use in the European Union		
Standards, amendments and interpretations	Index	Mandatorily applicable in annual periods beginning on or after:
IFRS 15 – Income from contracts with customers	IFRS 15 establishes the new model for recognition of income derived from contracts with clients. It presents, in an integrated manner, all applicable requirements and will replace current income recognition standards. IAS 18 Income from ordinary activities and IAS 11 Construction Contracts, as well as other related interpretations (IFRICs 13, 15 and 18 and SIC 31).	Annual periods starting January 1, 2018
IFRS 9 – Financial Instruments	This Standard will replace the current IAS 39 Financial Instruments: Recognition and Measurement, the conceptual change being important in all the sections of the Standard, changing the classification and valuation model of financial assets being adapted to the entity's business model, refocusing the Hedge accounting model so as to be more aligned with economic risk management as well as modifying the current model of impairment based on incurred losses to a model based on expected losses.	Annual periods starting January 1, 2018

Below we provide a brief description of each of these standards as well as the current status of diagnostic work and analysis being carried out by the Enagás Group to identify the potential impact of their future application:

IFRS 15: Revenue from Contracts with Customers

Said standard was finally approved by the European Union via the corresponding publication in the Official Journal of the European Union on October 29, 2016, stipulating its mandatory application for annual periods starting from January 1, 2018.

As summarized in the table above, IFRS 15 regulates recognition of revenue from customers, substituting IAS 18 *Revenue*, IAS 11 *Construction contracts*, as well as all related interpretations (IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – Barter transactions involving advertising services*).

The model for ordinary revenue is applicable to all contracts with customers, except those that are within the scope of other IFRSs, such as leases, insurance agreements, and financial instruments. Transfers of assets that do not correspond to the ordinary activities of the entity (such as the sale of PP&E items, real estate, or intangible assets) are also subject to some of the recognition and measurement requirements of the new model established by IFRS 15. However, the recognition of interest and revenue from dividends is beyond the scope of this standard.

With respect to the specific risks relating to revenue for the Enagás Group, an analysis was performed to determine the possible effects which may arise from future implementation of said standard, identifying the following:

- With respect to income arising from regulated activities, which are the most representative of the Group's activities and whose regulatory development and recognition and measurement criteria are described in Note 4, no significant differences resulting from future application of IFRS 15 were identified as compared to the standards it replaces. Thus, no material impact on the recognition of revenue arising from this type of activity is expected.
- Income arising from non-regulated activities included under "Revenue" in the consolidated income statement mainly corresponds to amounts received for the execution of projects relating to connecting the infrastructure of the basic network of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. to the networks of distribution companies, secondary transporters, gas marketing entities, and qualified customers, initially recognized as deferred revenue and subsequently taken to the consolidated income statement based on the useful lives of the assigned installations (See Notes 3.n, 16, and 22).

Due to the types of contracts used with respect to this type of revenue, additional analysis is being carried out with a view to identifying whether there may be any type of impact requiring disclosure once IFRS 15 is implemented. Given that the analysis is in progress, at the date of preparation of these consolidated financial statements it is not possible to offer any quantitative analysis regarding implementation of IFRS 15 for this type of revenue.

- In addition, "Other operating income" in the consolidated income statement mainly includes deferred income corresponding to the "gas transportation rights" contracts signed with the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A, to which the proportionate consolidation method is applied using the percentage of interest held by Enagás Transporte, S.A.U. in said companies. Said deferred income is released to the consolidated income statement on a straight-line basis up to the year 2020, when the aforementioned transport contract terminates (see Notes 3.n, 16, and 22).

As in the case of infrastructure connection work, additional analysis is being carried out with a view to identifying whether there may be any impact requiring disclosure once IFRS 15 is implemented, and therefore at the date of preparation of these consolidated financial statements it is not possible to offer a quantitative analysis of implementing IFRS 15 for this type of income.

Finally, with respect to the companies accounted for using the equity method, and for purposes of harmonization, the Company is carrying out an analysis of potential impacts for each of the investee companies. As this analysis is in progress, it is not yet possible to offer reasonable estimates of the effects.

IFRS 9: Financial instruments

As in the previous case, this standard was approved by the European Union during 2016, via publication in its official journal on November 29, 2016, stipulating that its application would be obligatory for yearly periods starting from January 1, 2018.

This standard will substitute the current IAS 39 "Financial Instruments: Recognition and Measurement." The conceptual changes are important in all sections of the standard, changing the classification and measurement model for financial assets, adapted to the entity's business model and refocusing the accounting model for hedges to align it more with the economic management of risk, as well as modifying the current model used for impairment based on losses incurred to a model based on expected losses.

The Group is currently examining the future impact of adopting this standard and will not be able to provide a reasonable estimate of its impact until this analysis has been completed.

In view of the circumstances described previously, given that the Group is still in the diagnostic phase of analysing the potential impact arising from future implementation of these standards, they have not been applied early.

Finally, the standards that are still pending approval for their application in the European Union and therefore not yet applicable for the Enagás Group are described below:

Not approved for use in the European Union yet		
Standards, amendments and interpretations	Index	Mandatorily applicable in annual periods beginning on or after:
IFRS 15 Revenues from contracts with customers	They revolve around the identification of performance obligations, principal versus agent, licensing and accrual at one point over time, as well as some clarification of the rules.	Annual periods beginning on or after 1 January 2018.
IFRS 16 Leases	A new standard of leases that replaces IAS 17. The central novelty is that the new standard proposes a single accounting model for tenants, which will include all leases (with some limited exceptions) with a similar impact to the current financial leases (there will be amortization of the asset by the right of use and a financial expense for the amortized cost of the liability).	Annual periods beginning on or after 1 January 2019.
Amendment to IAS 7: Disclosure Initiative	Introduces additional breakdown requirements in order to improve the information provided to users.	Annual periods beginning on or after 1 January 2017.
Amendment of IAS 12: Recognition of deferred tax assets for unrealized losses	Clarification of the established principles regarding the recognition of deferred tax assets for unrealized losses.	Annual periods beginning on or after 1 January 2017.
Amendment of IFRS 2: Classification and valuation of share-based payments	The modifications limit to clarify specific issues such as the effects of accrual conditions on share-based payments to be settled in cash, the classification of share-based payments when it has net settlement clauses and some aspects of changes in the type of payments based on actions.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 4: Insurance contracts	It allows entities within the scope of IFRS 4 the option of applying IFRS 9 or their temporary exemption.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 40: Reclassification of investment property	The amendment clarifies that a reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	Annual periods beginning on or after 1 January 2018.
Improvements to IFRS Cycle 2014-2016	Minor modifications to a set of standards.	Annual periods beginning on or after 1 January 2018.
IFRIC 22 – Transactions and Advances in Foreign Currency	Sets the date of the transaction, in order to determine the exchange rate applicable in transactions with foreign currency advances.	Annual periods beginning on or after 1 January 2018.
Amendment of IFRS 10 and IAS 28 – Sale of contribution of assets between and investor and its associate or joint venture	Clarification regarding gains and losses on these transactions, whereby a full gain or loss should be recognised in the case of the sale of a business and a partial gain or loss in transactions with assets.	Without a fixed date.

3. Measurement bases

The main measurement bases used in the preparation of the accompanying 2016 consolidated financial statements are as follows:

a. Goodwill and business combination

The acquisition by the parent of control over a subsidiary constitutes a business combination and is accounted for using the acquisition method. In subsequent consolidations, the elimination of the investments in/net assets of these subsidiaries is carried out, as a general rule, on the basis of the amounts resulting from the use of the acquisition method (described below) on the date on which control was obtained.

Business combinations are accounted for using the acquisition method, to which end the acquisition date and cost of the business combination are determined; the identifiable assets acquired and liabilities assumed are recognised at their acquisition-date fair values.

Goodwill or the loss on the combination is the difference between the recognised acquisition-date fair values of the assets acquired and liabilities assumed that meet the pertinent recognition requirements and the cost of the business combination.

The cost of the business combination is the sum of:

- The acquisition-date fair values of any assets transferred, liabilities incurred or assumed and equity instruments issued, and
- The fair value of any contingent consideration, i.e., that which depends on future events or on the fulfilment of certain pre-defined conditions.

The cost of the business combination does not include expenses relating to the issuance of equity instruments offered or financial liabilities delivered in exchange for the items acquired.

Goodwill arising upon the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the company acquired, and is translated to euros at the exchange rate prevailing on the balance sheet date.

Goodwill is not amortised. It is subsequently measured at cost less any impairment losses. Impairment losses recognised in goodwill are not reversed in subsequent years (see Note 3.d).

In the exceptional case in which a loss arises on the combination, it is recognised in the income statement as income.

If at the end of the year in which a combination occurs it has not been possible to complete the valuation work needed to apply the acquisition method outlined above, the combination is accounted for provisionally. The provisional amounts can be adjusted during the time interval needed to obtain the required information, which in no case may exceed one year. The effects of any adjustments made during the measurement period are accounted for retroactively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration was classified as equity, in which case subsequent changes in its fair value are not recognised.

b. Intangible assets

The Enagás Group initially measures these assets at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and impairment losses.

The criteria used to recognise impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those for assets recognised as property, plant and equipment (see Note 3.d).

Development costs are amortised on a straight-line basis over their useful life, as long as the costs are assigned to specific projects, their amount may be clearly quantified and proven grounds exist to guarantee the technical success and economic-commercial profitability of the project.

The Group expenses all research and development costs whose technical and commercial feasibility cannot be established. Research costs recognised as an expense in the accompanying consolidated income statement amounted to 780 thousand euros in 2016 (472 thousand euros in 2015) (see Note 23.2).

Service concession arrangements may be capitalised only when a company has acquired the assets for consideration, in the case of concessions which may be transferred, or for the amount of the expenses incurred in obtaining them directly from the State or from the relevant public body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

The acquisition and development costs incurred in relation to the basic information technology systems are recognised under "Intangible assets" in the consolidated balance sheet. Maintenance costs related to these systems are recognised with a charge to the consolidated income statement in the year in which they are incurred. They are measured at the amount paid for ownership or the right to use the software programs, or the production cost if developed internally. They are amortised over a period of four years.

Intangible assets with a finite useful life are amortised over that period, which is equivalent to the following amortisation rates:

	Amortisation rate	Useful life
Development costs	5%-50%	20-2
Concessions, patents, licences, brands and similar		
Port concessions at the Barcelona plant	1,28%-1,33%	78-75
Port concessions at the Huelva plant	7.6%	13
Port concessions at the Cartagena plant	1.9%	53
Use of the public radioelectric domain	20%	5
Computer software	25%	4

In 2013, the Spanish Cabinet approved the final free-of-charge assignment of greenhouse gas emission rights to institutions covered by the emission rights trading system in 2013-2020, including the facilities maintained by Enagás Transporte, S.A.U.

In the second quarter of 2016, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2015 for all these installations (see Note 27).

c. Property, Plant and Equipment.

The assets recognised as property, plant and equipment are initially measured at acquisition or production cost, with the exception of revaluations made by Enagás, S.A. in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria set forth in the following note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. In contrast, regular maintenance, upkeep and repair expenses are charged to profit and loss in the year in which they are incurred.

Capitalised costs of assets relating to projects that are fully or proportionately consolidated include:

1. Finance costs associated with the financing of infrastructure projects accrued during the construction period if this is more than one year. The average gross capitalisation rate used to calculate the amount of the borrowing costs to be capitalised during 2016 was 1.8% (2.30 % on 2015), amounting 2,876 thousand euros (see Note 6).
2. Employee benefits expense directly related to work in progress. To this end, the Group has a "Functional procedure for attributing staff costs to investment projects", which contains the calculation assumptions. This procedure establishes that the calculation of the work performed for the Group's own assets takes into account direct employee expenses, i.e., the hours charged to each project based on the prices per hour calculated at the start of the year. The amounts capitalised for these items are recognised in the 2016 consolidated income statement as a decrease in staff costs (see Notes 6 and 23) amounting 6,782 thousand euros.
3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo, Yela and Gaviota underground storage facilities and the Barcelona, Huelva and Cartagena regasification plants at the end of their useful lives. The carrying amounts of these assets include an estimate of the present value at the date of acquisition of the costs to the Group of dismantling, with a credit to "Non-current provisions" (see Note 14) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted and discounted in subsequent periods. The before-tax discount rate used at December 31, 2016 is 2.76%. This rate reflects current market valuations of the time value of money and the specific risks relating to the obligation to be provisioned. A change in the discount rate of 0.05% and -0.05% would result in a change of -1.49% and 1.52%, respectively.

Pursuant to Royal Decree 1061/2007 of July 20, 2007, which grants Enagás, S.A. the concession to operate the Yela underground natural gas storage facility, in compliance with article 25.3 of Law 34/1998 of October 7, which establishes a provision of 14,700 thousand euros for dismantling costs, this amount is recognised as an increase in the value of the asset (see Note 14).

In 2011, in keeping with the provisions of article 25.3 of Law 34/1998, of October 7, the Company recognised the dismantling provision of 69,000 thousand euros associated with the Gaviota underground storage facility (see Note 14).

These provisions will be discounted to present value each year to reflect the financial impact of a non-current account receivable with the National Market and Competition Committee (CNMC), given that, once the dismantling is approved, the Company can request payments on account against dismantling costs.

The expenses and pertinent discounting for dismantling the Serrablo underground storage facility are reflected in the provision allocated to comply with the requirements of 'Order of September 6, 1995 regarding the concession, to Enagás, S.A., for the storage of natural gas in Jaca, Aurín, and Suprajaca, located in Serrablo', which required that a project for dismantling the Serrablo site be presented and approved prior to engaging in storage activities.

Regarding to the regasification plants owned by the Company in Barcelona, Cartagena, Huelva and Gijón, article 100 of the State Ports and Merchant Navy Act mandates that upon termination of the concession, the titleholder must remove from the port area all materials, equipment or dismantable facilities when ordered to do so by the Port Authority. The latter may undertake such removal at the expense of the titleholder of the terminated concession if such titleholder should fail to do so at the time or in the period indicated; in all cases of termination of a concession, the Port Authority will decide on the maintenance of works and installations that cannot be dismantled. Hence, the Company maintains a provision for dismantling for each of these plants at December 31, 2016.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss.

Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

The volume of gas that must remain 'immobilised' in the storage facility to operate underground natural gas storage facilities (i.e., cushion gas) is recognised as property, plant and equipment and depreciated over the useful life specified by prevailing legislation, or over the lease term, if shorter.

Both the natural gas related to the minimum linepack of the gas pipelines for system security and the minimum operating levels of the regasification plants (also called "heel gas") are considered non-depreciable property, plant and equipment as this gas is not available and is thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (see Note 6).

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates.

The useful lives estimated by the Enagás Group are as follows:

	Amortisation rate	Useful life (years)
Buildings	2%-3%	50-33
Plant (transport network)	2,5%-5%	40-20
Tanks	5%	20
underground storage facilities	5%-10%	20-10
Cushion gas	5%	20
Other plant and machinery	5%-12%	20-8,33
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
IT hardware	25%	4
Transportation equipment	16%	6,25

The Group's directors consider that the carrying amount of property, plant and equipment does not exceed their recoverable amount, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in the prevailing legislation.

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the gain on the sale and the carrying amount of the asset, and is recognised in the consolidated income statement under "Impairment losses and gains (losses) on disposals of fixed assets" (see Note 3.d).

Government grants related to property, plant and equipment are considered to be a decrease in the acquisition cost of the assets and they are charged to profit over the expected useful life of the asset as a decrease in depreciation of the related asset.

d. Impairment of the assets recognised as property, plant and equipment, intangible assets and goodwill and the method for estimating recoverable amount

At the end of each reporting period in the case of goodwill or assets with indefinite useful lives, or whenever there are indications of impairment for all other assets, the Group analyses the recoverable amounts of its assets to determine whether there is any indication that they may be impaired.

When the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognised in the consolidated income statement for the difference between both with a charge to "Impairment losses and

gains (losses) on disposals of fixed assets". The impairment loss is applied by firstly reducing the carrying amount of the goodwill corresponding to the cash-generating unit where the impairment loss is to be recognised. If the impairment charge is greater than the carrying amount of goodwill, the rest of the assets belonging to the cash-generating unit are then reduced, in proportion to their respect carrying amounts, down to the higher of the following: (i) their fair value less costs to sell and (ii) their value in use.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount, by increasing the value of the asset via a credit to the income statement up to the carrying amount that would have been determined had no impairment loss be recognised. Note however, that impairment losses on goodwill cannot be subsequently reversed.

The recoverable amount is the higher of fair value less costs necessary to sell and value in use, considered to be the present value of the estimated future cash flows. The Enagás Group considers the value in use to be the recoverable amount and it uses the method described below in its calculation.

To estimate value in use, the Enagás Group prepares after-tax cash flow projections based on the latest budgets approved by the Group's directors. These budgets include the best income, cost and investment estimates available for the cash-generating units, using past experience, industry projections and future expectations based on the current regulatory framework and contracts.

For the purposes of determining impairment, the assets are grouped at the lowest level at which cash flows may be independently identified. Both assets and goodwill are assigned to cash-generating units (CGUs) based on professional judgement and in accordance with the characteristics of the business, the segments and the geographic areas in which the Group operates.

The period used by the Enagás Group to determine the cash flow projections for cash-generating units is the period over which the asset obtains remuneration associated with the investment (see Note 4). At the end of this period, the Enagás Group takes into consideration a residual value based on the flows over the past year using a zero growth rate.

The Group identifies its operating segments based on internal reports relating to the companies comprising the Group which are regularly reviewed, discussed, and evaluated in the decision-making process, as indicated in Note 25 to the accompanying consolidated financial statements.

To the extent that assets grouped within a segment are at the lowest level at which independent cash flows can be identified, the segment is identified as a cash-generating unit (CGU).

Under these premises, the CGUs identified for the regulated business of the Enagás Group are shown below:

- Infrastructure activity in Spain (includes transport, regasification, and storage).
- Technical management of the system.

With respect to the aforementioned infrastructure activity, as described in Note 4.a., once the regulatory useful life of the installations has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the installation exceeds the regulatory useful life, not accruing any amounts as investment remuneration, amortization/depreciation, or financial remuneration. In addition to said fixed remuneration, the remuneration for supply continuity will be maintained as it is independent of the regulatory useful life of the asset in question.

Thus, when determining residual value, the following is taken into consideration:

- The projection for the last estimated cash flow corresponding to remuneration for supply continuity ("SCR"), calculated in accordance with the parameters established and described in Note 4.a.
- The remuneration for operating and maintenance costs of the last projected period, applying the prevailing regulatory framework for the fully amortized/depreciated items indicated in the aforementioned Note 4.
- Financial remuneration or remuneration related to depreciation was not considered as said remuneration ends when the regulatory useful life of the installations elapses.

The last period considered for projections is the one corresponding to the year in which the regulatory useful life finalizes based on the age of the installations at the time.

With respect to the activities corresponding to technical system management, residual values were calculated based on the cash flows of the last period, using a zero growth rate and no normalisation adjustments. This is due to the fact that, as indicated in Note 4.b., revenue corresponding to this activity is meant to settle the obligations of Enagás GTS, S.A.U. as technical manager of the system, which is the same as that calculated annually based on the accredited costs for each year. For the last period, the same criteria were applied as those used for infrastructure activity, under the understanding that while the gas infrastructure is operational and there is demand for gas, technical management of the gas system will continue.

The directors consider that their projections are reliable and that past experience, together with the nature of the business, enables them to predict cash flows over periods such as those taken into consideration.

The most representative assumptions included in the projections employed, which are based on business forecasts and on past experience, are as follows:

- Regulated remuneration: estimated in accordance with the remuneration approved by the law for the years in which it is available, while for subsequent years the same discounting mechanisms established by the legislation have been used.
- Investment: the best information available regarding investment plans for assets and for maintaining infrastructures and systems have been used, based on the mandatory planning for the gas system, over the entire estimated time horizon.
- Operating and maintenance costs: the maintenance contracts that have been concluded have been taken into consideration, together with the remaining costs estimated based on knowledge of the industry and past experience. They have been projected in line with expected growth based on the investment plan.
- Other costs: other costs have been projected based on knowledge of the industry, past experience and in line with the growth expected to derive from the investment plan.

To calculate the present value, the projected cash flows are discounted at an after-tax rate that reflects the weighted average cost of capital (WACC) for the business and in the geographical area in which the business' activities are carried out. The calculation is based on the time value of money, the risk-free rate and the risk premiums commonly used by analysts for the business and the geographical region in question. The risk-free rate corresponds to Treasury issues in the market concerned that have sufficient depth and solvency, and a maturity date that is in line with the period over which the future cash flows will be generated. The associated country risk for each geographic area is nevertheless taken into consideration. The risk premium for the asset relates to the specific risks affecting that asset, the calculation of which takes into account the estimated betas based on the selection of comparable companies that have a similar primary activity.

The discount rate after tax in 2016 and 2015 for regulated activities in Spain is 4.37% and 4.48% respectively (being 6.01% and 5.92% the discount rate before tax for 2016 and 2015). The sensitivity test of the discount rate of 0.5% and -0.5% carried out at the 2016 year-end indicates that the Group shows no sign of significant risks associated to potential reasonable variations. Therefore, the Management of the Company considers that, given the abovementioned ranges, there will be no impairment losses.

Property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed for the Group to carry out its regulated gas sales activities for regulated customers and as the System Technical Manager.

e. Investment property

The heading Investment properties in the accompanying balance sheet includes the value of the land described in Note 7.

After initial recognition, the Enagás Group measures that land in accordance with the cost model, whose requirements are the same as those established for property, plant and equipment, both with respect to their measurement and to the impairment test (see Note 3.c and 3.d).

However, given that there is no determined use for that land, its recoverable amount matches its fair value less the costs necessary to sell.

In the aforementioned measurement process, the Enagás Group obtained the advisory services of the appraisal firm Jones Lang LaSalle España, S.A., which issued a report on January 19, 2017.

f. Leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When consolidated entities act as lessees, lease expenses, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

The group did not hold any finance leases in 2016.

g. Financial Assets

Financial assets are recognised in the consolidated balance sheet when the Group becomes party to the contractual terms of the instrument.

Group companies classify financial assets into the following categories established by International Financial Reporting Standards:

Loans and receivables

These are financial assets arising from the sale of goods or the rendering of services in the normal course of business, or financial assets which do not arise from the ordinary course of business, and are not equity instruments or derivatives, and which have fixed or determinable payments and are not traded on an active market.

These financial assets are initially measured at the fair value of the consideration given plus any directly attributable transaction costs. They are subsequently measured at amortised cost, and accrued interest is recognised in the consolidated income statement in accordance with the relevant effective interest rate.

Receivables that do not explicitly accrue interest are measured at their nominal value, provided that the effect of not financially discounting the cash flows is not significant. In this case, they subsequently continue to be measured at their nominal value.

An impairment loss affecting the financial assets measured at amortised cost arises when there is objective evidence that the Group will not be capable of recovering all of the amounts in accordance with the original terms. The amount of the impairment loss is recognised as an expense in the consolidated income statement and is calculated as the difference between the carrying amount and the present value of the future cash flows discounted using the effective interest rate.

If in subsequent periods there is any recovery of the value of the financial asset measured at amortised cost, the recognised impairment loss will be reversed. This reversal will be limited to the carrying amount that the financial asset would have had if the impairment loss had not been recognised. The reversal is recognised in the consolidated income statement for the year.

The Group derecognises financial assets when they expire or when the rights to the cash flows from the relevant financial assets have been assigned and the risks and benefits inherent to ownership have been substantially transferred, such as firm sales of assets, assignments of receivables in factoring transactions under which the company does not retain any credit or interest rate risk, sales of financial assets at fair value under repo agreements or the securitisation of financial assets in which the assigning company does not retain any subordinated financing, grant any type of surety or assume any other type of risk.

The Group does not derecognise financial assets, and recognises a financial liability in the amount of the consideration received, in the case of the assignment of financial assets in which it substantially retains the risks and benefits inherent to ownership, such as the discounting of bills, factoring with recourse, sales of financial assets under fixed-price repo agreements or at the selling price plus interest and the securitisation of financial assets in which the assigning company retains subordinated financing or another type of surety that substantially absorbs all of the expected losses.

Equity-accounted investments

As indicated in Note 2.4, Investments carried under the equity method are considered to be both investments in associates and investments in joint ventures.

For this type of financial asset, the investment is initially recognised at cost and is subsequently adjusted for the changes in net assets at the investee company that are attributed to the investor. The dividends received are recognised as a reduction to the investment.

At the acquisition date of the associate or joint venture, any difference between the cost of the investment and the interest held in the net fair value of the identifiable assets and liabilities at the associate or joint venture is recorded as follows:

- Any capital gain relating to these companies or joint ventures is included in the carrying amount of the investment. This capital gain cannot be amortised.
- Any interest in the net fair value of identifiable assets and liabilities that exceeds the cost of the investment will be recognised as income in the calculation of the stake in the profit for the period obtained by the associate or joint venture in the period in which the investment is acquired.

To determine if an impairment loss must be recognised with respect to the net investment in the associate or joint venture, the Group performs an analysis of all of the carrying amount of the investment in accordance with IAS 36, on an individual asset basis by comparing the recoverable amount against the carrying amount, provided that there are indications that the investment may have become impaired. An impairment loss recognised under these circumstances will not be assigned to any asset (including any gain) which forms part of the carrying amount of the investment in the associate or joint venture. Any reversals of this impairment loss will be recognised in accordance with IAS 36 to the extent that the recoverable amount from the investment subsequently increases.

To determine the value in use of the investment, the Group estimates the present value of the estimated future cash flows that are expected to arise as a dividend receivable from the investment. The amount recoverable from an investment in an associate or joint venture will be assessed with respect to each associate or joint venture, unless the associate or joint venture does not generate cash inflows due to continuous use that are largely independent from those originating from other Group assets.

Investments in associates and joint ventures, except those relating to BBG, Saggas and Iniciativas del Gas, S.L. are recognised in the segment 'Unregulated activities' (see Note 25.3).

With regard to the impairment test relating to the investees, the discount rate applied (equity cost) in 2016 was between 5% and 10%, depending on the country of application (6%-11% in 2015). The sensitivity test of the discount rate of 0.5% and -0.5% carried out at year-end 2016 indicates that the Group shows no sign of significant risks associated to potential reasonable variations. Therefore, the Management of the Company considers that, given the abovementioned ranges, there will be no impairment losses.

Cash and Cash Equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid current investments that can readily be realised in cash and which are not affected by changes in value.

h. Inventories

Natural Gas Inventories

The only natural gas inventories held by the Enagás Group are those held as cushion gas and linepack gas for the pipelines and regasification facilities it operates; these stocks of gas are therefore classified as property, plant and equipment.

Other Inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the direct cost of materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

The Group applies the appropriate measurement adjustments, recognising them as an expense in the income statement when the net realisable value of the inventories is less than their acquisition price (or production cost).

i. Equity and financial liabilities

Capital and other equity instruments issued by the Group are recognised at the amounts received, net of direct issue costs.

Financial liabilities include the Group's trade payables arising from the purchase of goods and services in the normal course of business, or non-trade payables that cannot be considered to be derivative financial instruments.

Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs. The Group recognises its financial liabilities after initial recognition at amortised cost, except in the case of derivative financial instruments. Any difference between the amount received as financing (net of transaction costs) and the reimbursement value is recognised in the consolidated income statement over the life of the financial instrument using the effective interest rate method.

Trade and other payables are financial liabilities that do not explicitly accrue interest and which, in the event that the financial discount is not significant, are recognised at their nominal value.

The Enagás Group derecognises financial liabilities when the contractual obligations are cancelled or expire.

Financial liabilities are classified according to the terms and economic substance of the contractual agreement.

The Enagás Group contracts derivative financial instruments to cover its exposure to financial risks deriving from changes in interest rates and/or exchange rates. All derivative financial instruments are always measured at fair value. These derivative financial instruments will be recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Differences in fair value are recognised in the consolidated income statement, unless a specific treatment is required under hedge accounting.

The Enagás Group does not use derivative financial instruments for speculative purposes.

The criteria for recognising and measuring derivative financial instruments based on the various type of hedge accounting are set out below:

a. Fair value hedges

Hedges for exposure to changes in the fair value of an asset or liability recognised in the accounts, or an identified portion of such assets or liabilities, that may be attributed to a specific risk and which could affect profit for the period.

Changes in the fair value of the hedge instrument and changes in the fair value of the hedged items attributed to the hedged risk are recognised in the consolidated income statement.

b. Cash flow hedge

Hedges for exposure to changes in cash flows that: (i) are attributed to a specific risk associated with an asset or liability recognised in the accounts, with a highly probable expected transaction or with a firm commitment if the hedge risk is an exchange rate hedge and which (ii) may affect profits for the period.

The effective portion of changes in the fair value of the hedge instrument are recognised under Equity, and the gain or loss relating to the ineffective portion (which relates to the excess amount, in absolute terms, of the accumulated change in the fair value of the hedge instrument with respect to the relevant hedged item) is recognised in the income statement. The amounts accumulated under Equity are transferred to the consolidated income statement in the periods in which the hedged items affect the consolidated income statement.

c. Hedge of a net investment in a foreign operation

Hedges of exposure to changes in exchange rates relating to a net investment in a foreign operation.

Hedges of net investments in foreign operations are recorded in a manner similar to cash flow hedges, although changes in the measurement of these transactions are recognised as exchange differences in the heading "Adjustments due to changes in value" in the accompanying consolidated balance sheet.

Translation differences will be transferred to the consolidated income statement when the foreign transaction being hedged is sold or otherwise disposed of.

In order for these derivative financial instruments to be classified as hedges they are initially designated as such and the relationship between the hedge instrument and the hedged items is documented, together with the risk management objective and the hedge strategy for the various hedged transactions. In addition, the Group verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) the hedge's effectiveness.

A hedge is effective if it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by those of 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.

Hedge accounting is discontinued when the hedging instrument expires, is sold, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument recognised under equity at that time remains in equity until the forecast hedged transaction takes place.

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (for example, a starting price), regardless of whether that price is directly observable or it is estimated using another measurement technique.

For financial reporting purposes, measurements of fair value in accordance with IFRS 13 are classified as Level 1, 2 or 3 based on the degree to which the applied inputs are observable and their importance for the full measurement of fair value, as described below:

- Level 1 – The inputs are based on quoted prices (unadjusted) for identical instruments traded on active markets.
- Level 2 – The inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar instruments in markets that are not active, or techniques based on measurement models for which all significant inputs are observable in the market or may be verified using observable market data.
- Level 3 – The inputs are not generally observable and do not generally reflect the estimates of the market events in order to determine the price of the asset or liability. The non-observable data used in the measurement models is significant in the fair values of the assets and liabilities.

The Group has determined that most of the inputs employed to determine the fair value of the derivative financial instruments are in Level 2 of the hierarchy, but that the adjustments for credit risk use Level 3 inputs such as credit estimates based on a credit rating or comparable companies to evaluate the likelihood of the bankruptcy of the company or of the company's counterparties. The Group has evaluated their relevance, proceeding to recognise the corresponding credit risk adjustments in the full measurement of the derivative financial instruments.

The Group has therefore determined that the entire derivative financial instrument portfolio is classified in Level 2 of the hierarchy.

The Group uses average market prices (mid-market) as observable inputs based on external sources of information recognised in financial markets.

The Group uses a bilateral credit risk adjustment in the measurement techniques when obtaining the fair value of its derivatives in order to reflect both its own risk as well as the counterparty risk affecting the fair value of the derivatives.

To determine the credit risk adjustment, a technique has been applied based on the calculation through total expected exposure simulations (which include both current exposure and potential exposure), adjusted for the likelihood of non-compliance over time and the LGD (or potential loss) assigned to the Company and to each of the counterparties.

The credit risk adjustment has been more specifically obtained using the following formula:

$EAD * PD * LGD$

- EAD (Exposure at default): Exposure at the time of non-compliance at each point in time. The EAD is calculated by simulating market price curve scenarios (e.g., Monte Carlo).
- PD (Probability of default): Likelihood that one of the counterparties will fail to comply with payment commitments at each point in time.
- LGD (Loss given default): Severity = 1- (recovery rate): Percentage of loss that ultimately arises when one of the counterparties has failed to comply.

The total expected exposure of the derivatives is obtained using observable market inputs, such as interest rate, exchange rate and volatility curves in accordance with market conditions on the measurement date.

The inputs applied to obtain the Company's own credit risk and counterparty risk (determination of the likelihood of default) are based mainly on the application of the credit spreads relating to the Company or comparable companies that are currently traded in the market (CDS curves, IRR debt issues). Where own or comparable company credit spreads were not available, in order to maximise the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS quoted on the market.

To adjust fair value to credit risk, credit improvements relating to guarantees or collateral have also been used when determining loss given default to be applied to each of the positions. A single LGD rate is taken into consideration over time. If there are no credit improvements relating to guarantees or collateral, the minimum recovery rate has been set at 40%.

The use of derivative financial instruments is governed by the Enagás Group's risk management policies and the principles regarding their use are disclosed in Note 18.

Finally, the options recognised in the Consolidated balance sheet of the Enagás Group are recognised in accordance with the recognition and measurement requirements established in IAS 27, which involve the recognition of external partners in business combinations and the recognition of a financial liability against equity. The changes in fair value of the financial liability are accounted for in the consolidated income statement (see Notes 12 and 15).

j. Current/Non-current classification

Assets classified as current assets are all those related to the Company's normal operating cycle, generally one year, and other assets expected to mature, or to be sold or realised in the short term from the end of the reporting period; financial assets held for trading, with the exception of financial derivatives whose settlement term exceeds one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, with the exception of those financial derivatives whose settlement period exceeds one year and, in general, all obligations that mature or expire in the short term. All other liabilities are classified as non-current.

By virtue of the application of the new remuneration system approved by Law 18/2014, of October 15, non-current receivables from the CNMC (see Notes 4 and 8) have been recognised as non-current items.

k. Pension obligations

The Enagás Group makes contributions, in accordance with the approved pension plan adapted to the provisions of the Law on Pension Plans and Funds, to a defined contribution plan known as the "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and whose Custodian is Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Group's obligations with respect to serving employees. This plan recognises certain vested rights for past service and undertakes to make monthly contributions averaging 4.30% of eligible salaries (4.41% in 2015). It is a mixed plan covering retirement benefits, disability and death. As at December 2016, a total of 1,146 persons had joined the plan (1,094 at December 31, 2015) (see Note 20).

The contributions made by the Group each year in this connection are recognised under "Staff costs" in the consolidated income statement (see Note 23.1). At year-end 2016, there were no outstanding amounts to be contributed in this respect.

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

l. Severance indemnities

Under current regulations, Spanish consolidated companies and some foreign companies are required to pay severance to employees terminated without just cause. There are no redundancy plans in effect that require the recognition of a provision in this connection.

m. Provisions

On preparing the consolidated financial statements, the directors made a distinction between the following:

- **Provisions:** Balances payable covering obligations existing at the balance sheet date arising as a result of past events which could give rise to a loss for the companies which is specific in nature but uncertain in terms of its amount and/or timing.

- **Contingent liabilities:** Possible obligations arising from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more future events beyond the control of the consolidated entities.

The consolidated annual financial statements of the Group include all significant provisions for which it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the notes to the extent that they are not considered to be remote (see Note 14).

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

The compensation to be received from a third party when an obligation is settled is recognised as an asset so long as it is certain that the reimbursement will be received, unless the risk has been contractually externalised so that the Group is legally exempt from having to settle, in which case, the compensation is taken into consideration in estimating the amount of the provision, if any. The policy followed with respect to the recognition of provisions for contingencies and charges is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway and/or pending damages or other payments, such as sureties or equivalent guarantees. They are recognized upon emergence of the liability or obligation giving rise to the damages or payment.

At year-end 2016 and 2015 a number of legal proceedings and claims had been filed against business groups in the ordinary course of their operations. The Group's legal advisors and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the consolidated financial statements for the years in which they are resolved.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. It represents the amounts receivable for goods delivered and the services rendered as part of the Group's ordinary course of business, less discounts and amounts received on behalf of third parties, such as VAT.

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

The legislative environment that governs the regulated activity, which accrues the most representative income for the Enagás Group, is described in Note 4.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate, which is the rate that exactly matches estimated future cash flows over the expected life of the financial asset to that asset's carrying amount.

Dividend income is recognised when the Enagás Group companies have the right to receive such income.

Deferred revenue relates mainly to advance payments received for natural gas transport rights assigned to Gasoducto Al-Andalus, S.A. and to Gasoducto de Extremadura, S.A., which are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

This heading also includes the accrual of amounts received for making connections from the basic network infrastructure of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit or loss on the basis of the useful life of the assigned facilities.

o. Expense recognition

Expenses are recognised in the consolidated income statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that an expense is recognised simultaneously with the recognition of the increase in the liability or the reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the prerequisites for capitalisation as an asset are not met.

p. Income tax

Income tax is recognised in the consolidated income statement or in equity in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recognised.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, tax losses offset in prior years which are effectively applied in the current year, plus the change in deferred tax assets and liabilities.

Deferred tax expense or income reflects the recognition and settlement of deferred tax assets and deferred tax liabilities. Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Changes during the year in deferred tax assets or liabilities which do not arise from business combinations are recognised in the consolidated income statement or directly in equity in the consolidated balance sheet, as appropriate.

Deferred tax assets are recognised only when it is probable that future taxable profits will be available to recover the tax credits for temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that they arise from the initial recognition of goodwill.

Deductions arising from economic events in the year are deducted from the accrued income tax expense unless there are doubts as to whether they will be realised, in which case they are not recognised until they materialise, or they relate to specific tax incentives.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Similarly, at each reporting date, the Group reassesses unrecognised deferred tax assets, recognising a previously unrecognised deferred tax asset to the extent that it has become probable that taxable profit will be available against which the asset can be utilised.

It should be noted that effective January 1, 2013, Enagás S.A. is the parent company of the Consolidated Tax Group 493/12, and is taxed under the Tax Consolidation System governed by Title VIII, Chapter VI of the Corporation Tax Law 27/2014 of November 27, and the subsidiaries at December 31, 2016 are:

- 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.

The Enagás Group acquired control over and started consolidating its interest in Gascan in 2015, including it in the consolidated tax group from January 1, 2016.

As a consequence of the new Law 27/2014 of November 27, on corporate income tax, becoming effective from January 1, 2015, the tax rate was reduced from the 30% applicable until 2014 to 28% in 2015 and 25% in 2016 and subsequent years (see Note 21).

The legislative framework governing Enagás Transporte del Norte, S.L. and BBG has been defined in the Provincial Law, 11/2013 (5 December), on Corporation Tax of 28%.

The rest of the Group companies individually settle their income tax returns in accordance with the tax legislation applicable to them.

q. Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the parent company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of parent company shares held as treasury shares by Group companies. Basic earnings per share coincide with diluted earnings per share (see Note 13).

r. Share-based payments

The Group 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 consolidated 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 (see Note 23.1), with a credit to "Non-current provisions" in the accompanying consolidated balance sheet. The liability is subsequently remeasured to fair value at each balance sheet date, up to and including the settlement date, with changes in fair value recognized in the income statement.

s. Consolidated Cashflow Statement

The following terms are used to present the consolidated cash flow statements:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the Group's ordinary operating activities and any other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition or disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that are not operating activities.

4. Regulatory framework

a) Revenue from regasification, storage and transport.

The remuneration framework for these activities that was in force since 2002, based on the Oil and Gas Act 34/1998 (October 7) and subsequent published amendments, has largely been repealed after the entry into force of Royal Decree-Law 8/2014, of July 4, ratified by Parliament and subsequently enacted as a law and finally published as Law 18/2014, of October 15, which approves urgent measures for growth, competitiveness and efficiency.

The fundamentals of the new remuneration framework are as follows:

- The principle of economic and financial sustainability of the gas system is established, which will be a guiding principle for the actions taken by public authorities and other parties involved with the gas system. Any legislative measure relating to the industry that represents an increase in cost for the gas system or a reduction of revenue must include an equivalent reduction in other cost items or an equivalent increase in revenue that ensures the balance of the system. This will definitively rule out the possibility of accumulating a deficit.

This principle is reinforced by the establishment of restrictions on the appearance of temporary annual mismatches, establishing the corrective mechanism of mandatory automatic revisions of tolls and fees that will be applied if certain thresholds are exceeded. The thresholds introduced allow for deviations deriving from one-off circumstances or volatility affecting gas demand which, as such, may be reversed in the following period without the need to modify the tolls and fees, while guaranteeing that mismatch levels that could place the system's financial stability at risk cannot be reached.

Temporary mismatches that arise at or after the time this Royal Decree-Law enters into force will be financed by all of the members of the settlement system based on the collection rights that are generated, without exceeding the aforementioned thresholds.

This economic and financial sustainability principle for the system must be understood such that the revenues generated through the use of the facilities cover all system costs. The regulated remuneration methods in the natural gas sector take into consideration the costs necessary to carry out the activity by an efficient and well-managed company under the principle of performing the activity at the lowest cost for the system.

- Six-year regulatory periods are established to determine the remuneration for the regulated activities, thereby providing regulatory stability to those activities. The first regulatory period ends on December 31, 2020. Starting on January 1, 2021 the subsequent regulatory periods will consecutively enter into force and each one will last six years.

Every three years, adjustments may be made to the remuneration parameters within the system, including the unit reference values per customer and sales, operating and maintenance costs, productivity improvement factors, etc., in the event that there are significant variances in the revenue and cost items.

- The remuneration system for transportation, regasification and storage facilities is established under uniform principles, generally adapting to the net value of the asset as a basis for calculating the remuneration for the investment made. Variable remuneration based on transported, regasified or stored gas is included based on the type of asset, and any automatic revision procedure covering remuneration values and parameters based on price indexes is eliminated.
- Accumulated deficit at December 31, 2014. The amount relating to the accumulated deficit in the gas system at December 31, 2014 will be determined in the final settlement for 2014. The members of the settlement system will be entitled to recover the annual amounts relating to that accumulated deficit in the settlements in the subsequent 15 years, recognising an interest rate in accordance with market conditions (see Notes 8.1 and 10).

- The remuneration consists of a fixed rate for facility availability and a variable rate for supply continuity. The fixed facility availability rate includes the operating and maintenance costs for each year, depreciation and financial compensation calculated by applying the financial remuneration rate determined for each regulatory period to the annual net value of the investment.

Including the variable rate for supply continuity in facility remuneration allows system costs to be adjusted in the event of a change in demand, balancing the differences between revenues and system costs in addition to transferring part of the demand variance risk from the final consumer to the owner of the facilities.

This rate is based on the total change in domestic natural gas consumption in the calculation year compared with the preceding year in the case of transportation facilities, the change in demand for regasified gas at all plants in the system in the case of regasification facilities and the change in useful gas at storage facilities.

The supply continuity remuneration is distributed among all facilities based on the weighting of their replacement value compared to all of the facilities participating in the activity, and those values are calculated by applying the unitary investment values in force in each year.

Once the regulatory useful life of the facilities has ended, and in those cases in which the asset continues in operation, the fixed remuneration is calculated as operating and maintenance costs increased by a coefficient determined by the number of years by which a facility exceeds its regulatory useful life. No amount whatsoever accrues as remuneration for the investment made.

a.1) Accredited fixed cost for Availability Compensation (AC). This item is determined individually for each of the production assets. This parameter remunerates investment and operating costs relating to assets used in the gas system.

a.1.1. Remuneration for investment costs comprises:

- Value of recognised assets. The recognised values for the assets under the preceding remuneration framework are maintained. For facilities commissioned before 2002, the remuneration is calculated based on the carrying amount of the assets after the revaluation of 1996 (Royal Decree-Law 7/1996), less grants received to finance these assets. An annual update rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

For new facilities brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

Investments in underground storage are also measured at actual cost because there are no standard values.

Transport facilities brought into service since 2008 are valued at the average of the standard value and actual cost.

Regasification facilities brought into service since 2006 are valued at actual cost plus 50% of the difference between standard value and actual cost, up to the maximum standard value.

- Remuneration for depreciation of system assets. The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.

The new framework maintains the useful lives of the assets, except for the gas pipelines, for which the useless life remains at 40 years for all facilities, regardless of when they entered into operation.

- Financial remuneration for the value of the investment. The calculation applies a financial remuneration rate to the non-discounted net value of the assets. During the first regulatory period, the remuneration rate for transportation, regasification and basic storage assets entitled to remuneration from the gas system will be the average yield on 10-year government bonds in the secondary market applied among owners of non-segregated accounts in the 24 months before the entry into force of the legislation, plus a spread of 50 basis points. The financial remuneration rate remained fixed at 5.09% for the regulatory period (value ratified by Law 8/2015 of May 21).

- **Remuneration for fully depreciated assets.** Once the regulatory useful life of each asset ends, if the item continues in operation, the remuneration that will be accrued by that facility for the investment made, depreciation and financial remuneration will be zero.

By contrast, the remuneration for operating and maintaining asset “i” each year “n” will increase. The recognised value will therefore be the result, multiplied by a useful life extension coefficient μ_i .

This parameter will have the following values:

- During the first five years in excess of the regulatory useful life: 1.15.
- When the regulatory useful life has been exceeded by between 6 and 10 years, the useful life extension coefficient will be: $1.15+0.01(X-5)$.
- When the regulatory useful life has been exceeded by between 11 and 15 years, the useful life extension coefficient will be: $1.20+0.02(X-10)$.
- When the regulatory useful life has been exceeded by more than 15 years, the useful life extension coefficient will be: $1.30+0.03(X-15)$.

Where “X” is the number of years by which the asset has exceeded its regulatory useful life. The parameter μ_i cannot take a value exceeding 2.

a.1.2. In general terms, the calculation of the remuneration for the operating costs relating to transportation, regasification and underground storage assets is maintained. The only difference is the application of unit operating and maintenance costs to all of the transportation facilities, regardless of when they entered into operation.

a.2) Supply continuity remuneration (SCR). Supply continuity remuneration (SCR) is calculated jointly for each of the activities: transportation, regasification and underground storage.

The remuneration in this respect, in year “n”, is calculated in all cases based on the prior-year remuneration, “n-1”, multiplied by an efficiency factor and the change in demand.

The efficiency factor is set at a value of 0.97 for the first regulatory period, and the changes in demand that are taken into consideration are as follows:

- The transportation pipeline network facilities will take into consideration the change in total national demand for gas, excluding supplies through satellite plants, with the following maximum and minimum demand limits: 410 TWh and 190 TWh.
- The change in total demand for gas from all regasification plants in the gas system is taken into account with respect to regasification plants, with the following maximum and minimum limits applied to gas outflows: 220 TWh and 50 TWh.
- The change in the useful gas stored at 1 November in the relevant year is taken into account for storage facilities, including the portion of cushion gas that is mechanically extractable, with the following maximum and minimum gas storage limits: 30 TWh and 22 TWh.

The supply continuity remuneration determined for each activity in year “n” is distributed among each of the facilities “i” that remain in operation based on a coefficient, α_i , that is the result of dividing the sum of the replacement cost for all facilities by the replacement cost of facility “i”. This replacement cost is calculated based on the unit investment costs in force, except for unique facilities and underground storage facilities, for which the investment value will be used.

a.3) Recognised variable cost for regasification and transfer of LNG to tankers

a.3.1. The recognised variable unit cost is calculated based on the number of kW/hr actually regasified and loaded in LNG tanks in each period and the variable unit regasification cost for the period in question. For 2016, this cost was set at 0.000162 euros per kWh regasified and 0.000194 euros/kWh loaded in tankers.

a.3.2. A cost identical to the variable tank loading cost is recognised for loading LNG onto tankers from regasification plants or for the pre-cooling of ships. For tanker-to-tanker transfers, the cost is 80% of this value.

b) Revenue from technical system operation (TSO)

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year, and is used to remunerate Enagás GTS, S.A.U. for its obligations as Technical System Manager, which include coordinating the development, operation and maintenance of the transport network, supervising the security of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2016, the amount earmarked for TSM remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and gas distribution facilities, as a percentage of invoicing for tolls and fees relating to third-party network access rights, was 0.778%. This amount is deposited by these companies within the deadlines and in the manner established in the settlement procedure into the deposit account held by the CNMC for these purposes.

The above-mentioned percentage of invoicing is calculated based on the figure obtained by applying maximum tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the facilities and their users.

In accordance with Order IET/2736/2015 of December 17, the provisional remuneration for the Technical System Operator for 2016 amounts to 23,966 thousand euros.

This revenue is taken to the consolidated income statement monthly on a straight-line basis.

c) Settlement of tolls relating to third-party access to gas installations.

Invoicing and collection of remuneration for regulated activities subject to settlement (third-party access to the network and Technical System Management) is carried out in compliance with the settlement procedure established in the Ministerial Order dated October 28, 2002.

d) Settlement system.

Ministerial Order ECO/2692/2002 (October 28) was published on November 1, 2002, regulating settlement procedures for remuneration of regulated activities and defining company disclosure requirements.

Additional provision number five of Order ITC/3993/2006 amends section I.5 of appendix II of this settlements order and states that the interest equivalent to applying the average one-year treasury bill yield during 60 days to the amounts to be paid to each transporter or distributor be added to the settlements.

e) Revenue corresponding to the minimum operating level and minimum linepack of gas pipelines

Article 16 of IET/3587/2011 Order provides that the minimum level for gas filling of the pipeline transport and regasification plants (gas check) shall be remunerated as a necessary investment for the transport activity, recognising a financial retribution.

After the entry into force of the new remuneration framework the compensation for this item continues, and the same financial remuneration rate is applied as that for the transportation, regasification and underground storage facilities. The acquisition cost will be the result of applying the auction price to the quantity purchased.

f) Revenue for gas purchases for internal consumption.

Until 2015, the gas was acquired by transporters and recognised at the auction price, while the payments made were considered reimbursable expenses.

In accordance with the stipulations of article 7 of Order IET/2736/2015, of December 17, from 2016 onwards operating gas for transport installations and basic underground storage, as well as the operating gas of regasification plants the costs of which are borne by the gas system, is acquired by the technical system manager

in the organised gas market. The acquisition cost for this gas is recognised at the auction price and is considered a reimbursable expense.

Upon the entry into force of the new remuneration framework gas purchases for internal consumption at regasification plants cease to be a recognised cost, although there is a transitional adaptation period.

During this period, the following percentages of gas purchases for regasification plant operations will be recognised.

	2014	2015	2016	2017
Recognised transitional gas for internal consumption.	100%	90%	50%	20%

g) Settlement of the accumulated deficit.

Royal Decree-Law 8/2014 (July 4) and Law 18/2014 (October 15) establish the economic and financial sustainability principle for the gas system. In accordance with this principle, revenues from the system will be used exclusively to sustain own remuneration of the regulated activities concerning the supply of gas and, furthermore, the revenues must be sufficient to satisfy all of the costs incurred by the gas system. To ensure financial sufficiency and avoid the appearance of new ex ante deficits, any legislative measure relating to the gas system that represents an increase in cost for the system or a reduction of revenue must include an equivalent reduction in other cost items or an equivalent increase in revenue that ensures the balance of the system.

The new remuneration framework also establishes a specific method for resolving temporary mismatches between the revenue and costs of the system which, together with the aforementioned measures, are intended to definitively end the deficit in the gas system.

This method establishes a multi-year period over which to recover these mismatches and also recognises finance costs for the financing of these mismatches for the regulated companies.

The method established in articles 61 and 66 of this Royal Decree-Law and this Law make a distinction between the accumulated deficit at December 31, 2014 and that which may be generated in subsequent years, such that:

- The amount relating to the accumulated deficit in the gas system at December 31, 2014 will be determined in the definitive settlement for 2014, and the members of the settlement system will be entitled to recover annual amounts relating to that accumulated deficit in the settlements in the subsequent 15 years, recognising an interest rate in accordance with market conditions.
- Definitive settlement in 2014 was approved by the regulatory oversight chamber of the CNMC in its session held on 24 November 2016, recognising 1,025,052 thousand euros for the accumulated deficit of the gas system at 31 December 2014. This deficit will be recovered in 15 consecutive annual installments starting on November 25, 2016 (the day following the approval of the definitive settlement) and continuing until November 24, 2031 (See Note 8.1).

In addition, with respect to the temporary mismatches between income and expenses that may manifest themselves from 2015 onwards, the Royal Decree Law and the Law foresee that they will be recovered once the definitive settlements have been obtained during the following five years while recognising an interest rate corresponding to conditions equivalent to those of the market.

Definitive settlement in 2015 was approved by the regulatory oversight chamber of the CNMC in its session held on November 24, 2016, recognising 27,232 thousand euros for the regulated deficit of the natural gas sector corresponding to the year 2015. This deficit will be recovered annually starting from November 25, 2016 (the day following approval of the definitive settlement for 2015) and continuing until November 24, 2021.

From the year 2017, the annual payments for the deficit will be distributed in 12 equal monthly installments which will be settled as a single payment in each of the first twelve settlements of the year, prioritising collection over the remaining system costs on the terms established in articles 66 and 61.2 of Law 18/2014, of October 15.

In order to limit any further increase in the deficit, when the annual mismatch between revenues and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the

recognised annual amounts pending payment exceeds 15%, the access tolls and fees for the following year will be increased to recover the amount exceeding that limit. In any event, as long as there are annual amounts pending payment from prior years, tolls and fees cannot be revised downwards.

Finally, it is worth noting that Order ETU/1977/2016, of December 23, establishes that the annual payment for 2016 will be settled in the first available installment of 2016 as a single payment, while the remaining annual payments for 2017 and subsequent years will be distributed in 12 equal monthly installments which will be settled in a single payment in the first installment of the year prioritising collection over other system costs on the terms established in articles 66 and 61.2 of Law 18/2014, of October 15. In addition, Order ETU/1977/2016, of December 23, provisionally set out the forecast interest rates for the gas system to be applied to the deficit accumulated on December 31, 2014 and the time mismatch for 2015. The values are as follows:

- The forecast interest rate for any deficit accumulated at December 31, 2014 shall be 1.104%. The interest acknowledged at each deficit shall be accrued from the day following the approval of the definitive settlement for 2014.
- The forecast interest rate for any time mismatch between income and expenses for the gas system in 2015 shall be 0.836%. The interest acknowledged at each mismatch shall be accrued from the day following the approval of the definitive settlement for 2015.

h) Establishment of the Organised Gas Market.

Law 8/2015 of May 21, amending Law 34/1998, of October 7, on the Oil and Gas industry, designates MIBGAS S.A. as Organised Gas Market Operator. This law was enacted by Royal Decree 984/2015, of October 30, which assigns the principal functions of the Organised Gas Market Operator to the mercantile company MIBGAS, establishing its functions and role within the gas sector.

In the article 65 "Organised Gas Market Operator", states that a trading company, whose shareholding may consist of any natural or legal person, shall act as the organised gas market operator, with the total direct shareholdings in the capital of this Technical Operators company for Spanish and Portuguese gas systems amounting to 20%. On June 14, 2016, in compliance with the stipulations of article 65 ter., the acquisition of 13.34% of said company by Enagás GTS, S.A.U. became effective, as indicated in Note 2.3.

i) Acknowledgement of the expenses associated with the dismantling of natural gas facilities.

Royal Decree 949/2001, of August 3 ("RD 949/2001"), which regulates the access of third parties to gas facilities and establishes an integrated economic system for the natural gas sector states that, in the event of closure of plants and storage facilities, regulated activities shall cease to be remunerated from the date of closure and, if such plants and facilities are dismantled, without prejudice to any net dismantling costs that are recognised.

j) Adjusting the agreements for international gas transit to the prevailing regulatory framework.

The National Energy Commission (Comisión Nacional de Energía) – the current National Commission for Markets and Competition – at its meeting of April 11, 2013, ordered Enagás, S.A. (now succeeded for its transportation business by Enagás Transporte, S.A.U.), Galp Gas Natural, S.A. and Gasoducto Al-Ándalus, S.A. to adjust the agreements for gas transit to Portugal (drawn up in 1996 by Transgas, S.A. (now Galp Gas Natural, S.A.) to the new regulatory framework introduced by Directive 2009/73/EC and Regulation (EC) 715/2009, of July 13, 2009, of the European Parliament and of the Council.

With the aim of complying with the aforesaid order, Galp Gas natural, S.A. and Enagás Transporte, S.A.U., signed a Framework Agreement on February 27, 2014, for access to the transportation and distribution system of Enagás Transporte, S.A.U., through international gas pipeline connections with Europe. Subsequently, on November 18, 2014, both companies signed the corresponding long-term agreement for access to transport and distribution networks, and an addendum to the Framework Agreement, which entered into effect on January 1, 2015, thereby complying with the requirements of the National Commission for Markets and Competition.

The National Commission for Markets and Competition deems said access agreements for third parties to the transportation and distribution system to be compliant with the applicable standards.

k) Developments in the regulatory framework.

The main gas industry regulatory developments approved in 2016 include:

1. Supranational regulations

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of Regions, of February 16, 2016 on a strategy of the EU for liquefied natural gas and gas storage

Commission Delegated Regulation (EU) 2016/89, of November 18, 2015, amending Regulation (EU) no. 347/2013 of the European Parliament and Council as regards the Union project list of common interest

Directive (EU) 2016/802 of the European Parliament and Council, of May 11, 2016, relating to a reduction in the sulphur content of certain liquid fuels.

Council Decision (EU) 2016/590, of April 11, 2016 on the signing, on behalf of the European Union, of the Paris Agreement adopted under the United Nations Framework Convention on Climate Change.

2. Regulación Española

BASIC REGULATION

Resolution of September 28, 2016, of the Secretary of State for Energy, correcting errors in the resolution of August 2, 2016 which approved the standards for managing guarantees in the gas system.

Resolution of August 2, 2016, of the Secretary of State for Energy, approving the framework contract for access to the installations of the Spanish gas system.

Resolution of June 6, 2016, of the Secretary of State for Energy, approving various provisions on the organised gas market.

CNMC Resolution of March 1, 2016, approving the procedure for authorising and deregistering users with a balance portfolio at the virtual balancing point and the framework contract.

REMUNERATION AND TOLLS

Order ETU/1977/2016, of December 23, 2016, establishing the tolls and fees for third-party access to gas facilities and remuneration of regulated gas sector activities for 2017.

CNMC Circular 3/2016, of November 16, modifying Circular 1/2015, of July 22, on the regulatory information on costs relating to regulated transport, regasification, storage, and technical system management activities for natural gas, as well as transportation and operation of the electricity system.

Orden IET/274/2016 of February 29, correcting errors in Order IET/2736/2015, of December 17 which established the tolls and fees for third-party access to gas installations and remuneration for regulated activities in 2016.

TARIF OF LAST RESORT

Resolution of December 29, 2016, of the Directorate General for Energy Policy and Mining (hereinafter DGPEM), publishing the tariff of last resort for natural gas.

Resolution of September 26, 2016, of the DGPEM, publishing the tariff of last resort for natural gas.

Resolution of March 29, 2016, of the DGPEM, publishing the tariff of last resort for natural gas.

Resolution of January 21, 2016, of the DGPEM, publishing the tariff of last resort for natural gas, which corrects errors of the December 23, 2015 one.

TECHNICAL MANAGEMENT RULES

Correction of errors in the Resolution of September 28, 2016 of the DGPEM, amending the technical system management standards NGTS-03 "Programmes" and NGTS-04 "Nominations", the detailed protocols PD-07 and PD-13, and repealing the detailed protocols PD-08 and PD-15.

Resolution of September 28, 2016 of the DGPEM, amending the technical system management standards NGTS-03 "Programmers" and NGTS-04 "Nominations", the detailed protocols PD-07 and PD-13, and repealing the detailed protocols PD-08 and PD-15.

Resolution of September 28, 2016 of the DGPEM, approving the detailed protocol PD-18 "Technical parameters which determine the normal operation of the transport network and the performance of balancing actions at the virtual balancing point (PVB) by the Technical System Manager".

Resolution of September 23, 2016 of the DGPEM, amending the technical system management standards NGTS-06 "Distributions" and NGTS-07 "Balance".

Resolution of May 4, 2016 of the DGPEM, amending the detailed protocols PD-06 "Operational regulation for the unloading activities of methane tankers" and PD-02 "Procedimiento de reparto en puntos de conexión transporte-distribución (PCTD) y en puntos de conexión distribución-distribución (PCDD)".

Resolution of February 15 of the DGPEM, approving the biannual work group action programme for updating, reviewing, and amending the technical system management standards for the period 2016 - 2017.

Resolution of May 12, 2016 of the CNMC, approving the calculation methodology for daily tariff imbalances, the settlement procedure for daily user imbalances, and balancing actions for the purchase-sale of normalised products by the Technical System Manager.

UNDERGROUND STORAGE

Resolution of March 15 of the DGPEM, which adjudicates the basic storage capacity for the period from April 1, 2016 to March 31, 2017.

Resolution of 29 February of the DGPEM, which establishes certain aspects related to the auction of basic storage capacity for the period from April 1, 2016 to March 31, 2017.

Resolution of January 29, 2016, of the DGPEM, which publishes the capacity allocated and available in basic underground storage of natural gas for the period from April 1, 2016 to March 31, 2017.

STRATEGIC RESERVES CORPORATION (CORES)

Order ETU/1989/2016, of December 28, approving the amounts required for contribution to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2017.

Order IET/1555/2016, of September 29, modifying the amounts required for contribution to CORES for 2016 as approved by Order IET/2839/2015 of December 23.

OTHER REGULATIONS

Royal Decree 515/2016 of November 18, appointing Mr. Daniel Navia Simón as Secretary of State for Energy.

Royal Decree 417/2016 of November 3, appointing government ministers. Mr. Álvaro María Nadal Belda was appointed as Minister for Energy, Tourism, and Digital Agendas.

Royal Decree 56/2016 of February 12, transposing Directive 2012/27/UE of the European Parliament and Council, of October 25, 2012 on energy efficiency, relating to energy audits, accreditation of providers of energy services and energy audits, and energy efficiency improvement measures.

Resolution of January 25, 2016 of the DGPEM, establishing the measurement of shrinkage balances for regasification plants for 2013.

Resolution of January 25, 2016 of the DGPEM, establishing the measurement of shrinkage balances for regasification plants for 2014.

Resolution of January 29, 2016, on the acquisition of interest by Enagás Transporte S.A.U in Bahía de Bizkai Gas, S.L. (BBG) and Iniciativas de Gas, S.L. (IdG), representing 10% and 60% of share capital, respectively.

Resolution of September 28, 2016 of the Secretary of State for Energy, correcting errors in the resolution of August 2, 2016 which approved the standards for managing guarantees in the gas system

Resolution of June 9, 2016, of the DGPEM, which modifies the one of July 25, 2006, which regulates the conditions of allocation and the procedure of application of the interruptibility in the gas system.

Resolution of May 3, 2016, of the Directorate General of Employment, filing and publishing the Enagas Group collective labor agreement.

Sentence of February 11, 2016, of the Third Chamber of the Supreme Court, nullifying various sections of Order IET/2445/2014, of December 19, which established tolls and fees for third-party access to gas installations and the remuneration for regulated activities, with respect to remuneration for the plaintiff Regasification plant of Sagunto, S.A.

5. Intangible assets

The breakdown and movements in intangible assets and accumulated amortisation in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Goodwill	25,812	-	-	-	25,812
Other intangible assets					
Development	6,640	778	-	-	7,418
Concessions	5,871	-	-	-	5,871
Computer software	181,618	16,391	-	-	198,009
Other intangible assets	7,835	2	-	-	7,837
Total cost	227,776	17,171	-	-	244,947
Depreciation	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Other intangible assets					
Development	(2,228)	(570)	-	-	(2,798)
Concessions	(3,862)	(50)	-	-	(3,912)
Computer software	(133,824)	(20,303)	-	-	(154,127)
Other intangible assets	(7,576)	(115)	-	-	(7,691)
Total depreciation	(147,490)	(21,038)	-	-	(168,528)
Carrying amount	Opening balance	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Total goodwill	25,812	-	-	-	25,812
Total other intangible assets	54,474	(3,867)	-	-	50,607
Total intangible assets	80,286	(3,867)	-	-	76,419

2015

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Goodwill ^(*)	17,521	8,291	-	-	-	25,812
Other intangible assets						
Development	5,511	-	1,129	-	-	6,640
Concessions	5,863	8	-	-	-	5,871
Computer software	164,047	172	16,192	1,207	-	181,618
Other intangible assets	8,935	-	108	(1,207)	(1)	7,835
Total cost	201,877	8,471	17,429	-	(1)	227,776

Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Other intangible assets						
Development	(1,799)	-	(429)	-	-	(2,228)
Concessions	(3,737)	-	(125)	-	-	(3,862)
Computer software	(111,118)	(172)	(22,534)	-	-	(133,824)
Other intangible assets	(7,454)	-	(122)	-	-	(7,576)
Total depreciation	(124,108)	(172)	(23,210)	-	-	(147,490)

Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or writedowns	Closing balance
Total goodwill	17,521	8,291	-	-	-	25,812
Total other intangible assets	60,248	8	(5,781)	-	(1)	54,474
Total intangible assets	77,769	8,299	(5,781)	-	(1)	80,286

(*) The increases for variation in the scope of goodwill include 2,568 thousand euros from the tax effect related with the allocation of goodwill.

Additions in the heading "Computer Software" in 2016 relate mainly to the following projects:

- Adaptation of computer applications and IT systems of the different Group companies to European legislation, amounting to 5,971 thousand euros.
- Investment in the upgrading, integration, and migration of systems, amounting to 2,416 thousand euros.
- Investment in the development of new systems and platforms, such as security software in systems for contracting capacity, amounting to 1,670 thousand euros.
- Projects for the development of upgradeable supporting software for the different departments of Group companies, such as General Management of Human Resources or General Management of Finances, amounting to 1,270 thousand euros.

The amounts recognised under "Goodwill", correspond to the ETN and Gascán acquisitions, totaling 17,521 thousand euros and 8,291 thousand euros, respectively. There were no significant movements under this heading in 2016.

At year-end 2016 and 2015, the Group was still using the following fully amortised intangible assets:

Ejercicio 2016

Item	Carrying amount (gross)
Development	720
Computer software	113,245
Other intangible assets	9,602
Total	123,567

Ejercicio 2015

Item	Carrying amount (gross)
Development	369
Computer software	93,561
Other intangible assets	9,362
Total	103,292

Assets classified within "Other intangible assets" are not mortgaged or subject to any other similar encumbrance.

6. Property, plant and equipment

The breakdown and movements in property, plant and equipment in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	165,675	1,764	58	(2,188)	165,309
Plant and machinery	8,724,985	28,925	48,087	(372)	8,801,625
Other fixtures, tools and furniture	82,385	2,776	1,957	(11)	87,107
Prepayments and work in progress	570,367	39,507	(50,102)	(769)	559,003
Grants related to assets	(600,456)	(591)	-	660	(600,387)
Total cost	8,942,956	72,381	-	(2,680)	9,012,657
Depreciation	Opening balance	Provisions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(63,492)	(3,995)	(7)	-	(67,494)
Plant and machinery	(3,989,173)	(255,096)	-	-	(4,244,269)
Other fixtures, tools and furniture	(56,212)	(4,840)	7	-	(61,045)
Grants related to assets	381,398	13,453	-	-	394,851
Total depreciation	(3,727,479)	(250,478)	-	-	(3,977,957)
Impairment losses	Opening balance	Provisions	Increases or decreases through transfers	Reversals, disposals or derecognition	Closing balance
Plant and machinery	(32,077)	-	-	264	(31,813)
Other fixtures, tools and furniture	-	-	-	-	-
Grants related to assets	-	-	-	-	-
Total impairment	(32,077)	-	-	264	(31,813)
Carrying amount	Opening balance	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	102,183	(2,231)	51	(2,188)	97,815
Plant and machinery	4,703,735	(226,171)	48,087	(108)	4,525,543
Other fixtures, tools and furniture	26,173	(2,064)	1,964	(11)	26,062
Prepayments and work in progress	570,367	39,507	(50,102)	(769)	559,003
Grants related to assets	(219,058)	12,862	-	660	(205,536)
Total property, plant and equipment	5,183,400	(178,097)	-	(2,416)	5,002,887

2015

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	148,550	-	16,841	821	(537)	165,675
Plant and machinery	8,645,340	-	14,259	70,735	(5,349)	8,724,985
Other fixtures, tools and furniture	73,904	68	2,142	6,431	(160)	82,385
Prepayments and work in progress	558,631	15,205	77,450	(77,987)	(2,932)	570,367
Grants related to assets	(599,110)	-	(1,346)	-	-	(600,456)
Total cost	8,827,315	15,273	109,346	-	(8,978)	8,942,956
Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(59,626)	-	(3,892)	-	26	(63,492)
Plant and machinery	(3,722,028)	-	(272,490)	-	5,345	(3,989,173)
Other fixtures, tools and furniture	(52,465)	(59)	(3,804)	-	116	(56,212)
Grants related to assets	367,789	-	13,609	-	-	381,398
Total depreciation	(3,466,330)	(59)	(266,577)	-	5,487	(3,727,479)
Impairment losses	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Increases or decreases through transfers	Reversals, disposals or derecognition	Closing balance
Plant and machinery	(24,137)	-	(8,679)	-	739	(32,077)
Other fixtures, tools and furniture	-	-	-	-	-	-
Grants related to assets	-	-	-	-	-	-
Total impairment	(24,137)	-	(8,679)	-	739	(32,077)
Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions or allocations	Increases or decreases through transfers	Disposals, derecognition or write-downs	Closing balance
Land and buildings	88,924	-	12,949	821	(511)	102,183
Plant and machinery	4,899,175	-	(266,910)	70,735	735	4,703,735
Other fixtures, tools and furniture	21,439	9	(1,662)	6,431	(44)	26,173
Prepayments and work in progress	558,631	15,205	77,450	(77,987)	(2,932)	570,367
Grants related to assets	(231,321)	-	12,263	-	-	(219,058)
Total property, plant and equipment	5,336,848	15,214	(165,910)	-	(2,752)	5,183,400

At December 31, 2016 additions to the heading "Land and buildings" amounting to 1,764 thousand euros, mainly relating to intervention in Bermeo's Plant for 694 thousand euros, and the adaptation and work on the head offices (plan Move) 441 thousand euros.

Under the heading "Plant and machinery", the main movement relates to the incorporation of facilities entering into operation in 2016 with the acquisitions of cushion gas to Gas Pipeline, amounting to 11,725 thousand euros, and incorporation of installations into operation in 2016 (3,396 thousand euros)

"Other fixtures, tools and furniture" increased by 2,776 thousand euros and 1,155 thousand euros correspond to Plan Move.

In 2016 and 2015, no provisions have been made for decommissioning.

Additions to "Prepayments and work in progress" in 2016 relate mainly to the following facilities:

- Yela underground storage cushion gas in the amount of 21,626 thousand euros.
- Emission below the technical minimum at the Cartagena Plant, in the amount of 3,351 thousand euros.
- Reduced internal consumption at the Huelva plant, in the amount of 3,032 thousand euros.
- Investment in different Gas Pipeline as Martorell-Figueras or Villapresente-Burgos, amounting to 3,298 thousand de euros.
- Several improvements AASS as Serrablo, amounting 775 thousand euros or in regasification plants and compression station, amounting 1,390 thousand euros.
- Plan Move in the amount of 2,987 thousand euros.

"Transfers" comprises the movements in work in progress to property, plant and equipment as projects are brought into operation in the year. Specifically, transfers to "Plant and machinery" at December 31, 2016 relate mainly to the start-up of the following facilities:

- Cushion gas for the Yela underground storage facility in the amount of 21,626 thousand euros.
- Minimum technical reduction of production through improvement of boil-off at the Cartagena's Plant and Huelva's Plant, amounting 17,877 thousand euros.
- Fire protection performance AASS Serrablo, amounting 846 thousand euros.

Disposals of "Land and buildings" corresponds to the reestimation of the account to be paid for the expropriations to the lands of E. C. De Denia.

Disposals of "Prepayments and work in progress" in 2016 relate mainly to the sale of material coming from warehouse investments.

The revaluation in accordance with the provisions of Royal Decree-Law 7/1996 of June 7, on balance sheet restatements, increased the 2016 depreciation charge for property, plant and equipment by 3,613 thousand euros and had an effect totalling 3,729 thousand euros in 2015.

Capitalised borrowing costs accrued during construction of infrastructure projects in 2016 amounted to 2,876 thousand euros (4,177 thousand euros in 2015) (see Note 24).

"Work on non-current assets" increased the investment by 6,782 thousand euros in 2016 and by 7,447 thousand euros in 2015 (see Note 23.1).

Property, plant and equipment is not pledged to any mortgages or any other similar encumbrances.

The Group insures its assets so no significant losses occur, on the basis of best market practice and according to the nature and characteristics of the items of property, plant and equipment.

The Group also has insurance policies against third-party civil liability.

At year-end 2016 and 2015, the Enagás Group was still using the following fully depreciated items of property, plant and equipment:

2016

Item	Carrying amount (gross)
Buildings	18,077
Plant and machinery	944,449
Other fixtures, tools and furniture	49,320
Total	1,011,846

2015

Item	Carrying amount (gross)
Buildings	17,118
Plant and machinery	741,472
Other fixtures, tools and furniture	46,697
Total	805,287

Accumulated grants related to assets received at year-end 2016 and 2015 that relate to investments in gas infrastructures are as follows:

2016

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
Regasification plants	79,653	(71,298)	8,355
Gas transportation infrastructure	503,226	(308,092)	195,134
Underground storage	17,508	(15,461)	2,047
Total	600,387	(394,851)	205,536

2015

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
Regasification plants	79,916	(69,981)	9,935
Gas transportation infrastructure	503,031	(298,006)	205,025
Underground storage	17,509	(13,411)	4,098
Total	600,456	(381,398)	219,058

Details of these grants, by the bodies that granted them, at year-end 2016 and 2015 are as follows:

2016

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
EU structural funds	434,634	(266,697)	167,937
Spanish regional authorities	51,905	(29,790)	22,115
Spanish Government	113,848	(98,364)	15,484
Total	600,387	(394,851)	205,536

2015

(Thousands of euros)

	Grants received at 12/31/2016	Released to income at 12/31/2016	Balance at 12/31/2016
EU structural funds	434,704	(255,586)	179,118
Spanish regional authorities	51,905	(28,680)	23,225
Spanish Government	113,847	(97,132)	16,715
Total	600,456	(381,398)	219,058

Government grants to be taken to the income statement in 2017 amount to approximately 13,210 thousand euros. The detail of the temporary allocation of the outstanding balance at December 31, 2016 is as follows:

	Años		
	<1	2 a 5	>5
Spanish state	940	3,760	10,784
Spanish regional authorities	1,111	4,417	16,586
ERDF grants	11,159	34,705	122,074
Total grants	13,210	42,882	149,444

Regasification Plant - Puerto de El Musel (Gijón).

On March 1, 2016, Enagás Transporte received notification of the ruling handed down by the Supreme Court on 29 February 2016, dismissing the appeal filed by the central government and said company against the sentence of July 31, 2013 passed by the Madrid High Court which upheld the appeal filed by the Green Party of Asturias against the Directorate General for Energy Policy and Mining resolution of December 29, 2008 granting Enagás the prior administrative authorisation for construction of the regasification plant for liquefied natural gas in El Musel (Gijón), thereby nullifying said administrative authorisation.

The Enagás Group understands that the Supreme Court ruling does not entail any changes to the technical or economic situation of the installation, as (i) the location and technical characteristics of the installation are perfectly in line with prevailing legislation in light of the replacement of the regulation relating to annoying, unhealthy, harmful or hazardous activities with Law 34/2007, of November 15, on air quality and protection of the atmosphere and installation; and (ii) the installation has received the necessary commissioning certification for the sole purposes indicated in the Third Transitional Provision of Royal Decree Law 13/2012, and thus the remuneration recognised and received by Enagás is justified on the basis of said Royal Decree and not the nullified authorisation.

The Ministry for Energy, Tourism, and Digital Agendas pronounced itself similarly when it informed the High Court of Madrid in connection with the execution of the sentence requested by the Green Party of Asturias that “[...] it considers, at any rate, that the sentence has already been executed as the nullification does not involve or require the dismantling of the installation or the suspension of remuneration currently being received”.

At December 31, 2016 the carrying amount of said investment totalled 378,814 thousand euros. Further, during 2016 and in accordance with Royal Decree Law 13/2012, said regasification plant received both financial remuneration as well as remuneration for operating and maintenance costs in connection with the actions carried out by the Group to maintain the plant ready for service. Both of the aforementioned sources of remuneration have been recognised annually by the successive Ministerial Orders regarding remuneration and tolls.

Thus, the directors of the Enagás Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognise any provision and that the definition of a contingent liability is not met.

Regasification Plant – Granadilla (Tenerife).

It is worth noting that, with respect to the current situation of the regasification plant construction project in the port of Granadilla, no significant changes have arisen relating to those described in Note 6 to the consolidated financial statements of 2015. On March 16, 2015 the Administrative Appeal Court of the Madrid High Court of Justice issued a ruling nullifying the Resolution of the Directorate General for Energy and Mining Policy of May 4, 2012 that granted Compañía Transportista de Gas Canarias, S.A. (Gascan) prior administrative authorisation to build the reception, storage and regasification plant for liquefied natural gas at Granadilla (Tenerife), as well as the Environmental Impact Statement for said project, declared favourable by Resolution of June 8, 2007 of the General Secretary for the Prevention of Contamination and Climate Change.

In this respect, Compañía Transportista de Gas Canarias, S.A., as the State Attorney, filed an appeal against the sentence, which is now pending scheduling of the vote and decision.

It is also worth noting that, in any case, in accordance with article 57.1 of Law 30/1992 of 26 November, on the Legal System for Public Administrations and the Common Administrative Procedure, actions taken by Public Administrations subject to Administrative Law are presumed to be valid and are effective as from the date on which they are issued. Since no competent administrative or jurisdictional body had decided to suspend the execution of the challenged administrative action, there are no legal reasons to understand that the Resolution of the Directorate General of Energy and Mining Policy of December 29, 2008 granting Enagás prior administrative authorisation to build a plant to receive, store and regasify liquefied natural gas at Granadilla (Tenerife), nor the Resolution of June 8, 2007 of the General Secretary for the Prevention of Contamination and Climate Change, who formulated the favourable environmental impact statement on the construction project for said plant, has ceased to be valid. To the contrary, it continues to be fully valid and effective especially considering that the filing of the appeal for reversal against the ruling issued by the Madrid High Court of Justice is incompatible with a final ruling, in accordance with Article 91.1 of Law 29/1998 of July 13, on Administrative Appeal Jurisdiction.

Accordingly, even in the event that the ruling from the Madrid High Court of Justice becomes final due to the appeal being rejected, this would not impede the subsequent processing and granting, respectively, a new environmental impact statement and a prior administrative authorisation for the liquefied natural gas regasification plant at Granadilla (Tenerife). Thus, at present, a new favorable environmental impact statement was issued on July 15, 2016 (Official State Gazette no.176 of July 22), a step required together with the CNMC report for obtaining administrative authorisation.

Therefore, the Directors of the Enagás Group, based on the legal opinions of internal advisors, believe that no provision whatsoever is necessary and that the definition of a contingent liability is not met.

7. Investment Properties

The breakdown and movements in investment properties in 2016 and 2015 were as follows:

2016

Cost	Opening balance	Additions	Closing balance
Land	47,211	-	47,211
Total Cost	47,211	-	47,211
Impairment losses	Opening balance	Additions	Closing balance
Land	(22,241)	(70)	(22,311)
Total impairment	(22,241)	(70)	(22,311)
Total investment property	Opening balance	Additions	Closing balance
Cost	47,211	-	47,211
Impairment losses	(22,241)	(70)	(22,311)
Total impairment	24,970	(70)	24,900

2015

Cost	Opening balance	Additions	Closing balance
Land	47,211	-	47,211
Total Cost	47,211	-	47,211
Impairment losses	Opening balance	Additions	Closing balance
Land	(22,131)	(110)	(22,241)
Total impairment	(22,241)	(110)	(22,241)
Total investment property	Opening balance	Additions	Closing balance
Cost	47,211	-	47,211
Impairment losses	(22,131)	(110)	(22,241)
Total investment property	25,080	(110)	24,970

The amounts recognised under "Investment properties" in the accompanying consolidated balance sheet at December 31, 2016 and December 31, 2015, fully correspond to a plot located at km. 18 of the A-6 in Las Rozas (Madrid), a property owned by Enagás, S.A.

As indicated in Note 3.e, said plot of land was measured in accordance with the cost model. However, as indicated above, since the directors of the Group do not at present have any specific use for the land, the recoverable amount is calculated as the fair value less necessary sales costs.

At December 31, 2016, Jones Lang LaSalle España, S.A. issued a valuation report dated January 19, 2017, in which the recoverable amount of the land at the date amounted to 24,900 thousand euros (24,970 thousand euros at December 31, 2015), which meant the recognition of an additional impairment of 70 thousand euros (110 thousand euros at December 31, 2015) under "Impairment losses and gains (losses) on disposal of assets" in the consolidated income statement.

The aforementioned report from the independent expert did not include any limitation to the scope of the conclusions reached.

The market appraisal was performed by the independent expert in accordance with the Governing Rules of the Royal Institution of Chartered Surveyors (RICS), set out in the so-called "Red Book" - RICS Valuation - Professional Standards, January 2014. These market appraisals defined by RICS are internationally recognised by advisors and accountants for investors and corporations owning real estate assets, and by the European Group of Valuers (TEGoVA) and the International Valuation Standards Committee (IVSC).

This property is not mortgaged or subject to any other similar encumbrance. The Group also has insurance policies against third-party civil liability.

8. Financial assets

8.1. Composition and breakdown

The Group's financial assets at December 31, 2016 and December 31, 2015, broken down by class and category for measurement purposes, were as follows:

Class Category	Non-current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Investments accounted for using the equity method (Note 32)	1,870,973	1,191,105	-	-	-	-	1,870,973	1,191,105
Other non-current financial assets	813	2,364	-	-	898,742	507,787	899,555	510,151
Credits	-	-	-	-	289,142	161,352	289,142	161,352
Trade and other receivables	-	-	-	-	397,351	342,282	397,351	342,282
Other non-current financial assets	813	2,364	-	-	212,249	4,153	213,062	6,517
Derivatives	-	-	-	-	16,670	8,686	16,670	8,686
Total	1,871,786	1,193,469	-	-	915,412	516,473	2,787,198	1,709,942

Class Category	Current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Other current financial assets	-	-	-	-	479,065	433,925	479,065	433,925
Credits	-	-	-	-	4,808	7,521	4,808	7,521
Trade and other receivables (Note 10)	-	-	-	-	474,257	426,404	474,257	426,404
Derivatives	-	-	-	-	-	-	-	-
Total	-	-	-	-	479,065	433,925	479,065	433,925

Equity Instruments

Movements in Investments carried under the equity method in 2016 and 2015 are as follows:

2016

	Opening balance	New acquisitions	Changes in the consolidation method	Dividends	Shareholds's equity	Valuation adjustments		Other adjustments	Closing balance
					Profit for the year	Translation differences	Hadging Transactions		
Equity-accounted investments	1,191,105	678,511	-	(86,262)	41,205	50,940	(2,753)	(1,773)	1,870,973

2016

	Opening balance	New acquisitions	Changes in the consolidation method	Dividends	Shareholds's equity	Valuation adjustments		Other adjustments	Closing balance
					Profit for the year	Translation differences	Hadging Transactions		
Equity-accounted investments	740,636	369,465	(2,662)	(46,568)	46,235	78,842	(337)	5,494	1,191,105

(*) Changes in consolidation method due to the 100% acquisition of Gascan shares (See Notes 2.3).

The main changes in the heading "Investments carried under the equity method" are due to the new entries of companies consolidated using this method in the scope of consolidation (see Notes 2.3 and 32), notably:

- 85% Infraestructuras del Gas, S.A. acquisition and indirectly 42.5% additional acquisition of Saggas amounting 92,218 thousand euros.
- 4.6% additional acquisition of Transportadora de Gas del Perú, S.A. participation amounting 87,113 thousand of euros.
- 40% additional acquisition of the GNL Quintero, S.A. participation amounting 354,287 thousand euros.
- 13.34% acquisition of the MIBGAS participation amounting 404 thousand euros.
- Also, in 2016, the Group Enagás has made capital contributions to GSP, TAP and Tecgas amounting 124,867 thousand euros, 28,036 thousand euros and 1,120 thousand euros, respectively.
- Expense capitalization arising from acquisition operations of Saggas, TgP, Quintero and MIBGAS amounting 3,601 thousands of euros.

Additionally, during 2016, there was a collection of dividends distributed by BBG (in the amounts of 4,000 thousand of euros), Altamira Group (in the amounts of 16,195 thousand of euros), Morelos EPC, S.A.P.I. de C.V. (in the amounts 2,504 thousand of euros), GNL Quintero (in the amounts of 9,827 thousand of euros), TgP (in the amounts of 42,355 thousand of euros), COGA (in the amounts of 853 thousand of euros) y Swedegas (in the amounts of 10,528 thousand of euros).

Finally, as stated in Note 33, in January 2017 the concession held by the investee Gasoducto Sur Peruano, S.A. (hereinafter GSP) was declared terminated. This event initiated a procedure, established in the concession agreement and Peruvian legislation, by virtue of which the concession assets are transferred to a new concessionaire in exchange for an amount with which to settle GSP payment obligations to third parties and shareholders. To determine the new concessionaire and said amount, up to three public tenders will be held. Should the public tenders not result in the concession being awarded; not be held within the stipulated deadline; or if a specified amount payable is not agreed upon, the Peruvian government would guarantee a minimum corresponding to 72.25% of the net carrying amount of the concession assets.

Based on this quantity, and by virtue of the subordination contracts and the loans granted amongst shareholders, the Group considers it will recover the amount invested in GSP as well as the receivable balance (broken down in this note in the section on "Other") which arises from execution of guarantees granted by Enagás S.A. in favor of said company, within a maximum of three years.

With a view to reflecting the discounted recoverable amount of the investment accounted for with the equity method, at 2016 year end an amount corresponding to the impact of termination was recognised, totalling 31,431 thousand euros of expenses.

In addition, GSP management, based on available information and the opinion of external and internal legal advisors, considers that the circumstances of said company's main shareholder, Odebrecht, described below, will not have any legal or financial effects on GSP.

The directors of Enagás, in accordance with the opinion of its external and internal legal advisors, consider that these circumstances will not modify the estimated recoverable amount of the investment in GSP and the aforementioned receivable balance.

On December 21, 2016, the U.S. Department of Justice and New York Attorney General announced the signing of a plea agreement with Odebrecht by virtue of which the latter acknowledges its culpability before U.S., Swiss, and Brazilian authorities in connection with corrupt practices prohibited by the Foreign Corrupt Practices Act ("FCPA"). Analysis of the agreement (the plea agreement is a public document) by the external legal advisors of GSP for U.S. and Peruvian legislation, shows that the illicit actions detected in Peru are prior to the Gasoducto Sur del Perú project, which does not appear amongst the acknowledged illicit actions in Peru.

On January 5, 2017 the Attorney General of Peru announced it had reached a preliminary collaboration agreement with Odebrecht by virtue of which the latter commits to collaborating with the Peruvian Attorney General in the investigation of its activities in Peru. To date this agreement has not given rise to actions that may affect GSP.

Various departments of the Peruvian Attorney General are carrying out investigations, the results of which cannot be anticipated at present, concerning alleged offenses that may somehow relate to the project for "Improvements to the energy security of the country and development of the Gasoducto del Sur Peruano". In accordance with the opinion of GSP's legal advisors for Peruvian legislation, GSP will not be affected by any economic liabilities arising from the alleged offenses committed prior to being awarded the concession in July 2014, given that at that date GSP had not been incorporated. Subsequent to the incorporation of GSP and the awarding of the concession, and in light of the information available to the company to date, there was no interaction with Proinversión or the granting entity or any other authorities which may have illicitly favored GSP.

Credits

The heading "Credits" both current and non-current mainly records the loans granted by Enagás S.A., Enagás Internacional, S.L.U., Enagás Transporte S.A.U., and Infraestructuras del Gas, S.A. to the companies in the group consolidated by the equity method and therefore not eliminated in the consolidation process (see Note 2.4), amounting to a total of 293,929 thousand euros (168,090 thousand euros at December 31, 2015) (see Note 28). This amount is broken down into 289,121 thousand euros for long-term loans and 4,808 thousand euros for short-term loans and accrued interest. In addition, in 2016 this heading includes other items amounting to 21 thousand euros (783 thousand euros at December 31, 2015).

The increase compared to 2015 relates mainly to the provisions made by TAP for the loan granted by Enagás Internacional, S.L.U. in the total amount of 106,400 thousand euros, the capitalisation of interest relating to said loan amounting to 962 thousand euros, and the subrogation of the loan that Infraestructuras del Gas, S.A. held with Saggas amounting to 14,442 thousand euros.

The breakdown of the loans granted to these companies carried under the equity method is as follows:

Thousand of euros

	Interest rate	Maturity	12/31/2016	12/31/2015
Non-current loans to related companies (Note 28)			289,121	160,569
Trans Adriatic Pipeline AG	FTA+ Spread	Jul.-2043	168,593	61,231
Estacion de Compresión Soto La Marina S.A.P.I. de C.V.	5.9%	Dec.-2032	62,471	63,301
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	Sep.-2033	31,292	27,308
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	Jun.-2025	26,765	8,729
Current loans to related companies (Note 28)			4,808	7,521
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	Sep.-2033	-	138
Gasoducto del Sur Peruano, S.A.	6%	Aug.-2048	-	70
Gasoducto de Morelos, S.A.P.I. de C.V.	TII E28d + Spread	Dec.-2016	-	1,066
Estacion de Compresión Soto La Marina S.A.P.I. de C.V.	5.9%	Dec.-2032	2,672	4,065
Trans Adriatic Pipeline AG	FTA+ Spread	Jul.-2043	2,128	963
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	Jun.-2025	8	1,219
Total			293,929	168,090

Trade and other receivables

In addition, "Trade and other receivables", under non-current financial assets, relates mainly to the deficit accumulated from the corresponding regulated activities up to 2015, pursuant to Royal Decree Law 8/2014 of 4 July and Law 18/2014 of October 15, as well as the outstanding amount pending recognition in connection with the installations for the years 2014 y 2015, for the total amount of 373,464 thousand of euros at December 31, 2016 (321,857 thousand euros at December 31, 2015), of which 364,775 thousand euros (316,351 thousand euros at December 31, 2015), correspond to Enagás Transporte, S.A.U., 8,627 thousand euros (5,506 thousand euros at December 31, 2015) correspond to Enagás Transporte del Norte, S.L. and 62 thousand euros correspond to Enagás, S.A. (see Note 4.g).

The change in the amount is mainly due to the publication in 2016 of the resolutions approving the definitive settlement number 15 for 2014 and number 15 for 2015 of the regulated activities of the gas sector.

In addition, this heading also includes the long-term receivable from the CNMC for dismantling costs which will be reimbursed in the future in the amount of 21,293 thousand euros (16,534 thousand euros in 2015).

The breakdown of the items recognised in the heading "Trade and other receivables" under current financial assets has been described in detail in Note 10, which reflects the accounts receivable from the tax authorities.

In addition, with regard to the underground storage of Castor natural gas, no changes occurred with regard to the closure of the 2015 financial year relating to the agreement dated October 4, 2014 between Enagás Transporte, S.A.U. and various financial entities, by virtue of Royal Decree Law 13/2014 of October 3 and which is detailed in the consolidated financial statement at December 31, 2014.

There are no financial assets at the Enagás Group at 31 December 2016 that are in a default situation.

Derivative financial instruments

The breakdown of the financial assets carried in the accompanying financial statements at fair value, in accordance with the fair value calculation methodology, is as follows:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	16,670	-	16,670
Total	-	16,670	-	16,670

Level 1: On the basis of quoted prices in active markets for identical assets.

Level 2: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3: On the basis of inputs other than directly observable market data.

The information relating to derivative financial instruments under financial liabilities is set out in Note 18.

Other

"Other non-current financial assets" includes, in Equity Instruments, the amount of 714 thousand euros (2,160 thousand of euros at December 31, 2015), the investment held by the Group in Economic Interest Groups (EIG) whose business is the leasing of assets managed by an unrelated third party, which retains the majority of the profits and the business risks, with the Group only availing itself of tax incentives provided in Spanish legislation. The Company enters the tax losses generated by these EIGs against equity and offset by the debt registered with the payable tax, the corresponding revenue. The change with respect to 2015 corresponds to the capitalisation of tax loss carryforwards during the period.

Further, as indicated under "Equity instruments", in January 2017 GSP did not manage to reach the financial closing by the stipulated date, thus giving rise to cause for terminating the concession agreement. Based on this circumstance, at 2016 year end the provision for executing the guarantees granted by the Enagás Group was recognised. As these guarantees are expected to be recovered via the procedure for net carrying amounts described in the previous heading, at December 31, 2016 a balance receivable from GSP was recognised under non-current assets, amounting to 207,865 thousand euros, corresponding both to the corporate guarantee granted in connection with GSP debt as well as the guarantee for full compliance with the concession agreement, financially discounted with an approximate three-year recovery period. The recognition of this amount represented a finance expense recognised in the consolidated income statement for the discounting effect, totalling 13,285 thousand euros (see Note 24).

With a view to reflecting the discounted recoverable amount of the investment accounted for under the equity method, at 2016 year end an amount corresponding to the impact of termination was recognised, totalling 31,431 thousand euros of expenses.

8.2 Impairment losses

In 2016 there were no changes in provisions for impairment losses on the Group's financial assets.

With respect to the termination of the GSP concession agreement, the best estimate of the directors based on the contracts and agreements signed by GSP shareholders, and based on the opinions of internal and external legal advisors as well as the determination of the net carrying amount of the concession assets, the recovery of the financial investment made and the guarantees granted by Enagás, S.A. has been certified by an independent expert in a report dated February 8, 2017 without the need to recognise any additional impairment to that disclosed in Note 8.1.

9. Inventories

As established in Order IET/2736/2015 of December 17: "From October 1, 2016, the quantity of working gas is zero." It should be noted that at December 31, 2015, the Enagás Group, as technical system operator, had approximately 755 GWh of working gas reserves necessary to ensure operation of the gas system, as stipulated in additional provision five of Order ITC/3863/2007, of December 28. This gas is not recognized as inventory in the financial statements since it belongs to the entire gas system and is not the property of the Enagás Group.

As at December 31, 2016 the Group also has 18,217 thousand euros (16,881 thousand euros in 2015) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

10. Trade and other receivables

The breakdown of "Trade and other receivables" in the consolidated balance sheet at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Trade receivables	42,259	22,284
Receivables from Group companies	16,321	6,744
Other receivables	391,069	367,799
Current tax assets and other receivables from public administrations	24,608	29,577
Total	474,257	426,404

The balance in "Receivable from Group companies" relate mainly to:

- The services provided by Enagás Transporte, S.A.U. to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., amounting to 5,183 thousand euros and 2,954 thousand euros, respectively, corresponding to the percentage of the shareholding of Galp Gas Natural, S.A. in both companies.
- The sale of operating gas and imbalances billed by Enagás GTS to Mibgas amounting to 2,040 thousand euros.
- Disposal of assets to Gasoducto de Morelos, S.A.P.I. de C.V. and to E.C. Soto La Marina EPC, S.A.P.I de C.V by Enagás S.A. for the amount of 2,959 thousand euros and 632 thousand euros respectively.
- The services provided by Enagás Internacional, S.L.U. to Gasoducto del Sur Peruano, S.A., and to the Swedegas Group for the amount of 1,326 thousand euros and 185 thousand euros respectively.

Under "Other receivables", the Enagás Group includes the unsettled balance relating to remuneration for regulated regasification, transport and storage activities as haulier in 2016 for 368,557 thousand euros, and the outstanding balance on the remuneration for the Technical Manager activities amounting to 6,915 thousand euros, leaving a total outstanding balance of 375,472 thousand euros. Trade receivables relating to regulated business adhere to the settlement system set out in order ECO/2692/2002 of October 28, governing the settlement procedures for the remuneration of regulated activities in the natural gas sector and amounts with specific recipients.

Additionally, within the heading “Other receivables”, Enagás Transporte, S.A.U. recognised amounts receivable from gas marketers for the product fee regulated by the article 211 Royal Decree 2/2011 of September 5, which approves the Revised Text of Spain’s Port Act, amounting to 458 thousand euros (601 thousand euros at 31 December 2015). This fee is levied on the natural gas products that the agents have unloaded at the regasification plants, among others, owned by Enagás Transporte, S.A.U. since 2012 at the ports of Barcelona, Cartagena and Huelva.

The Supreme Court issued rulings regarding the situation with the shippers regarding the payment of this fee on November 27, 2014 and on December 10, 2014, and definitively confirmed the situation regarding the option right and the settlements of the Port Authority of Barcelona and Huelva deriving from that right, recognising that Enagás Transporte, S.A.U. is entitled to collect those amounts from the shippers. The dispute regarding the option right exercised with respect to the Port Authority of Cartagena is currently still pending settlement before the Central Economic-Administrative Tribunal. Notwithstanding this, the doctrine established by the Supreme Court decisions allows us to foresee the outcome of the dispute. In this respect, the High Court of Murcia is finding in favour of Enagás S.A.U. and the State Attorney has accepted the demands presented by the Enagás Group in ongoing legal proceedings before said court (for all, decision of January 26, 2016, High Court of Murcia). In addition, it is worth taking note that on November 21 and 30, 2016, the Catalan High Court of Justice handed down sentences upholding the two appeals filed by Enagás Transporte S.A.U. in 2013 against the Port Authority of Barcelona settlements, archived under procedure numbers 174/2013 and 175/2013. Thus, the Company considers the risk of not recovering these receivables as remote at December 31, 2016.

The heading “Current tax assets” at December 31, 2016 basically includes VAT receivable by the Group, as VAT borne is higher than VAT accrued, partly because Enagás Transporte, S.A. acts as a tax warehouse (see Note 21).

The Group does not have a significant concentration of credit risk as it operates in a regulated environment under planned scenarios, as indicated in Note 17.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

11. Cash and cash equivalents

The breakdown of “Cash and cash equivalents” at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Cash at banks and in hand	765,453	224,628
Cash equivalents	20,001	-
Total	785,454	224,628

“Cash equivalents” includes those deposits which mature in the short term and accrue interest at the going market rates.

The Enagás Group has loans and lines of credit not drawn down in order to guarantee liquidity, as is indicated in Note 15. In this regard, the Enagás Group has the following funds available at December 31, 2016:

Funds available	12/31/2016	12/31/2015
Cash and cash equivalents	785,454	224,628
Other funds available (Note 15)	1,623,755	2,042,915
Total funds available	2,409,209	2,267,543

As a general rule, cash at banks earns interest at a rate similar to the market rate for daily deposits. Current deposits are highly liquid and earn interest at market rates for this kind of product. There are no significant restrictions on the availability of cash balances.

12. Equity

12.1 Share capital

The share capital of Enagás S.A. amounted to 358,101 thousand euros at year-end 2016 and 2015, and was represented by 238,734,260 shares, each with a par value of 1.5 euros, all of the same class. The shares have been fully subscribed and paid and are admitted for trading on the Spanish Stock Exchange, including the Spanish computerised trading system (the continuous market).

All the shares of the parent company, Enagás, S.A., are listed on the four Spanish stock exchanges and are traded on the Spanish computerised trading system. On December 31, 2016 Enagás, S.A.'s share price closed at 24.125 euros, having marked a high for the year of 27.7euros per share on June 8.

It should be noted that after the publication of Additional Provision Thirty-One of Law 34/1998, on the Hydrocarbon Sector, in force since Law 12/2011 was enacted on May 27, it is stipulated that "no individual or legal entity may directly or indirectly hold more than 5% of Enagás, S.A.'s shares or exercise more than 3% of the voting rights at this parent. Under no circumstances may such shareholdings be syndicated". It also states that "those parties that operate within the gas sector, including those individuals or bodies corporate that directly or indirectly hold over 5% of the share capital of these companies may not exercise more than 1% of the voting rights in such company. These restrictions do not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated".

The most significant shareholdings in Enagás, S.A. at December 31, 2016 and 2015 are as follows (source: National Securities Market Commission (CNMV) website: www.cnmv.es):

Company	Shareholding %	
	2016	2015
Sociedad Estatal de Participaciones Industriales	5.000	5,000
Bank of America Corporation	3.614	3,614
Retail Oeics Aggregate	1.010	1,010

At December 31, 2016, the Enagás, S.A. shareholding structure had not experienced any significant changes.

12.2 Treasury shares

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 March 18, 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 (see Note 29).

The Company held no treasury shares at 2015 year end.

12.3 Reserves

Under the Spanish Limited Liability Companies Law, an amount equal to 10% of the profit for the year must be earmarked for the legal reserve until such reserve represents at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At the end of 2016 and 2015 this reserve was fully funded in the amount of 71,620 thousand euros (included under the heading "Reserves" in the accompanying consolidated balance sheet), as it had reached the percentage required by the Spanish Limited Liability Companies Law with the proposed distribution of 2003 profits.

At December 31, 2016, "Reserves" included recognition of 39,059 thousand euros corresponding to the present value of the purchase-sale options relating to GNL Quintero, S.A. and described in Note 15.

12.4 Profit distribution proposal from the parent company

The distribution of net profit for 2016 for the parent company Enagás, S.A. that was prepared by the Board of Directors and will be submitted for the approval of shareholders at the Annual General Meeting is as follows (in thousands of euros):

	2016
To dividends	331,670
To voluntary reserves	10,636
Total	342,306

At its meeting on November 21, 2016, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2016 profit of 132,565 thousand euros (0.556 euros per share). The company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of Spain's Limited Liability Company Law.

In accordance with legal requirements, the provisional financial statements prepared by the Group's Parent, indicating the existence of sufficient resources to pay the interim dividend against 2016 profit, are set forth below:

Thousands of euros

	Provisional accounting statement at 31 October 2016
Accounting profit	(15,152)
10% allocation to legal reserve	
Interim dividend from Group companies	370,000
Income available for distribution	354,848
Forecast payments on account	(132,565)
Forecast cash at banks and in hand between 31 October and 31 December:	
Cash at banks and on hand	198,641
Collections forecast for the period under consideration	443,133
Credit facilities and loans granted by financial entities	1,500,000
Projected payments during the period under consideration (including payments on account)	(495,210)
Forecast cash balance at banks and on hand	1,646,564

The aforementioned interim dividend was paid on December 22, 2016.

The proposed final gross dividend (0.834 euros per share) is subject to shareholder approval at the Annual General Meeting and is not recognized as a liability in these financial statements. If approved, this gross final dividend would amount to 199,105 thousand euros.

12.5 Total dividends paid

In addition to the interim dividend of 2016 (mentioned in Note 12.4 above), Enagás, S.A. distributed the 2016 gross final dividend in 2015.

This dividend amounted to 188,834 thousand euros (0.792 euros per share) and was paid on July 5, 2016.

12.6 Adjustments due to changes in value

The value adjustments recognized by the Group at December 31, 2016 and 2015 break down as follows:

	12/31/2016	12/31/2015
Translation differences	67,447	64,581
Cash flow hedge	7,112	(6,355)
Total adjustments due to changes in value	74,559	58,226

Hedging transactions

This heading refers to derivatives arranged by the Company and designated as cash flow hedges (see Note 18).

The movements associated with these transactions in 2016 and 2015 were as follows:

2016

Thousands of euros

	01/01/2016	Change in fair value	Recognised in profit or loss	12/31/2016
Cash flow hedge	(9,607)	(9,499)	27,733	8,627
Taxes recognised in equity	3,252	2,148	(6,915)	(1,515)
Total	(6,355)	(7,351)	20,818	7,112

2015

Thousands of euros

	01/01/2015	Change in fair value	Recognised in profit or loss	12/31/2015
Cash flow hedge	(4,053)	(18,218)	12,664	(9,607)
Taxes recognised in equity	2,385	4,581	(3,714)	3,252
Total	(1,668)	(13,637)	8,950	(6,355)

Movements in 2016 and 2015 with respect to the consolidation method applied to companies were as follows:

	Fully-consolidated companies	Companies carried using the equity method	Total
Equity at 12/31/2014	(680)	(988)	(1,668)
Measurement of financial instruments	(15,656)	(2,562)	(18,218)
Tax effect	3,914	667	4,581
Transfers to profit and loss	10,326	2,338	12,664
Tax effect	(2,891)	(823)	(3,714)
Equity at 12/31/2015	(4,987)	(1,368)	(6,355)
Measurement of financial instruments	2,604	(12,103)	(9,499)
Tax effect	(651)	2,799	2,148
Transfers to profit and loss	19,023	8,710	27,733
Tax effect	(4,756)	(2,159)	(6,915)
Equity at 12/31/2016	11,233	(4,121)	7,112

The tax effect of the adjustments recognized under equity due to cash flow hedges has been calculated, as is indicated by IAS 12 "Income taxes", in accordance with the tax rate applicable to the country concerned at year-end for each of the Group companies that have contracted derivatives.

The companies consolidated using the full consolidation method applied the tax rate in Spain (25% from January 1, 2016 and 28% in 2015), except for ETN which applies a 28% rate.

Regarding the Companies consolidated using the equity method apply the tax rates in force in their country: Spain (25%), País Vasco (28%), Chile (24%), Mexico (30%), Sweden (22%), Peru (28%) and for TAP the nominal rate applied was (15%).

In 2014, an income tax reform was implemented in Chile that became applicable starting on January 1 2014, which gave rise to a progressive increase in the tax rates in tranches from 20% to 27% (from 2018). In addition, last December 10, various standards were published modifying corporate income tax law in Peru, increasing the general tax rate from 28% to 29.5%, effective from January 1, 2017. This measure will apply to all Peruvian entities of the Enagás Group that have not signed a Legal Stability Agreement for purposes of stabilising corporate tax rates.

12.7 Non-controlling interests

Movements in the heading non-controlling interests recognized under equity in the consolidated balance sheet for 2016 and 2015 are as follows:

2016

	Balance at 12/31/2015	Changes in the Scope of Consolidation	Dividends paid	Allocation of results	Balance at 31/12/2016
Ente Vasco de la Energía	14,435	-	(765)	948	14,618
Omán Oil Company, S.A.C.	-	80	-	(2)	78
Total	14,435	80	(765)	946	14,696

2015

	Balance at 12/31/2014	Changes in the Scope of Consolidation	Dividends paid	Allocation of results	Balance at 12/31/2015
Ente Vasco de la Energía	14,247	-	(831)	1,019	14,435
Total	14,247	-	(831)	1,019	14,435

The 14,696 thousand euros recognized as non-controlling interests relate to the 10% stake that Ente Vasco de la Energía holds in Enagás Transporte del Norte, S.L., as well as the 15% interest in Infraestructuras del Gas, S.A. held by Omán Oil Company, S.A.O.C. (See Note 2.3).

13. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the Group by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2016	2015	Change
Profit for the year attributable to equity owners of the parent (thousands of euros)	417,222	412,662	1.1%
Weighted average number of shares outstanding ^(*) (thousand shares)	238,426	238,734	-0.13%
Basic earnings per share in euros		1,7285	1.2%

(*) The number of outstanding shares has decreased as a result of the acquisition of own shares (Note 29).

Diluted earnings per share is calculated by dividing profit for the period attributable to equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at December 31, 2016 and December 31, 2015, basic and diluted earnings per share coincide.

14. Provisions and contingent liabilities

The directors consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover the Group's exposure to the lawsuits, arbitration and other proceedings described in this Note, and therefore do not expect these proceedings to give rise to additional liabilities. Given the nature of the risks covered by these provisions, it is not possible to make a reasonable estimate as to the timing of any payments which may arise.

14.1 Non-current provisions

The changes in the "Non-current provisions" heading in 2016 were as follows

Non-current provisions	Opening balance	Provisions	Discounting/ Reestimation	Amounts used	Closing balance
Employee remuneration	-	7,421	-	-	7,421
Other liabilities	11,740	231	-	(1,648)	10,323
Dismantling costs	155,284	-	11,339	-	166,623
Total non-current provisions	167,024	7,652	11,339	(1,648)	184,367

This heading reflects the provisions for dismantling the underground storage facilities of Gaviota, Yela, and Serrablo, as well as the regasification plants of Barcelona, Cartagena, Huelva, and Gijón, in accordance with the prevailing regulatory framework (see Note 4). The movements in 2016 mainly resulted from discounting said provision to present value, the restatement on December 31, 2016 of the possible changes in the time schedule and amount of estimated cash flows to settle the obligation associated with the dismantling of said assets, and the discount rate used to determine the present value of the provision.

"Employee remuneration" includes a total of 800 thousand euros corresponding to the portion accrued by the long-term bonus plan payable in cash (see Note 29) as well as the bonus payable every three years for contribution to results for the remaining staff of the Group.

The financial updates to the provisions for dismantling are mainly recorded under the heading "Finance and similar costs" in the accompanying consolidated income statement, and correspond to the updates to the dismantling costs for underground storage facilities and regasification plants.

In addition, a provision totalling 1,374 thousand euros was applied in connection with the recognition, in accordance with IAS 28, by Enagás Internacional, S.L.U. of a liability arising from the losses of certain investee companies exceeding the shareholding, due to an improvement in the results of the affected companies.

14.2 Contingent liabilities

At December 31, 2016, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

With respect to what was stated in the financial statements for 2015 regarding the dispute raised by Sociedad Compañía Transportista de Gas Canarias, S.A. with the European Regional Development Fund (ERDF), it is worth noting that in January 2016 the Madrid High Court confirmed the resolution of the Directorate General for Community Funds which ruled that the subsidy received from the ERDF for the liquefied natural gas plant in Granadilla (Tenerife) be returned. Thus, at December 31, 2016 there were no outstanding legal proceedings relating to this matter.

Further, as indicated in Note 15, with respect to the guarantees provided to GSP by Enagas, said guarantees have been recognised as current financial liabilities, the payment having been executed in January 2017. There are no additional guarantees or contingent liabilities relating to GSP.

15. Financial Liabilities

The breakdown of current and non-current financial liabilities at year-end 2016 and 2015 was as follows:

Category \ Class	Non-current financial instruments							
	Bank borrowings and financial leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Non-current financial liabilities	1,657,307	1,758,319	3,106,757	2,323,400	21,613	19,482	4,785,677	4,101,201
Trade payables	-	-	-	-	103	93	103	93
Derivatives (Note 18)	-	-	-	-	102,969	91,458	102,969	91,458
Total	1,657,307	1,758,319	3,106,757	2,323,400	124,685	111,033	4,888,749	4,192,752

Category \ Class	Current financial instruments							
	Bank borrowings and financial leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current financial liabilities	399,439	125,790	504,985	259,402	272,535	4,159	1,176,959	389,351
Trade payables (*) (Nota 19)	-	-	-	-	173,997	241,201	173,997	241,201
Derivatives (Nota 18)	-	-	-	-	17,280	13,403	17,280	13,403
Total	399,439	125,790	504,985	259,402	463,812	258,763	1,368,236	643,955

(*) The caption, "trade payables" includes payable to the Treasury amounting 41,823 thousand euros at December 31, 2016 (37,005 thousand euros at December 31, 2015)

Below is a breakdown, by maturity, of financial liabilities at amortized cost and derivatives:

2016

	2017	2018	2019	2020	2021 and beyond	Total
Bonds and other marketable securities	504,985	-	-	-	3,106,757	3,611,742
Bank borrowings	399,439	525,299	141,742	121,742	868,524	2,056,746
Derivatives (Note 18)	17,280	11,612	11,637	10,352	69,368	120,249
Trade and other payables	446,532	17,873	483	438	2,922	468,248
Total	1,368,236	554,784	153,862	132,532	4,047,571	6,256,985

2015

	2016	2017	2018	2019	2021 and beyond	Total
Bonds and other marketable securities	259,402	468,465	-	-	1,854,935	2,582,802
Bank borrowings	125,790	288,890	151,742	141,742	1,175,945	1,884,109
Derivatives (Note 18)	13,403	10,545	10,259	10,275	60,379	104,861
Trade and other payables	245,360	923	17,268	476	908	264,935
Total	643,955	768,823	179,269	152,493	3,092,167	4,836,707

The Group had been granted lines of credit totaling 2,067,816 thousand euros at December 31, 2016 (2,180,054 thousand euros in 2015), and the amount not drawn down totaled 1,623,755 thousand euros (2,042,915 thousand euros in 2015) (see Note 11).

In the opinion of the Company's directors, this situation represents sufficient coverage for possible short-term liquidity needs in accordance with commitments existing at that date.

The average annual interest rate for 2016 for the net borrowings of the Group was 2.4% (2.7% in 2015). The percentage of fixed-rate net borrowings at December 31 amounted to more than 80%, with an average maturity period of 6.3 years at December 31, 2016.

The directors believe that the fair value of bank borrowings and other obligations at December 31, 2016 does not significantly differ from their carrying amount. The sensitivity of the aforementioned fair value to fluctuations in interest rates is as follows:

(Thousands of euros)

	Change in interest rates			
	2016		2015	
	25 pbs	-10 pbs	25 pbs	-10 pbs
Change in fair value of borrowings	15,702	(6,281)	10,914	(4,366)

The financial liabilities carried at fair value in the accompanying financial statements break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	120,249	-	120,249
Total	-	120,249	-	120,249

Level 1: On the basis of quoted prices in active markets for identical assets.

Level 2: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3: On the basis of inputs other than directly observable market data.

The information relating to derivative financial instruments under financial liabilities is set out in Note 18.

Bank borrowings

Movements in this heading in 2016 and 2015 were as follows:

2016

	Balance at 12/31/2015	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2016
Bank borrowings	1,884,109	1,690,646	(1,529,050)	11,041	2,056,746
Total	1,884,109	1,690,646	(1,529,050)	11,041	2,056,746

2015

	Balance at 12/31/2014	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2015
Bank borrowings	1,737,563	345,020	(110,000)	(88,474)	1,884,109
Total	1,737,563	345,020	(110,000)	(88,474)	1,884,109

Financing highlights in 2016 include:

- The formalisation by Enagás Internacional, S.L.U. of a credit line with the related party, Banco Santander, amounting to a maximum of 400,000 thousand US dollars secured by Enagás S.A. with a maturity of 2018. At December 31, 2016, the available balance amounted to 373,557 thousand euros (see Note 28).
- The line of multi-currency financing obtained in 2013 under the Club Deal arrangement was renewed in 2014, with an agreed increase of the amount to 1,500,000 thousand euros and an extension of the term to December 2019. Enagás, S.A. has the option to request an extension for an additional one or two years, subject to approval by the lenders. In 2015, the Company, executed the first extension provided for in the contract until 2020 for an amount of 1,450,000 thousand euros. No drawdowns had been made on this financing 2015. In 2016 an extension of the final maturity of the credit line to December 2021 was formalised. Furthermore, Enagás, S.A. can request a further extension of one or two additional years subject to approval by the lenders. No drawdowns had been made on this financing 2016.
- The US dollar credit line was drawdown in the amount of 1,317,089 thousand euros and 1,396,945 thousand euros were amortised, resulting in a total drawdown of 70,504 thousand euros at 31 December 2016.

Bonds and other marketable securities

Movements in this heading in 2016 and 2015 were as follows:

2016

	Balance at 12/31/2015	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2016
Bonds and other marketable securities	2,582,802	2,506,500	(1,486,500)	8,940	3,611,742
Total	2,582,802	2,506,500	(1,486,500)	8,940	3,611,742

2015

	Balance at 12/31/2014	Additions	Repayments and redemptions	Other changes (interest payments, accrual of interest and measurement)	Balance at 12/31/2015
Bonds and other marketable securities	2,854,856	1,624,000	(1,856,300)	(39,754)	2,582,802
Total	2,854,856	1,624,000	(1,856,300)	(39,754)	2,582,802

Financing highlights in 2016 include:

- On April 26, 2016, Enagás Financiaciones, S.A.U. issued 12-year bonds amounting 750,000 thousand euros with an annual coupon of 1.375%, secured by Enagás, S.A. The funds corresponding to this issue were paid on May 5, 2016.
- On May 11, 2016, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) program amounting 4,000,000 thousand euros, which was registered in the Luxembourg Stock Exchange in 2012, with Enagás, S.A. as guarantor.
- On May 12, 2016 Enagás S.A has renovated the Euro Commercial Paper (ECP) programme for a maximum amount of 1,000 million euros and was inscribed in the Irish Stock Exchange during 2011. Santander Bank is the arranger (coordinator of the operation) of the programme, entity which with others 9 banks, act as dealers (intermediary) designated. On December 31, 2016 there is no balance provision by the programme (230,000 thousand euros on December 31, 2015), having produced emissions during 2015 for a nominal amount of 1,256,500 thousand euros and amortizations for amount of 1,486,500 thousand euros.
- On October 19, 2016 Enagás Financiaciones, S.A.U. carried out a 10 years bond emission for an amount of 500,000 thousand euros with an annual coupon of 0.75%, guarantee by Enagás, S.A. the corresponding funds to this emission were disbursed on October 27, 2016.

Derivatives and Other

- Under "Debits and payables" in Derivatives and other, loans granted by the General Secretariat of Energy are included:
 - A loan which forms part of the subsidies foreseen in the National Energy Programme granted by the Ministry of Industry, Tourism, and Trade within the National Research Plan This loan is associated with the "Project for the electricity generation system at the Almendralejo compression station" being carried out by Enagás Transporte, S.A.U. The total amount of the loan granted is 3,264 thousand euros, of which 169 thousand euros was repaid in 2010, 466 thousand euros in each of the years 2011, 2012, 2013, 2014 and 2015. As at December 31, 2016, 299 thousand euros were classified as current.
 - In the Plan before mentioned, the loan associated with the "Project for design and development of a high pressure gas meter calibration facility" being carried out by Enagás Transporte, S.A.U. The total initial loan grant was 1,100 thousand euros. The Group repaid 204 thousand euros in 2009, at the request of the General Industry Secretariat, in order to adjust the size of the loan to the amount actually invested. In 2011, 57 thousand euros were paid off, and between the years 2012-2016 saw 128 thousand euros paid off. At December 31 2016, 71 thousand euros was classified as non-current and 128 thousand euros was recognised as current.

- Finally, also in the same mention Plan, the loan associated to the “Project of the Electric Generation Plant of Huelva” which is being carried out by Enagás Transporte, S.A.U. The total amount of the loan granted is 3,598 thousand euros. In 2009, 108 thousand euros were reimbursed, following the request of the General Secretary of Industry, to adjust the assistance received with the amount actually invested and in 2012, 13 thousand euros were reimbursed under the same concept. In 2012, 22 thousand euros were amortized, 64 thousand euros were amortized in 2013, 164 thousand euros were amortized in 2014 and 497 thousand euros were amortized in 2015 and 2016. At December 31 2016, 1,736 thousand euros are recorded in the long term and 497 thousand euros are recorded in the short term.
- As indicated in Note 8, as well as Note 33, the amount of the guarantee corresponding to the GSP project is included as its execution is considered probable at 2016 year end based on the termination resulting from failing to achieve the financial closing stipulated in the concession agreement. At December 31, 2016, a liability of 221,150 thousand euros was recognised, of which 154,093 thousand euros correspond to the corporate guarantee granted in connection with the company debt and 67,057 thousand euros to the guarantee for full compliance with the concession agreement. Both guarantees were executed in January 2017.
- In addition, and in relation to the shareholding that the Group has in Enagás Transporte del Norte, S.L., in the partnership agreement signed between Enagás Transporte, S.A.U. and EVE, the heading “Other non-current financial liabilities” includes the put option for the 10% shareholding in EVE, executable in July 2018. At the close of the 2014 financial year, the date for exercising the option was July 2016, but on 15 November 2015, EVE, in accordance with clause six of the aforesaid partnership agreement, gave notice of the extension of the duration of the agreement, thus extending its applicability to 20 July 2018. As at 31 December 2016, the fair value for this option amounts to 17,200 thousand euros (16,700 thousand euros at 31 December 2015).
- Finally, as indicated above in Note 2.3, during the current period Enagás Chile Spa. acquired 40% of direct interest in GNL Quintero, a company in which it already held 20.4% indirect interest via the interest held in Terminal de Valparaíso. Within the framework of said transactions, two options were granted relating to different interest percentages held, either directly or indirectly, in GNL Quintero. The details of these options are given below:
 - Purchase option (“call option”) for Empresa Nacional del Petróleo S.A. (“ENAP”): Enagás Chile and ENAP reached an agreement by virtue of which the latter would not exercise its preferential acquisition rights within the framework of the acquisitions relating to Endesa Chile, Spa. and Aproveionadora Global de Energía S.A. (“AGESA”), in exchange for receiving a call option on 15% of GNL Quintero shares.
 - Said option is of a two-year duration from the moment the second of the aforementioned acquisitions became effective (see Note 2.3), with its strike price equal to the share price at which Enagás Chile Spa. carried out the transactions.
 - Sales option (“put option”) for Sumhram Energy Chile II Limitada (“OCC”): Enagás Chile granted OCC a put option on the totality of the interest held by the latter in Terminal de Valparaíso, amounting to 49% and representing 19.6% of indirect interest in GNL Quintero.

Its strike price was fixed at the same share price that was paid for the acquisition of Endesa Chile and AGESA shares described above, adjusted by the dividends distributed from the date of signing. Further, the option can only be exercised should Enagás Chile decrease its interest in GNL Quintero to below 60.4%, considering both direct interest and indirect interest held via Terminal de Valparaíso. The option is exercisable for a period of approximately 20 days from the moment said circumstances arise.

Since there is no plan and no decision has been adopted to directly or indirectly dispose of the interest held in GNL Quintero, and as the intention is to maintain the investment on a permanent basis, the directors considered that both options are implicitly interrelated to the extent that the Enagás Group would never disburse funds for this transaction in excess of the difference between the amount receivable should ENAP exercise the call option and the amount payable should OCC exercise the put option. For the reasons given above, the two transactions have been treated as one, thus recognising a liability amounting to 39,059 thousand euros at 31 December 2016.

Given this context, said transaction was initially recognised under “Reserves” in equity of the consolidated balance sheet at the present value of the debt at the payment date, amounting to 43,418 thousand US dollars (39,059 thousand euros), as well as a financial liability at the payment date. Subsequently, any change in the present value of the previous debt is recognised in the consolidated income statement. Thus, at December 31, 2016, the present value of this option amounts to 41,345 thousand US dollars (39,127 thousand euros), having recognised 2,073 thousand US dollars (1.873 thousand US dollars) of finance income in the consolidated income statement for 2016.

16. Other non-current liabilities

The changes in 2016 and 2015 in this caption of the accompanying consolidated balance sheet were as follows:

(Thousands of euros)

	Canon Gasoducto de Extremadura, S.A.	Canon Gasoducto Al-Andalus, S.A.	Connections to the basic grid	Total
Balance at December 31 2014	5,702	12,931	37,418	56,051
Derecognition	-	-	(1,466)	(1,466)
Recognised in profit or loss	(951)	(2,154)	(941)	(4,046)
Balance at December 31 2015	4,751	10,777	35,011	50,539
Recognised in profit or loss	(950)	(2,156)	(1,225)	(4,331)
Balance at December 31 2016	3,801	8,621	33,786	46,208

Amounts related to the royalties payable by group subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. correspond to balances pending application in respect of “gas transport rights” contracts signed with these subsidiaries. These balances are consolidated proportionally in accordance with the percentage shareholding of Enagás Transporte, S.A.U. in these companies.

Enagás Transporte, S.A.U. recognises and records this revenue on a straight-line basis as accrued until 2020, which is when the transport contract expires (see Note 3.n).

17. Risk and capital management policy

17.1 Qualitative information

The Enagás Group is exposed to certain risks which it manages using a risk management and control model, based on the principle of due diligence, 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 aggregate risk profile. Based on this model can adapt itself to the complexity of the Group’s corporate activity in a competitive global environment and a complex economic context in which risk can materialise 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 Company carries out its activities.
- The consideration of some standard types of risk that the company is exposed to.
- The existence of certain governing bodies with responsibilities in terms of risk.
- The segregation and independence of the risk management and control functions on three levels of defense.
- 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. Enagás has drawn up a regulatory framework that has been established through the "Risk Management and Control Policy and General Rules", which defines the basic principles that govern the risk function and identifies the responsibilities of the different bodies of the company.

The risk management and control function is laid out along three lines of defence, which present differing roles and responsibilities:

- 1st line of defence: made up from the organisational units which assume the risks in the ordinary course of their activities. They are the owners of the risks and responsible for their identification and measurement.
- 2nd line of defence: made up by the Risk Management team, responsible for ensuring the proper functioning of the risk management and control system, define the regulatory and methodological framework and carry out the periodic monitoring and overall control of the risks of the Company.
- 3rd line of defence: made up of the Internal Auditing Management team, responsible for supervising the efficiency of the established risk controls.

The governing bodies involved in risk management and control are:

- 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: whose main functions are to supervise the efficiency of the risk systems and evaluate the risks to the company (identification, measurement and establishment of measures for their management);
- Risks Committee: whose main functions are to establish the overall strategy for risks, establish the limits of global risk for the company, review the level of exposure to risk and the corrective actions should there be any non-compliance.

The main financial and fiscal risks to which the Group is exposed are as follows:

Credit Risk

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 risk relating to receivables from its business activity is historically limited since the Group operates in a regulated environment with planned scenarios (see Note 18 and 8). 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: (i) 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 Enagás Group is also exposed to the risk of possible failures of its counterparties to comply with transactions involving financial derivatives and the placement of cash surpluses. To mitigate this risk, cash is placed and derivatives are arranged in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates, and the future flows from assets and liabilities linked to floating interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over the long term and mitigates volatility in the consolidated income statement.

Depending on its estimates and debt structure targets, the Enagás Group writes derivatives to mitigate those risks (see Notes 3.i, 15 and 18).

Exchange rate risk

Foreign currency risk arises in the Enagás Group through debt transactions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of translating the financial statements of those companies whose currency is not the euro during the consolidation process. To mitigate that risk, the Group has financing in US dollars and Swedish krona and it contracts derivative financial instruments that are subsequently designated as hedge instruments (see Notes 3.i, 15 and 18). In addition, the Enagás Group pursues a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the companies.

Liquidity Risk

Liquidity risk arises as a result of differences in the amounts, or the collection and payment dates, of the Group companies' various assets and liabilities.

The liquidity policy followed by the Enagás Group is oriented towards ensuring compliance with short-term payment commitments acquired without having to obtain funds under onerous conditions over the short-term. Various management measures are used in this respect, such as maintaining committed credit facilities in a sufficient amount, and appropriate terms and flexibility, the diversification of hedging of financial needs through access to various markets and geographic areas, and the diversification of issue debt maturity dates.

The Group's financial debt at 31 December 2016 has an average maturity term of 6.3 year (see Note 15).

Fiscal risk

The Enagás Group is exposed to possible changes in fiscal regulatory frameworks and uncertainties due to possible interpretative differences in the current tax legislation, with possible negative impacts on its results.

Other risk

Given and dynamic nature of business and its risks, and despite having a risk monitoring and management system which meets the best international recommendations and practices, it is not possible to claim that all risks will be identified in the Enagás Group risk system.

In addition, the internationalisation process carried out by the Enagás Group in recent years means that a part of its operations are carried out by companies over which it does not exercise control and which perform their activities within different regulatory frameworks and with different business dynamics, so that potential risks may arise relating to financial investment.

17.2 Quantitative Information

a) Interest rate risk:

The percentage of net debt at fixed rates at December 31, 2016 and December 31, 2015 was more than 80%.

Based on the above levels of fixed-rate net borrowings and after carrying out an analysis of the Group's sensitivity to a one percentage point variation in market interest rates, the Group estimates that the impact on its income statement of such a variation in the cost of servicing its floating-rate debt may vary as follows:

(Thousands of euros)

	Change in interest rates			
	2016		2015	
	25 pbs	-10 pbs	25 pbs	-10 pbs
Change in finance cost	2,691	(1,077)	2,599	(1,040)

Given the aforementioned changes, the impact on equity of the contracted derivatives would not be significant.

b) Exchange rate risk

The Enagás Group obtains financing fundamentally in euros, although it maintains certain financing in US dollars, Japanese yen and SEK. The currency that generates the highest exposure to exchange rate changes is the US dollar, given that the financing in yen is hedged through exchange rate derivatives (see Note 18).

The Group's exposure to changes in the US dollars/euro exchange rate is fundamentally determined by the translation of company financial statements denominated in foreign currency, as is indicated in Note 2.4: Enagás Internacional, S.LU., Enagás U.S.A., L.L.C., Terminal de LNG de Altamira, S. de R.L. de C.V., Morelos O&M, S.A.P.I. de C.V., Gasoducto de Morelos, S.A.P.I. de C.V., Morelos EPC, S.A.P.I. de C.V., Estación de Compresión Soto La Marina, S.A.P.I. de C.V., GSP, TgP, Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V., Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V., Enagás Perú, S.A.C., Enagás México, S.A. de C.V., Tecgas, Inc. Gasoducto Villa de Reyes, S.A.P.I. de C.V., Gasoducto Tuxpan, S.A.P.I. de C.V., GNL Quintero, S.A. and Enagás Chile, Spa., whose functional currency is the US dollar. In addition, COGA uses the Peruvian Nuevo Sol as its functional currency and Knubbsäl Topholding AB, parent company of the consolidated subgroup of the Swedegas Group, uses the Swedish krona (SEK).

The Group also has loans in US dollars granted by Enagás, S.A. to Group companies in which it does not have a majority stake.

The sensitivity of profit for the year and equity, as a result of the effect of the financial instruments held by the Enagás Group at December 31, 2016, to the main increases or decreases in the exchange rate is set out below:

(Thousands of euros)

	Appreciation/(depreciation) of the euro against the dollar			
	2016		2015	
	5.00%	-5.00%	5.00%	-5.00%
Effect on profit after tax	1,166	(1,166)	971	(971)
Effect on equity	(44,409)	49,084	33,969	(30,734)

17.3 Capital Management

The Enagás Group carries out capital management at corporate level and its objectives are to ensure financial stability and to obtain adequate financing for investments, optimising the cost of capital in order to maximise the creation of value for shareholders and maintaining its solvency commitment.

The Company uses the level of consolidated leveraging as an indicator for monitoring its financial position and managing capital. This indicator is defined as the quotient resulting from dividing net consolidated assets (understood to be the sum of net financial debt and consolidated equity) by net consolidated financial debt.

Financial leveraging at December 31, 2016 and 2015 is as follows:

	2016	2015
Current bank borrowings (Note 15)	2,056,746	1,884,109
Bonds and other marketable securities (*)	3,590,925	2,573,658
Other financial liabilities (**)	226,486	3,887
Cash and cash equivalents (Note 11)	(785,454)	(224,628)
Net financial debt	5,088,703	4,237,026
Shareholders' equity	2,373,681	2,318,911
Leverage ratio	68.2%	64.6%

(*) The value of the obligations is included at amortised cost

(**) The amount of the guarantees related to the GSP project (221,150 thousand euros) and the loans from the General Secretariat of Industry, General Secretariat of Energy, and Omán Oil Company, S.A.O.C (5,036 thousand euros).

Also, the credit rating agency Standard & Poor's has maintained the long-term rating of Enagás, S.A., to "A-" with a stable outlook at December 31, 2016. Likewise, the rating for Enagás, S.A., by Fitch Ratings at December 31, 2016 continues being "A-" with a stable outlook.

18. Derivative financial instruments

The Enagás Group uses derivatives to hedge its exposure to business, operating and cash flow risks.

The Group has fulfilled the requirements set forth in Note 3.i regarding the measurement bases for classifying financial instruments as hedges. Specifically, they have been formally designated as such, and they have been tested for effectiveness.

These instruments are offset and settled based on differences, and therefore the actual risk faced by the Enagás Group derives from the net position and not the amount contracted.

The fair value of these hedges at December 31, 2016 and 2015 is as follows:

Company	Classification	Rate	Amount arranged	Currency	Maturity	Fair value (thousands of euros)			
						12/31/2016		12/31/2015	
						Asset	Liability	Asset	Liability
Interest rate swap	Cash flow hedge	Floating to fixed	475,000	Euros	January-2017	-	(681)	-	(3,023)
Interest rate swap	Cash flow hedge	Floating to fixed	100,000	Euros	May-2017	-	(217)	-	(413)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December-2019	-	(1,992)	-	(1,208)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	January-2020	-	(1,270)	-	(863)
Interest rate swap	Cash flow hedge	Floating to fixed	65,000	Euros	March-2020	-	(986)	-	(542)
Cross Currency Swap	Net investment hedge	Fixed to fixed	400,291	Euros	April-2022	-	(102,684)	-	(98,812)
Cross Currency Swap	Net investment hedge	Fixed to fixed	237,499	Euros	May-2028	-	(12,419)	-	-
Cross Currency Swap	Fair value hedges	Fixed to floating	147,514	Euros	September-2039	16,670	-	8,686	-
Total			1,725,304			16,670	(120,249)	8,686	(104,861)

The change in the fair value of hedge instruments for fully consolidated companies in 2016 was as follows:

Company	Classification	Rate	Amount arranged	Currency	Maturity	12/31/2015	Income and expense recognised in equity		Transfers to income statement		Other variations*	12/31/2016
							Hedging transactions	Translation differences	Changes in gain (loss)	Counterparty risk		
			475,000	Euros	January-2017	(3,023)	(278)	-	2,723	-	(103)	(681)
			100,000	Euros	May-2017	(413)	(124)	-	356	-	(36)	(217)
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December-2019	(1,208)	(1,557)	-	1,376	(599)	(4)	(1,992)
			150,000	Euros	March-2020	(542)	(917)	-	567	-	(94)	(986)
			65,000	Euros	January-2020	(863)	(743)	-	342	-	(6)	(1,270)
Cross Currency Swap	Fair value hedges	Fixed to floating	147,514	Euros	September-2039	8,686	-	-	-	(3,690)	11,674	16,670
Cross Currency Swap	Net investment hedge	Fixed to fixed	400,291	Euros	April-2022	(98,812)	11,643	(24,908)	10,748	(1,355)	-	(102,684)
Cross Currency Swap	Net investment hedge	Fixed to fixed	237,499	Euros	May-2028	-	(5,420)	(9,910)	2,911	-	-	(12,419)
Total			1,725,304			(96,175)	2,604	(34,818)	19,023	(5,644)	11,431	(103,579)

(*) In this change the accrued unpaid interest and other fees are recorded for these derivative financial instruments, as well as the variation in fair value of the hedging derivative.

Cash flow hedge

At the end of 2016, the amount recognised in the consolidated income statement for the cash flow hedge instruments described above (interest rate swap) totalled 4,765 thousand euros.

In respect of cash flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Amount arranged (thousand of euros)	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)	(656)	(656)	(680)
65,000	Euros	March-2020	(986)	(301)	(301)	(384)
150,000	Euros	January-2020	(1,270)	(414)	(414)	(442)
940,000			(5,146)	(2,269)	(1,371)	(1,506)

Fair value hedge

In 2009, the Enagás Group obtained a cross currency swap (CCS) to hedge against the change in the fair value of the bond denominated in Japanese yen, the euro/yen exchange rate risk and the Japanese yen interest rate. The fixed Japanese Yen component in these CCS neutralizes the changes in the value of the bond with respect to the specified risks. This bond is recognised in the heading "Non-current liabilities" in the consolidated balance sheet.

At the date the CCS started, the principal amounts were exchanged such that Enagás received 147,514 thousand euros and paid 20,000 million Japanese Yen, which is recognised at fair value through changes in consolidated profit and loss. Enagás will receive fixed rate interest in Japanese yen and will pay 6m Euribor up until maturity. At the maturity of the contract, Enagás will receive the principal in Japanese Yen and will re-pay the initially established principal in euros.

The Group has documented the hedging of this instrument as a fair value hedge, given that it hedges exposure to changes in the fair value of the recognised liability to which a particular risk is attributed and which affects the consolidated income statement.

Changes in the fair value of the hedge instrument have been offset by the changes in the value of the hedged instrument, as is shown in the following table

Thousand of euros	Fair value at 12/31/2015	Fair value at 12/31/2016	Change (income statement)
Measurement of the derivative (+asset/-liability)	8,686	16,670	7,984
Measurement of the hedged instrument (liability)	(156,658)	(168,332)	(11,674)
Total net amount recognised in profit and loss (expense)			(3,690)

Hedges of a net investment in a foreign operation

In April 2014, Enagás Internacional, S.L.U. obtained a cross currency swap (CCS). In addition, on May 10, 2016 Enagás Internacional contracted a new cross currency swap (CCS), effective from May 12, 2016 to its maturity date on May 5, 2028. This derivative has been designated at consolidated level as a hedge of a net investment in order to cover the Group's exposure to changes in the exchange rate relating to the stake in the net assets of certain foreign investments.

The main characteristics of these two financial instruments are as follows:

Company	Date	Amount arranged euros	Amount arranged USD	Rate	Start date	Maturity
Cross Currency Swap	April-2014	400,291	550,000	Fixed to fixed	April-2014	April-2022
Cross Currency Swap	May-2016	237,499	270,000	Fixed to fixed	May-2016	May-2028
Total		637,790	820,000			

Thus, the following investments are considered as hedged items in the aforementioned hedging relationships:

Project	Hedge investment USD
GNL Quintero, S.A	179,989
Subgrupo Altamira LNG, C.V	52,423
TgP	572,793
GSP	14,795
Total	820,000

As is indicated in Note 3.i., hedges of net investments in foreign operations are recorded in a manner similar to cash flow hedges, although changes in the measurement of these transactions are recognised as exchange differences in the heading "Adjustments due to changes in value" in the accompanying consolidated balance sheet.

These translation differences will be transferred to the consolidated income statement when the foreign transaction being hedged is sold or otherwise disposed of.

The measurement of counterparty risk in accordance with IFRS 13 (see the calculation method in Note 3.i) has represented income totalling 1,355 thousand euros in the consolidated income statement.

The fair value of this instrument at December 2016 is 115,103 thousand euros (98,812 thousand euros in 2015), of which 15,013 thousand euros (9,624 thousand euros at 31 December 2015) is recorded at short term in the derivatives account included under the heading "Current financial liabilities".

19. Trade and other payables

Trade and other payables

The breakdown of "Trade and other payables" at December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Payables to related parties (Note 28)	2,736	2,439
Payable to suppliers	127,067	181,156
Other payables	2,371	20,600
Current tax liabilities (Note 21)	41,823	37,006
Total	173,997	241,201

The balance under "Payables to related parties" relates mainly to a pending payment of 2,333 thousand euros at that date for gas transportation services rendered by the subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. to Enagás Transporte, S.A.U., both of the former companies consolidated using the proportionate consolidation method, as well as the Enagás GTS acquisition of operating gas from Mibgas in the amount of 403 thousand euros.

The balance under "Suppliers" corresponds to amounts owed for the purchase of materials and services received, which are registered primarily in "Other operating costs" and "Non-current assets", respectively.

Information on the average payment period. Additional provision three. "Disc los ure requirement" set out in Law 15/2010, of 5 July

Below follows the information required by the Additional provision three of Law 15/2010 of July 5 (amended by Final provision two of Law 31/2014 of December 3) prepared in accordance with the Resolution of the ICAC of January 29 2016 regarding information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial operations.

The disclosures required under additional provision three of Spanish Law 15/2010, of July 5, are as follows:

	2016 Days	2015 Days
Ratio of operations paid	38	38
Ratio of operations pending payment	39	50
The average payment period to suppliers (PMPP)	38	39

	Amount (Thousand of euros)	Amount (Thousand of euros)
Total payments made	483,326	523,906
Total pending payment	26,037	39,688

In accordance with the Resolution of the ICAC, the calculation of the average payment period considers the commercial operations corresponding to the delivery of goods or rendering of services accrued since the date of the entry into force of Law 31/2014 of December 3.

Suppliers, for the exclusive purposes of providing the information set forth in this Resolution, are considered to be trade payables owed to suppliers of goods and services included in the items "Payable to suppliers", "Payable to suppliers - Group companies and associates" and "Other payables" under current liabilities in the balance sheet.

"Average payment period to suppliers" is understood to be the time that passes between the delivery of the goods or rendering of the service by the supplier and the material payment for the operation.

The maximum payment term applicable to the Company in 2016 under Spanish Law 3/2004 of December 29 establishing measures to combat late payments in business transactions is approximately 60 days (60 days in 2015). In order to obtain the foregoing information, payment obligations that have been the object of withholdings as a result of embargoes, writs of execution, administrative enforcement proceedings, or other similar acts handed down by legal or administrative bodies were excluded.

20. Defined contribution plans

The Group operates defined contribution pension plans covering the commitments acquired with respect to qualifying serving employees. The plan assets are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

The contributions made by the Group to the pension plan in this connection amounted to 2,348 thousand euros in 2016 (2,304 thousand euros in 2015), recognised under "Staff costs" in the accompanying consolidated income statement.

21. Tax matters.

21.1 Tax Reform

With the entry into force of the new Corporation Tax Law (Law 27/2014 of 27 November) on January 1 2015, there has been a reduction in the rate of Corporation Tax from 30% to 28% for 2015 and 25% for 2016.

21.2 Tax return

As of January 1 2013, Enagás S.A. has been the dominant company in the Consolidated Tax Group 493/12 (see Note 3.p), and files consolidated tax returns in accordance with Chapter VI of Title VII of the consolidated Spanish Corporation Tax Law, Law 27/2014, of November 27:

- 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.
- Enagas Emprende S.L.U.

The rest of the Group companies individually settle their income tax returns in accordance with the tax legislation applicable to them.

21.3 Tax receivables and payables

The balances receivable from and payable to the public authorities at December 31 2016 are as follows:

(Thousands of euros)

	2016	2015
Tax receivables:		
Value added tax	24,160	29,415
Income tax	448	162
TOTAL	24,608	29,577
Tax payables:		
Income tax	10,118	6,293
Value added tax	-	285
Taxation authorities, withholding tax and others	31,705	30,428
Total	41,823	37,006

In 2016, 110,979 thousand euros (142,190 thousand euros in 2015) was paid on account of the amount to be finally paid for income tax 2016, which was 105,500 thousand euros for the consolidated tax group (136,462 thousand euros in 2015), leaving an outstanding amount of 6,418 thousand euros payable (1,082 thousand euros to be returned in 2015).

The amount pending payment in this respect at December 31 2016 totals 3,700 thousand euros, relating to companies that do not belong to the consolidated tax group (5,211 thousand euros in 2015).

21.4 Reconciliation of profit before tax and taxable income

The reconciliation of accounting profit to taxable profit for income tax purposes is as follows:

	2016			2015		
	Spanish companies consolidated for tax purposes	Foreign companies	Total	Spanish companies consolidated for tax purposes	Foreign companies	Total
Accounting profit before tax	526,252	12,073	538,325	527,978	29,290	557,268
Consolidation adjustments	(34,058)	(11,176)	(45,234)	(14,166)	(31,043)	(45,209)
Permanent differences of individual companies						
Increases	3,420	463	3,883	2,167	29	2,196
Decreases	(479)		(479)	(261)	(6)	(267)
Temporary differences of individual companies						
Increases	67,645	167	67,812	67,106	152	67,258
Decreases	(78,969)	(62)	(79,031)	(39,621)	(36)	(39,657)
Taxable profit	483,811	1,465	485,276	543,203	(1,614)	541,589

The tax base totalling (1,465) thousand euros relates to the foreign companies Enagás Perú, S.A.C., Enagás Chile, S.P.A. and Enagás México S.A. de C.V., which are subject to a 28%, 24% and 30% tax rate respectively.

21.5 Tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2016 and 2015, the Group recognised the following amounts for the following items in consolidated equity:

	(Thousand of euros)					
	2016			2015		
Deferred tax	Increases	Decreases	Total	Increases	Decreases	Total
Measurement of other financial assets	3,704	(1,556)	2,148	4,659	(77)	4,582
Arising in the prior years:						
Measurement of other financial assets	-	(6,915)	(6,915)	-	(3,715)	(3,715)
Total tax recognised directly in equity	3,704	(8,471)	(4,767)	4,659	(3,792)	867

21.6 Reconciliation between profit before tax and income tax expense

The reconciliation of accounting profit to the income tax expense is as follows:

	2016			2015		
	Spanish companies	Foreign companies	Total	Spanish companies	Foreign companies	Total
Accounting profit before tax	526,252	12,073	538,325	527,978	29,290	557,268
Permanent differences and consolidation adjustments	(31,117)	(10,712)	(41,829)	(12,260)	(31,020)	(43,280)
Tax rate %	126,461	300	126,761	144,401	(512)	143,889
Effect of the tax credits	(2,423)	-	(2,423)	(1,320)	-	(1,320)
Effect of tax loss carry forwards not recognised in the year	-	99	99	-	103	103
Effect of different tax rates	-	-	-	-	-	-
Adjustments to income tax	455	-	455	(587)	-	(587)
Other	(4,735)	-	(4,735)	1,502	-	1,502
Income tax for the year	119,758	399	120,157	143,996	(409)	143,587

21.7 Breakdown of income tax expense

The breakdown of "Income tax expense" for 2016 and 2015 is as follows:

	2016	2015
Current tax:		
Continuing operations	(131,027)	(155,717)
Discontinued operations	-	-
Deferred tax:		
Continuing operations	11,325	11,543
Discontinued operations	-	-
Adjustments to income tax:		
Continuing operations	(455)	587
Discontinued operations	-	-
Total gasto por impuesto	(120,157)	(143,587)

The 25% rate has been used for all Spanish companies as a taxable rate for corporate tax, including those under state taxation rules and those taxed under local rules (Vizcaya). In the case of Enagás Perú, S.A.C., Enagás Chile, S.P.A. and Enagás México, S.A. de C.V., 28%, 24% and 30% have been applied, respectively.

21.8 Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities in 2016 and 2015 is as follows:

	2016	2015
Temporary differences (deferred tax assets):		
Grants related to assets and other grants	1,388	1,493
Depreciation deduction limit, R.D.L. 16/2012	34,119	38,553
Provision for employee remuneration	5,678	4,253
Provision for fixed assets	3,906	5,078
Provision for litigation and others	11,235	9,541
Derivatives	931	1,357
Tax loss carry forwards	5,509	5,449
Unused tax credit and other	6,824	7,711
Total deferred tax assets	69,590	73,435
Deferred tax liabilities:		
Unrestricted depreciation	282,683	296,487
Derivatives	5,882	1,004
Other	8,906	8,568
Total deferred tax liabilities	297,471	306,059

Movements in 2016 were as follows:

	Initial value 12/31/2015	Recognised in the income statement	Recognised in equity	Other	End value on 12/31/2016		
					Carrying amount	Deferred Tax assets	Deferred Tax liabilities
Grants related to assets and other grants	1,493	(105)	-	-	1,388	1,388	-
Depreciation deduction limit, R.D.L. 16/2012	38,553	(4,184)	-	(250)	34,119	34,119	-
Provision for employee remuneration	4,253	1,426	-	(1)	5,678	5,678	-
Provisions for fixed assets	5,078	(1,172)	-	-	3,906	3,906	-
Derivatives	9,541	1,474	-	220	11,235	11,235	-
Other	1,357	(365)	110	(171)	931	931	-
Unrestricted depreciation	(296,487)	13,804	-	-	(282,683)	-	282,683
Derivatives	(1,004)	-	(4,878)	-	(5,882)	-	5,882
Other	(8,568)	(338)	-	-	(8,906)	-	8,906
Tax loss carry forwards	5,449	60	-	-	5,509	5,509	-
Unused tax credits and others	7,711	(887)	-	-	6,824	6,824	-
Total	(232,624)	9,712	(4,768)	(202)	(227,881)	69,590	297,471

These deferred tax assets were recognised in the consolidated balance sheet since the directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be recovered.

The main deferred tax asset is a consequence of applying article 7 of Law 16/2012, of December 27, 2012, which adopted “various tax measures aimed at consolidating public finances and boosting economic activity” and in which a limit of tax deductible amortisation/depreciation charges was introduced in connection with corporate income tax due for the years 2013 and 2014. The article establishes that from 2015 onwards, said amortisation/depreciation could either be deducted on a straight-line basis over a period of 10 years or over the useful life of the equity item. The Group decided to apply the deferred tax asset on a straight-line basis over a period of 10 years. In 2016 the deferred tax asset applied for this item amounted to 4,434 thousand euros (4,798 thousand euros in 2015).

The Company also proceeded to recognise the items covered by Transitional Provision Thirty-Seven of Law 27/2004 on corporate income tax under “Unused tax credit and other”. This transitional provision establishes that taxpayers that are subject to the tax rate set in this Law and that were subject to the depreciation/amortisation limitation established in article 7 of Law 16/2012, of 27 December, establishing several tax measures to consolidate public finances and to encourage economic activity, will be entitled to a deduction to tax payable in the tax period commencing in 2015, consisting of 2% of the amounts making up the tax base for that tax period. Based on this legislation, the deduction applied in 2016 amounted to 887 thousand euros (342 thousand euros in 2015).

With respect to the content of Note 29.1 on the long term bonus plan, and in accordance with article 14 of the Corporate Income Tax Law, personnel expenses recognised during this period will be deductible when the shares are delivered or payment is made. Thus, said expenses are not deductible in 2016 and have given rise to a deferred tax asset in the amount of 1,166 thousand euros.

The Group does not have unrecognized deferred tax assets.

The main deferred tax liability relates to applying accelerated tax amortisation/depreciation to certain assets during the period 2009-2014, in accordance with the stipulations of Law 4/2008, of 23 December and Royal Decree Law 13/2010 of 3 December. A deferred tax item was reversed during 2016 in the amount of 13,804 thousand euros (15,494 thousand euros in 2015), via the corresponding positive adjustment to the tax base of 55,215 thousand euros (55,336 thousand euros in 2015).

21.9 Years open to inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. However, the four-year period can vary in the case of Group companies subject to other fiscal regulations. At the end of 2016, the Enagás Group had the years 2012 to 2016 open for inspection for all taxes to which it is liable, except for income tax, which is open for inspection for the years 2011 to 2016.

The directors consider that all applicable taxes 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 consolidated financial statements.

22. Income

The breakdown of Group revenue at December 31 2016 and 2015 is as follows:

(Thousands of euros)

	12/31/2016	12/31/2015
Revenue	1,187,994	1,196,366
Revenue from regulated activities	1,146,977	1,159,494
Revenue from deregulated activities	41,017	36,872
Other income	29,522	25,233
Ancillary and other operating income	29,251	25,078
Grants	271	155
Total	1,217,516	1,221,599

The breakdown of the net amount of turnover based on the Companies within the Group from which they come is as follows:

(Thousands of euros)

	12/31/2016	12/31/2015
Regulated activities:	1,146,977	1,159,494
Enagás Transporte S.A.U.	1,095,013	1,117,117
Enagás GTS, S.A.U.	23,958	12,012
Enagás Transporte del Norte, S.L.	28,006	30,365
Unregulated activities:	41,017	36,872
Enagás, S.A.	4,202	2,158
Enagás Transporte, S.A.U.	32,287	32,128
Enagás México	649	-
Enagás Perú	1,841	-
Enagás Internacional, S.L.U.	2,038	2,586
Total	1,187,994	1,196,366

23. Expenses

An analysis of Group expenses is provided below:

(Thousands of euros)

	12/31/2016	12/31/2015
Staff costs	108,754	96,301
Other operating costs	226,271	224,948
Total	335,025	321,249

23.1 Staff costs

The detail of staff costs is as follows:

(Thousands of euros)

	31.12.2016	31.12.2015
Wages and salaries	84,579	73,816
Termination benefits	2,116	3,404
Social Security	18,091	16,570
Other staff costs	8,402	7,654
Contributions to external pension funds (see Note 20)	2,348	2,304
Own work capitalised	(6,782)	(7,447)
Total	108,754	79,731

At December 31, 2016 the Group had capitalised 6,782 thousand euros for staff costs directly related to ongoing investment projects (7,447 thousand euros at December 31 2015) (Note 6).

The Group recognises the amounts to be settled with Enagás, S.A. shares in connection with the long-term bonus plan approved on March 18, 2016 under "Wages and salaries" as this item is considered a share-based transaction payable in equity instruments in accordance with IFRS 2. Thus, the fair value of services received included under this heading, as consideration for the equity instruments granted, amounts to 1,959 thousand euros at December 31, 2016. In addition, the Enagás Group recognised 800 thousand euros in "Provisions" under non-current liabilities in the consolidated balance sheet at 31 December 2016, in connection with the rendering of services corresponding to that part of the incentive payable in cash, as an employee benefits expense. Furthermore, the employee benefits expense arising from the three-year bonus plan aimed at the remaining staff of the Group is also recognised under this heading.

The average number of Group employees, by professional category, is as follows:

Item	2016	2015
Managers	121	99
Technicians	703	660
Administrative staff	128	125
Manual workers	391	390
Total	1,343	1,274

At December 31 2016, the Group had 1,337 employees (1,337 in 2015). The breakdown by category and gender is as follows:

Item	2016		2015	
	Men	Women	Men	Women
Managers	94	31	85	29
Technicians	482	219	493	210
Administrative staff	21	102	26	105
Manual workers	373	15	375	14
Total	970	367	979	358

The category "Executives" forms part of the Group's Senior Management consisting of nine employees (eight men and one woman).

The average number of employees at Group companies with a disability of a LGD of 33% or higher in 2016 and 2015 is as follows:

Item	2016	2015
Managers	-	-
Technicians	4	3
Administrative staff	2	2
Manual workers	4	3
Total	10	8

23.2 Other operating costs

The breakdown of this heading at December 31 2016 and 2015 is as follows:

(thousands of euros)

	12/31/2016	12/31/2015
External Services		
R&D Costs	780	472
Leases and Royalties	44,361	44,250
Repairs and maintenance	52,760	42,335
Professional services	30,139	29,173
Transport	26,196	27,576
Insurance premiums	6,302	6,418
Banking and similar services	267	340
Advertising, publicity and PR	4,706	3,922
Supplies	19,045	20,224
Other Services	19,315	18,728
External Services	203,871	193,438
Taxes other than income tax	13,929	20,758
Other overhead income tax	170	117
Other external expenses	9,063	10,207
Change in operating provisions	(762)	428
Total other operating costs	226,271	224,948

23.3 Other disclosures

“Other operating costs” includes the fees paid for the audit of the financial statements and for other audit and non-audit work. The fees for audit and non-audit services provided by the auditor of the Group in 2016, Ernst & Young, S.L. (Deloitte, S.L., during 2015), or by a company belonging to the same network or related to the auditor, were as follows:

Item	2016		2015	
	Services provided by the auditor and its related parties	Services provided by other Group auditors	Services provided by the auditor and its related parties	Services provided by other Group auditors
Audit services ⁽¹⁾	712	89	540	49
Other assurance services ⁽²⁾	239	-	737	-
Total audit and audit-related services	951	89	1,277	49
Other services ⁽³⁾	140	-	-	-
Total Other Services	140	-	59	
Total professional services (4)	1,091	89	1,336	49

(1) Audit Services: This section includes services provided during 2016 by the auditor for the performance of statutory audits of the Group's annual accounts and the limited review of the Interim and Quarterly Consolidated Financial Statements As well as the Certification of the Financial Information Control System (SCIF). For comparative purposes, the fee for the ICFR for the year 2015 has been reclassified as audit services.

(2) Other services related to auditing: In accordance with the provisions of Law 22/2015 on Auditing of Accounts, which came into force on June 17, 2016, the work related to the Annual Government Report Corporate, the review of the non-financial information included in the 2016 Annual Report, as well as the Audit Reports for the issuance of the Comfort Letter. During 2016, the rest of services provided have been classified under the heading “Other professional services”.

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

(4) 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 amounts to 53% of the audit services provided by EY (47% for the Group).

24. Net finance cost

The breakdown of the heading “Net financial cost” in the accompanying consolidated income statement is as follows:

	12/31/2016	12/31/2015
Finance revenue from Group companies and associates	7,458	6,884
Finance revenue from third parties	6,799	7,913
Finance revenue	14,257	14,797
Finance and similar costs	(14,873)	(298)
Interest on loans	(106,773)	(113,445)
Interim interests	2,876	4,177
Other	(2,373)	1,119
Financial costs	(121,143)	(108,447)
Profit from hedging instruments	(5,644)	2,090
Exchange differences	(867)	630
Net finance cost	(113,397)	(90,930)

“Finance and similar costs” includes 13,285 thousand euros of the cost relating to the effect of discounting the credit recognised for the recovery of the guarantees provided by the Company for GSP within a maximum of three years (see Note 8).

The Group had capitalized borrowing costs in an amount of 2,876 thousand euros at December 31 2016 (4,177 thousand euros at December 31 2015) (Note 6).

25. Business and geographical segments

25.1 Segmentation criteria

Segment information is organized according to the Group’s various business units (primary reporting segments). The Group identifies its operating segments based on internal reports on the Group’s performance which are regularly reviewed, debated and evaluated in the decision-making process.

25.2 Segments by geographical areas

The majority of the companies that the Enagás Group owns outside of Europe are now consolidated on an equity basis, and it therefore presents the relevant expenses and income in the heading “Share of profit of equity- accounted companies” in the consolidated income statement. The information relating to geographic markets is therefore based on net profits.

The distribution of profits for 2016 and 2015 by geographic market is as follows:

Net profit	12/31/2016	12/31/2015
Europe	406,933	375,103
South America	10,652	37,559
North America	(363)	-
TOTAL	417,222	412,662

25.3 Main business segments

The business areas described below have been established on the basis of the classification included in the Hydrocarbon Sector Law 34/1998 of 7 October, and in accordance with the organizational structure of the Enagás Group, which takes into account the nature of the services and products offered:

a) Infrastructure activity (including gas transport, regasification, and storage):

- Gas transport: Core activity which consists of the movement of gas through the Group’s transport network, composed of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.
- Regasification: The gas is transported from producer countries in methane tankers at 160°C below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using salt water vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.
- Storage: The Enagás Group operates the following underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca), Gaviota (an off-shore facility) located close to Bermeo (Vizcaya) and Yela (Guadalajara).

b) Technical System Operator activity

As Technical System Operator, the Enagás Group continued to develop the functions entrusted to it over the course of 2016 by the Royal Decree 6/2000 of 23 June and the R.D. 949/2001 of 3 August, with the aim of ensuring the continuity and security of the supply, as well as good coordination between the access, storage, transportation and distribution points.

The infrastructure and Technical System Manager activities are considered to be "Regulated Activities" by the Enagás Group.

c) Unregulated activities

These refer to all deregulated activities and transactions related to Group associates.

25.4 Bases and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the General Economic- Financial Department, and it is generated via a computer program which breaks down the financial statements by activity.

The structure of this information is designed as if each business line were an independent business, with its own resources, distributed on the basis of the assets assigned to each line in accordance with an internal system of cost allocation by percentages.

Segment information is set out below:

(Thousands of euros)

	Infrastructures		Technical System Management		Unregulated activities		Adjustments ^(*)		Group Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Income statement										
Operating revenue	1,182,582	1,199,414	25,638	13,755	81,371	92,392	(72,075)	(83,962)	1,217,516	1,221,599
Depreciation and amortisation	(251,054)	(267,687)	(9,688)	(9,347)	(10,919)	(12,993)	145	240	(271,516)	(289,787)
Operating profit	650,303	657,869	(827)	(13,132)	(38,291)	(41,945)	(669)	(829)	610,516	601,963
Finance revenue	1,937	7,037	10	-	432,821	444,190	(420,511)	(436,430)	14,257	14,797
Finance costs	(53,321)	(9,785)	(97)	(56)	(118,237)	(98,618)	50,512	12	(121,143)	(108,447)
Income tax expense	(148,823)	(168,370)	234	3,691	28,267	20,860	165	232	(120,157)	(143,587)
Profit after tax	468,270	440,115	(677)	(9,497)	320,133	365,864	(370,504)	(383,820)	417,222	412,662

	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Balance sheet									
Total assets	6,887,426	6,289,484	59,092	41,188	8,105,135	6,331,336	(5,803,686)	(4,910,090)	9,247,967	7,751,918
Fixed asset purchases	71,584	120,769	8,993	8,169	9,789	9,489	(814)	(11,652)	89,552	126,775
Non-current liabilities ^(**)	505,255	510,300	555	15	22,439	13,237	(203)	70	528,046	523,622
Deferred tax liabilities	289,801	303,539	-	-	7,873	2,520	(203)	-	297,471	306,059
Provisions	169,246	156,292	555	15	14,566	10,717	-	-	184,367	167,024
Other non-current liabilities	46,208	50,469	-	-	-	-	-	70	46,208	50,539
Current liabilities ^(**)	94,623	154,835	31,853	33,919	51,424	63,827	(3,903)	(11,380)	173,997	241,201
Trade and other payables	94,623	154,835	31,853	33,919	51,424	63,827	(3,903)	(11,380)	173,997	241,201

(*) Adjustments' includes eliminations for intercompany transactions (service rendered and loans granted), as well as the elimination of Investment-Capital and Reserves.

(**) Does not include financial liabilities

26. Environmental information

The Group's efforts to protect the environment and its biodiversity, to boost energy efficiency, lower its carbon emissions and promote the responsible use of resources are the key components of its environmental management strategy, designed to mitigate its impact on its surroundings.

The Group has integrated environmental protection within the Company's strategic programmes and policies via the implementation of the Environmental Management System developed and certified by LLOYD'S, prepared in accordance with the requirements of the UNE EN ISO 14001 standard, which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the LNG storage and regasification plants in Barcelona, Cartagena and Huelva, the Serrablo, Gaviota and Yela underground storage facilities, the facilities for the basic gas pipeline network, the Zaragoza laboratory and the management of New Infrastructure Development Projects.

Further, in an effort to improve data transparency and strengthen commitment to the environment, the regasification plants in Barcelona and Huelva are certified in accordance with European EMAS regulations.

In 2016, LLOYD'S, the accreditation agency, issued the corresponding audit reports on the EMS with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in this field.

The Enagás S.A. Group goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and facilities, assessing risks and promoting eco-efficiency, practising responsible waste and residue management, minimising its carbon footprint and attempting to help combat climate change.

Furthermore, the Group incorporates environmental criteria into its contractor and supplier dealings, taking environmental issues into consideration when it awards service and product supply contracts.

In 2016, environmental action totalling 11,084 thousand euros was undertaken, together with investments in balance sheet assets (29,440 thousand euros in 2015). Environmental expenses incurred by the Group in 2016 totalled 1,853 thousand euros (1,468 thousand euros in 2015) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Enagás Group is exposed are sufficiently covered by third-party liability insurance policies.

27. Greenhouse gas emission allowances

Certain Enagás Group facilities fall within the scope of Law 1/2006 of 9 March, governing trading in greenhouse gas emission allowances.

Directive 2009/29/EC of the European Parliament and of the Council of April 23 2009, amended the system with respect to the period 2013-2020. Although an auction is set up as the customary procedure for allocating emission allowances as of 2013 for the owners of the facilities included in the scope of the emission allowance trading scheme, the owners that opt to do so, pursuant to that envisaged in the Directive, will receive free allowances from 2013 to 2020 in accordance with the European Union harmonisation legislation.

A decision by the Council of Ministers of November 15, 2013 approved the final free-of-charge assignment of greenhouse gas emission rights to institutions covered by the emission rights trading system in 2013-2020, including the facilities maintained by Enagás Transporte, S.A.U. The facilities for which these allocations have been received are:

- The Serrablo, Yela and Gaviota underground storage facilities.
- The Barcelona, Cartagena and Huelva LNG storage and regasification plants
- The compressor stations in: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Seville, Haro, Paterna, Tivissa, Zamora, Zaragoza, Alcázar de San Juan, Lumbier and Villar de Arnedo and Montesa.

All of the rights assigned to the Enagás Group, definitively and free-of-charge for its facilities, total 985,915 rights for the period 2013 to 2020, of which 90,224 are for 2016 and 115,588 relate to 2015. Furthermore, an additional 18,635 rights were received, corresponding to pending settlements from prior years approved by the Spanish Office for Climate Change.

Within the Group, the rights assigned for 2016 and 2015 were valued at 8.04 euros/right and 6.96 euros/right, respectively, the spot price on the first business day of 2016 and 2015 as per RWE Trading GMBH, which implies additions for the year of 639 thousand euros (616 thousand euros for 2015).

The Enagás Group consumed 133,878 greenhouse gas emission allowances in 2016 (130,878 in 2015).

In the first quarter of 2016, the Enagás Group submitted its emission reports, verified by the accredited agency (AENOR), to the pertinent regional governments, which validated said emissions.

In the second quarter of 2016, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2015 for all these installations.

In 2016, the Enagás Group did not arrange any futures contracts relating to greenhouse gas emission allowances nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

28. Related party transactions and balances

The Group's "related parties", in addition to subsidiaries, associates and jointly controlled entities, are considered to be "key personnel" in its management team (members of the Board of Directors, executives and their close family members), together with entities over which key management personnel could exercise significant or total control as established in Order EHA/3050/2004, of 15 September, and CNMV Circular 1/2008, of 30 January.

Balances with Group companies that have not been eliminated during the consolidation process relate to:

- Receivables totaling 16,321 thousand euros at December 31, 2016 (6,744 thousand euros at December 2015) (see Note 10).
- Payables totaling 2,736 thousand euros at December 31, 2016 (2,439 thousand euros at December 31 2015) (see Note 19).
- Loans to Group companies totaling 293,929 thousand euros at December 31, 2016 (168,090 thousand euros at December 31, 2015 (see Note 8).
- Long-term receivables from GSP totalling 207,865 thousand euros at 31 December 2016 (See Note 8).

Below is a detail of the Group's related-party transactions in 2016 and 2015, distinguishing between significant shareholders, board members, executives and other related parties. The terms of transactions with related parties are equivalent to those made on an arm's-length basis, and the corresponding remuneration in kind has been recorded.

2016

(Thousands of euros)

Income and expenses	12/31/2016				Total
	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	
Expenses:					
Finance costs	-	-	-	3,853	3,853
Services received	-	-	34,449	234	34,683
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	1,632	-	-	1,632
TOTAL EXPENSES	-	1,632	34,449	4,087	40,168
Income:					
Finance revenue	-	-	7,342	-	7,342
Services rendered	-	-	14,259	-	14,259
Gains on derecognition or disposal of assets	-	-	14	-	14
Other income	-	-	3,106	-	3,106
TOTAL INCOME	-	-	24,721	-	24,721

2015

(Thousands of euros)

Income and expenses	12/31/2015				Total
	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	
Expenses:					
Finance costs	-	-	-	3,215	3,215
Services received	-	-	27,291	609	27,900
Losses on derecognition or disposal of assets	-	-	98	-	98
Other expenses	-	1,007	-	-	1,007
TOTAL EXPENSES	-	1,007	27,389	3,824	32,220
Income:					
Finance revenue	-	-	6,885	17	6,902
Services rendered	-	-	10,651	-	10,651
Gains on derecognition or disposal of assets	-	-	142	-	142
Other income	-	-	3,106	-	3,106
TOTAL INCOME	-	-	20,784	17	20,801

2016

(Thousands of euros)

Other transactions	12/31/2016			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Debt securities of related parties (see Note 31)	-	24,779	-	24,779
Guarantees and sureties granted - Others (see Note 31)	-	9,464	144,175	153,639
Investment commitments (see Note 31)	-	218,289	-	218,289
Dividends and other profits paid out	30,970	-	-	30,970

2015

(Thousands of euros)

Other transactions	12/31/2015			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Debt securities of related parties (see Note 31)	-	163,880	-	163,880
Guarantees and sureties granted - Others (see Note 31)	-	89,711	148,768	238,479
Investment commitments (see Note 32)	-	250,220	-	250,220
Dividends and other profits paid out	30,051	-	-	30,051

Since 2015, the Banco Santander Group complied with the aforementioned definition of "related party".

Of the transactions indicated in the preceding table, 3,853 thousand euros in finance costs for 2016 corresponds to this related entity (3,215 thousand euros in 2015), (including the finance costs arising from interest rate hedges) and 144,175 thousand euros in guarantees and sureties granted at December 31, 2016 (148,768 thousand euros at December 31, 2015).

This bank also carried out the following transactions with the Enagás Group:

- The Enagás Group maintains financing through a multi-currency club deal that has not been drawn down at December 31 2016 (see Note 15). This related party represents 9.63% of all banks that have participated in this source of financing for this transaction.
- This related party participated as a passive bookrunner in the bond issue carried out by Enagás Financiaciones, S.A.U. in May 2015. In addition, this related party also participated as a passive bookrunner in the bond issue carried out by Enagás Financiaciones, S.A.U. on 19 October 2016 (see Note 15).
- In the course of 2016, Enagás Internacional, S.L.U. arranged a credit line with this related party for a maximum amount of 400,000 thousand US dollars, maturing in 2018 and guaranteed by Enagás, S.A. At 31 December 2016 the balance drawn down amounted to 373,557 thousand euros (see Note 15).

Directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

29. Directors and senior management compensation

The remuneration received in 2016 and 2015 by the members of the Board of Directors and by Senior Management of Enagás, S.A., broken down by item, was as follows:

2016

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Board of Directors	2,121	1,630	206	-	111
Senior management	2,738	-	137	62	61
TOTAL	4,859	1,630	343	62	172

2015

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Board of Directors	2,014	1,007	170	12	33
Senior management	2,212	-	111	56	17
TOTAL	4,226	1,007	281	68	50

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 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" which was in turn approved under agenda item number 7.

The two executive directors are beneficiaries of the long-term bonus plan approved by the shareholders in general meeting on March 18, 2016-2018 under agenda item number 8. In said meeting, a total of 97,455 performance shares or rights relating to shares were assigned. Said rights do not at present constitute acquisition of shares until the programme finalises, the final bonus depending on the degree to which the programme objectives have been met.

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 March 18, 2016 under agenda item number 8. As approved by the shareholders in general meeting, the Board has assigned them a total of 95,102 performance shares or rights relating to shares as well as an incentive in cash amounting to 800 thousand euros. Said rights do not at present constitute acquisition of shares or collection of any amounts until the programme has finalised, the final bonus depending on the degree to which the programme objectives have been met.

Executive directors and senior management form part of the group covered by the mixed group insurance policy for pension commitments. Of the premium paid in 2016, 291 thousand euros corresponded to executive directors and 277 thousand euros to senior management.

The increase in insurance premiums was exclusively due to greater costs arising from the loss or reduction during this period in profit sharing with insurance entities without an increase in the premiums or a significant expansion of coverage. This increase in turn results in an increase in withholdings on account of compensation in kind included under "Other", without this compensation in kind having seen any significant increases.

The aforementioned remuneration distributed to each of the members of the Board of Directors in 2016 and 2015, excluding insurance premiums and pension plans, was as follows:

(Thousand of euros)

DIRECTORS	2016	2015
D. Antonio Llardén Carratalá, (Executive Director) ¹	1,839	1,749
D. Marcelino Oreja Arburúa ²	693	561
Sociedad Estatal de Participaciones Industriales (Property Director)	127	76
Mr. Sultan Hamed Khamis Al Burtamani ³	-	11
D. Jesús David Álvarez Mezquíriz (Independent Director) ³	-	20
D. Ramón Pérez Simarro (Independent Director) ⁴	126	76
D. Martí Parellada Sabata (Independent Director) ⁴	142	81
D. Luis Javier Navarro Vigil (External Director) ⁴	126	76
D. Jesús Máximo Pedrosa Ortega (Property Director) ⁴	126	76
D ^a Rosa Rodríguez Díaz (Consejera Independiente) ⁴	127	76
D ^a Ana Palacio Vallelersundi (Consejera Independiente) ⁴	133	80
D ^a Isabel Tocino Biscalorasaga (Consejera Independiente) ⁴	139	81
D. Antonio Hernández Mancha (Independent Director) ⁴	126	76
D. Luis Valero Artola (Independent Director) ⁴	127	76
D. Gonzalo Solana González (Independent Director) ⁴	127	76
TOTAL	3,958	3,191

1. The remuneration for the Executive Chairman in 2016 was approved in detail by the shareholders in general meeting on 18 March 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018". During 2016, the Executive Chairman received fixed remuneration in the amount of 980 thousand euros and variable remuneration in the amount of 572 thousand euros; he also received 102 thousand euros for Board membership and other remuneration in kind amounting to 185 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 totalled 1,839 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 109 thousand euros. The Group has outsourced its pension commitments with respect to its directors 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; of the total premium paid during the year, 201 thousand euros correspond to the Executive Chairman. The Executive Chairman is beneficiary of the long-term bonus plan 2016-2018 approved by the shareholders in general meeting on 18 March 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 programme finalises, the final bonus depending on the degree to which the programme objectives have been met.

2. The remuneration for the CEO in 2016 was approved in detail by the shareholders in general meeting on 18 March 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018". During 2016, the CEO received fixed remuneration in the amount of 390 thousand euros and variable remuneration in the amount of 179 thousand euros; he also received 102 thousand euros for Board membership and other remuneration in kind amounting to 22 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 totalled 693 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 1.5 thousand euros. The CEO is also beneficiary of the mixed group insurance policy for pension commitments. The premium corresponding to the CEO for this policy amounted to 90 thousand euros for the period. The CEO is beneficiary of the long-term bonus 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 programme finalises, the final bonus depending on the degree to which the programme objectives have been met.

3 Said Directors stood down in 2016.

4 The remuneration for these directors relating to Board and committee membership was approved in detail by the shareholders in general meeting on 18 March 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018".

29.1 Share-based payments

On 18 March 2016, the Enagás, S.A. shareholders in general meeting approved a long-term bonus plan aimed at executive directors and senior management of the Company and its group of companies, with a view to maximising 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, a maximum of 307,643 shares are deliverable, all of which will come from the Company's treasury shares. Further, the beneficiaries of the plan are not guaranteed any minimum value for the assigned shares. The cash part of the plan is limited to an estimated maximum payment of 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. The plan initially designated 43 beneficiaries, without prejudice to the possibility of including new beneficiaries in the case of new hirings, mobility within the Company, or changes in professional levels during the measurement period.

The objectives established to evaluate whether the plan has been achieved are as follows:

- Accumulated results corresponding to the funds from operations (FFO) of the Enagás Group. Said parameter reflects the financial soundness and growth in net profits, cornerstones of the Enagás Group's strategic plan. Both EBITDA and dividends received from investee companies (considered under the equity method) are taken into consideration. It is a benchmark indicator for investors. The fulfillment of this objective will permit the Company to meet the foreseen Group dividend distribution, investment, and debt amortisation. Determination of EBITDA (calculated as operational income less operational expenses, that is "operating profit", plus amortisation and depreciation expenses), plus dividends collected (as defined below), plus collections less payments relating to corporate taxes, plus interest collection less interest expenses, and plus or less applicable EBITDA adjustments.
- Accumulated cash flows received from investee companies considered under the equity method ("dividend"). This reflects the focus on international growth and a realistic and profitable investment plan as cornerstones of the Strategic Plan. It is calculated as the cash flows (cash) received from investee companies (considered under the equity method), calculated at a fixed exchange rate.
- Total returns for the shareholder ("TRS"). TRS is understood to be the difference (expressed in percentage terms) between the final value of an investment in ordinary shares and the initial value of same investment. Said final value will be calculated taking into account dividends or similar items (i.e. script dividends) received by the shareholder in connection with said investment during the corresponding time period. Said parameter will be measured on a relative basis with respect to the Comparison Group comprised of fifteen companies.
- Compliance with the Sustainability Plan. This reflects sustainability as the framework within which the Enagás Group carries out its business activities. The following items will be considered when evaluating the Company's fulfillment of the Sustainability Plan: carbon footprints, equality (non-discrimination), and other matters (commitment to employees, customer satisfaction, volunteer initiatives, patronage, etc.)

The portion to be settled in Enagás, S.A. shares is considered a share-based transaction payable in equity instruments in accordance with IFRS 2 and, in accordance with said standard, the fair value of services received, as consideration for the equity instruments granted, is included in the consolidated income statement at 31 December 2016 under "Staff costs" in the amount of 1,959 thousand euros and a credit to "Other equity instruments" in the consolidated balance sheet at 31 December 2016. The Enagás Group estimates fair value of the equity instruments granted on an accrual basis over the corresponding period (from January 1 2016 to 31 December 2018) plus the loyalty period of approximately four months for full disbursement.

The Enagás Group used the Monte-Carlo model (widely used in financial practice for valuing options) for measurement in this programme, with a view to including the effect of market conditions when measuring the equity instruments granted. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the fact that the dividends accrued during the plan period are not paid to the beneficiaries was taken into account as they do not become shareholders of the Company until the plan has effectively been settled. The breakdown and fair value of the shares at the granting date are as follows:

	ILP 2016
Total shares at grant date⁽¹⁾	307,643
Fair value of equity instruments (EUR)	26.37
Divident profitability	4.20%
Expected volatility	19%
Discount rate	0.186%

(1) This number of shares reflects the maximum number of shares to be delivered under the plan, and includes both the possibility of achieving the maximum degree of fulfillment of objectives established in the plan (125%) as well as the possibility that new hirings, staff mobility within the Group, or changes in professional levels, lead to the inclusion of new beneficiaries during the measurement period.

With respect to that part of the bonus payable in cash, the Enagás Group recognised the rendering of services corresponding to this plan as an employee benefits expense amounting to 800 thousand euros, with a credit to "Provisions" under non-current liabilities in the consolidated balance sheet at December 31, 2016 (see Note 14.1). As for that part of the plan payable in shares, the Enagás Group estimates the fair value of the amount payable in cash on an accrual basis over the plan period (January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.

At December 31, 2016, the estimate is made assuming that all the objectives relating to the plan have been fully achieved.

30. Other Director disclosures

In keeping with the provisions of article 229 et seq. of the Spanish Limited Liability Companies Law, these notes include disclosures relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those group companies engaged in the transport, regasification, distribution or supply of natural gas, as regulated by the Oil and Gas Act (Law 34/1998).

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to the Group by Directors at December 31, 2016 and 2015 are as follows:

2016

Directors	Company	No. of shares	% shareholding
D. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
D. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
D. Jesús Máximo Pedrosa Ortega ⁽¹⁾	Iberdrola	8,508	0.00%

2015

Directors	Company	No. of shares	% shareholding
D. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
D. Jesús Máximo Pedrosa Ortega	Iberdrola	3,382	0.00%
D. Jesús Máximo Pedrosa Ortega ⁽¹⁾	Iberdrola	7,472	0.00%

(1). Through Inversores Asfis as joint and several director with a 60% shareholding.

Positions held or duties performed by Group directors at companies whose corporate purpose is the same, similar or complementary disclosed to Enagás, S.A. at December 31 2016 and 2015, are as follows:

2016

Directors	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	MIBGAS	Director

2015

Directors	Company	Position
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	MIBGAS	Director

No activities that are identical, similar or complementary to those of Enagás, other than those listed above, are carried out by its directors as independent professionals or as employees.

At the end of 2016, neither the members of the Company's Board of Directors nor persons associated with them, as defined by article 229 of the Spanish Limited Liability Companies Law, reported to the other members of the Board of Directors any direct or indirect conflict of interest with the Company's interests.

31. Commitments and guarantees

2016

(Thousands of euros)

Commitments and guarantees	12/31/2016			
	Group employees, companies or entities (see Note 28)	Other related parties (see Note 28)	Third parties	Total
Debt securities of related parties	24,779	-		24,779
Guarantees and sureties granted - Others	9,464	144,175	333,103	486,742
Investment commitments	218,289	-	25,708	243,997

2015

(Thousands of euros)

Commitments and guarantees	12/31/2015			
	Group employees, companies or entities (see Note 28)	Other related parties (see Note 28)	Third parties	Total
Debt securities of related parties	163,880	-		163,880
Guarantees and sureties granted - Others	89,711	148,768	353,242	591,721
Investment commitments	250,220	-	16,065	266,285

"Debt securities of related parties" includes corporate guarantees for the amount of 24,779 thousand euros at December 31 2016 (163,880 thousand euros at December 31 2015) as detailed below:

- The obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás Group commits to granting a corporate guarantee in favor of the financing entities if said contract has not been cancelled or refinanced six months before it matures in July 2022. The maximum commitment relating to this possible guarantee amounts to 24,779 thousand euros (237,500 thousand SEK), and in accordance with the above, said corporate guarantee will not be granted before the month of January in 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.
- At December 31, 2015, corporate guarantees granted in connection with GSP debt were included in the amount of 138,016 thousand euros. At December 31, 2016, as indicated in Note 15, said guarantees were recognised in the consolidated balance sheet since the Group considered it probable that at year end they would be enforced in the amount of 154,093 thousand euros. At December 31, 2016, there were no additional guarantees in connection with the GSP project.

In addition, "Guarantees and sureties granted - Others" includes mainly the below items for the amount of 486,742 thousand euros at December 31 2016 (591,721 thousand euros at December 31 2015):

- Guarantees of faithful compliance to entities of the group on obligations in concessions granted, counter-guaranteed by Enagás, S.A., amounting to 9,464 thousand euros (89,711 thousand euros at 31 December 2015). As in the case of the guarantees provided in connection with the debt, at 31 December 2016, the guarantee for full compliance with the GSP concession agreement was recognised in the consolidated balance sheet. The amount corresponding to this guarantee totals 67,057 thousand euros. There are no additional guarantees relating to this project apart from those described in Notes 8 and 15 to the accompanying consolidated financial statements at 31 December 2016.

Under guaranties and sureties granted with other related parties at December 31 2016 include the guarantees granted before the Federal Electricity Commission ("CFE") for the service contracts relating to the Morelos Gas Pipeline and Soto de la Marina Compression Station projects for the amount of 9,464 and 8,390 thousand euros, respectively, which have been granted by the related company Banco Santander.

- Financial guarantees granted as security for the loans granted by the European Investment Bank to Enagás, S.A. for the amount of 410,000 thousand euros (430,000 thousand euros in 2015), of which 120,000 thousand euros have been granted by the related entity Banco Santander in 2016 (125,000 thousand euros in 2015).
- Guarantees pledged during bid processes for the amount of 875 thousand euros (3,267 thousand euros at December 31 2015).
- Technical guarantees granted before third parties to cover certain responsibilities that may arise from the execution of the agreements that make up its activity, amounting to 48,549 thousand euros at December 31 2016, (51,386 thousand euros in 2015), of which, 6,321 thousand euros (6,411 thousand euros in 2015) correspond to sureties formalised with Banco Santander an entity that complies with the definition of related party as defined in Note 28.

“Investment Commitments” includes the below items amounting to 243,498 thousand euros at December 31 2016 (266,285 thousand euros at December 31 2015):

- The Enagás Group has investment commitments amounting to 212,800 thousand euros fundamentally relating to TAP projects. At December 31, 2015 the Enagás Group held firm investment commitments in the amount of 250,220 thousand euros relating to TAP projects (141,025 thousand euros) and GSP projects (109,195 thousand euros), which were paid during the 2016 financial year.

TAP’s investment commitments detailed above, the shareholders fulfill the obligation to finance the project until achieving the financial closing, which is currently expected to occur in December 2017. Once the financial closing of the project has been achieved, it is expected that the partners will recover part of the investment made, which in the case of Enagás amounts to 205,600 thousand euros.

Furthermore, within the framework of negotiations for achieving said financial closing, it is estimated that at the moment of signing the corresponding financing contracts, the financial entities will demand guarantees from the partners during the construction phase, which will be granted to the extent that the subsidiary draws down the credit line until an estimated total amount of 589,700 thousand euros for the Enagás Group.

- The Enagás Group holds investments in nine Economic Interest Groups (EIG) whose business is the leasing of assets managed by an unrelated third party, which retains the majority of the profits and business risks, with the Group only availing itself of the tax incentives provided in Spanish legislation (see Note 8). The Enagás Group enters the tax losses generated by these EIGs against equity and offset by the debt registered with the payable tax, the corresponding revenue (Note 21). In this regard, the Enagás Group holds firm investment commitments for this item to the amount of 25,708 thousand euros, which will be paid in full during the 2017 financial year.

Directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

32. Joint ventures and associates

Information on the joint ventures, jointly controlled operations and associates in which the Enagás Group had interests at December 31, 2016 is set out in the table below:

Company	Country	Activity	Type of control	Type of business	%	% of voting rights controlled by the Enagás Group	Thousand of euros ⁽²⁾		Fair value functional currency		
							Fair Value	Dividends received	Thousand of euros	Thousand USD	Thousand SEK
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	Joint control	Joint operation	66.96%	66.96%	19,201	13,535	19,201	-	-
Gasoducto de Extremadura, S.A.	Spain	Gas transport	Joint control	Joint operation	51.00%	51.00%	6,931	6,996	6,931	-	-
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	Joint control	Joint operation	50.00%	50.00%	56,235	4,000	56,235	-	-
Subgrupo Altamira LNG, C.V. (4)	Holand ⁽⁴⁾ / Mexico	Holding company/ Regasification	Joint control	Joint operation	40.00%	40.00%	41,218	16,195	-	52,423	-
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	Joint control	Joint operation	50.00%	50.00%	14,576	-	-	16,205	-
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	Joint control	Joint operation	50.00%	50.00%	3	2,504	-	4	-
GNL Quintero, S.A. ⁽¹⁾	Chile	Regasificación	Joint control	Joint operation	60.40%	60.40%	492,380	9,683	-	576,256	-
Terminal de Valparaíso, S.A. ⁽¹⁾	Chile	Holding company	Joint control	Joint operation	51.00%	51.00%	136,386	5,795	-	179,988	-
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	Joint control	Joint operation	50.00%	50.00%	9,599	-	9,599	-	-
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	Joint control	Joint operation	50.00%	50.00%	2	-	-	2	-
Transportadora de gas del Perú, S.A.	Peru	Gas transport	Significant influence	Associate	28.94%	28.94%	516,176	42,355	-	665,786	-
Gasoducto del Sur Peruano, S.A.	Peru	Gas transport	Significant influence	Associate	26.87%	26.87%	247,142	-	-	277,155	-
Trans Adriatic Pipeline, A.G. ^(3 y 4)	Switzerland ^(3 y 4)	Gas transport	Significant influence	Associate	16.00%	16.00%	97,230	-	97,230	-	-
Compañía Operadora de Gas del Amazonas, S.A.C.	Peru	Operation and maintenance	Joint control	Joint operation	30.00%	30.00%	12,325	853	-	15,000	-
Tecgas, Inc.	Canada	Holding company	Joint control	Joint operation	30.00%	30.00%	1,121	-	-	1,191	-
EC Soto la Marina O&M SAPI de CV	Mexico	Operation and maintenance	Joint control	Joint operation	50.00%	50.00%	2	-	-	2	-
Morelos O&M, S.A.P.I de CV	Mexico	Operation and maintenance	Joint control	Joint operation	50.00%	50.00%	35	-	-	39	-
Subgrupo Swedegas ⁽⁵⁾	Sweden	Gas transports	Joint control	Joint operation	50.00%	50.00%	97,228	10,528	-	-	894,550
Iniciativas de Gas, S.L. ⁽⁶⁾	Spain	Holding company	Joint control	Joint operation	60.00%	60.00%	48,834	-	48,834	-	-
Planta de Regasificación de Sagunto, S.A. ⁽⁶⁾	Spain	Storage and regasification	Joint control	Joint operation	72.50%	72.50%	141,454	-	141,454	-	-
Vira Gas, SL	Spain	Storage and regasification	Joint control	Joint operation	49.00%	49.00%	196	-	196	-	-
Mibgas, S.A.	Spain	Storage and regasification	Significant influence	Associate	13.34%	13.34%	417	-	417	-	-

(1) The company GNL Quintero is owned by Terminal de Valparaíso S.A. By 40%, (Enagás Chile owns 51% of Terminal of Valparaíso S.A.) and by Enagas Chile by 40%. Therefore, the indirect and direct share of the Enagás Group in GNL Quintero is 60.40%. The distribution of the dividend is made by GNL Quintero up through the Terminal of Valparaíso by 20.4%.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the "net book value" of the financial investment is shown in historical euros and includes the acquisition costs activated. The euros corresponding to the "dividends received" are translated at the exchange rate corresponding to the moment of the transaction.

(3) This company has three permanent establishments in Greece, Italy and Albania.

(4) Both companies are jointly involved with other international industrial partners. Its activity consists of the development and operation of infrastructure projects, such as the Altamira regasification plant already in operation and the TAP Trans-Adriatic Pipeline Project (declared the European Union's Project of Common Interest).

(5) The group holds a 50% stake in the Swedish company Knubbsäl Topholding AB jointly with Fluxys Europe BV. This company is in turn indirect holder of 100% of the shares of Swedegas AB, operator of the Swedish gas system. Swedegas AB, operator of the Swedish gas system.

(6) The company Planta de Regasificación de Sagunto Gas, S.A. Is owned by Iniciativas de Gas, S.L. By 50% and by Infraestructuras de Gas, S.L. By the other 50%. Both companies are in turn owned by the Enagas Group by 60% and 85% respectively. Therefore, the indirect participation of the Enagas Group on the Regeneration Plant of Sagunto Gas, S.A. It amounts to 72.5%. The distribution of the dividend is carried out by the Sagunto Gas Regasification Plant, S.A.

The main aggregates in the individual financial statements for joint operations, joint ventures and associates of Grupo Enagás, S.A. at December 31 2016 are also set out below:

BALANCE SHEET AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾								
	Assets			Equity		Liabilities			
	Non-current	Current		Other comprehensive income	Other equity	Non-current		Current	
		Cash and cash equivalente	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	29,035	25,764	4,175	-	41,371	-	-	-	17,603
Gasoducto de Extremadura, S.A.	12,344	15,684	2,356	-	23,554	-	-	-	6,830
Bahía de Bizkaia Gas, S.L.	249,973	25,182	11,213	(5,294)	67,565	179,336	24,235	15,087	5,439
Subgrupo Altamira LNG, C.V.	351,220	4,786	22,470	(389)	157,446	102,796	5,186	25,690	87,747
Gasoducto de Morelos, S.A.P.I. de C.V.	301,859	11,571	16,019	(3,480)	25,822	212,553	-	13,889	80,665
Morelos EPC, S.A.P.I. de C.V.	2	11,396	27,762	-	26,001	-	-	-	13,159
GNL Quintero, S.A.	878,996	243,093	23,381	(77,490)	108,387	1,018,417	62,564	20,100	13,492
Terminal de Valparaíso, S.A.	328,971	64	8	-	329,028	-	-	-	15
EC Soto La Marina SAPI de CV	88,061	3,103	3,254	-	(11,424)	65,043	1,484	6	39,309
EC Soto La Marina EPC SAPI de CV	2,555	5	13,523	-	(10,752)	-	-	46	26,789
Transportadora de gas del Perú, S.A.	1,397,012	81,841	97,136	-	410,892	1,000,355	115,130	8,472	41,140
Gasoducto del Sur Peruano, S.A.	2,435,719	46,263	24,201	-	605,602	819,002	-	-	1,081,579
Trans Adriatic Pipeline, A.G.	1,602,261	46,136	72,835	(1,818)	357,281	1,066,968	17,693	-	281,108
Compañía Operadora de Gas del Amazonas, S.A.C.	2,052	15,179	10,604	-	4,112	-	-	-	23,723
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	46	18	697	-	112	-	-	-	649
Morelos O&M, S.A.P.I de CV	170	531	172	-	90	-	-	-	783
Subgrupo Swedegas	667,530	15,358	13,181	(10,364)	172,344	409,596	116,906	-	7,587
Iniciativas de Gas, S.L.	986	13	679	-	1,678	-	-	-	-
Planta de Regasificación de Sagunto, S.A.	324,855	40,340	32,722	(7,258)	69,277	273,503	26,813	29,412	6,170
Vira Gas, S.L.	249	78	53	-	383	-	-	-	(3)
Mibgas, S.A.	909	2,344	7,386	-	3,220	-	-	7,059	360

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the balance sheet amounts have been translated at the year-end exchange rate.

INCOME STATEMENT AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾						
	Income Statement						
	Revenue	Depreciation	Interest income	Interest expense	Income tax	Other income and expense	Net profit/(loss)
Gasoducto Al-Andalus, S.A.	36,502	(7,380)	4	-	(5,092)	(8,758)	15,276
Gasoducto de Extremadura, S.A.	28,000	(3,303)	3	-	(4,643)	(6,128)	13,929
Bahía de Bizkaia Gas, S.L.	53,166	(14,178)	1	(9,007)	(4,256)	(15,372)	10,354
Subgrupo Altamira LNG, C.V.	75,513	(14,515)	52	(5,480)	(14,382)	(20,270)	20,918
Gasoducto de Morelos, S.A.PI. de C.V.	33,158	(11,957)	-	(12,754)	(1,784)	(6,321)	342
Morelos EPC, S.A.PI. de C.V.	32,016	-	-	-	(7,064)	(11,412)	13,540
GNL Quintero, S.A.	170,145	(32,851)	455	(67,060)	(12,368)	(32,936)	25,385
Terminal de Valparaíso, S.A.	10,993	-	-	-	-	4	10,997
EC Soto La Marina S.A.PI. de C.V.	11,463	(4,459)	-	(3,828)	192	(5,294)	(1,926)
EC Soto La Marina EPC S.A.PI. de C.V.	-	-	-	-	(9,352)	(635)	(9,987)
Transportadora de gas del Perú, S.A.	563,424	(81,039)	245	(61,676)	(72,220)	(182,271)	166,463
Gasoducto del Sur Peruano, S.A.	864,817	-	1,982	(51,398)	-	(1,183,185)	(367,784)
Trans Adriatic Pipeline, A.G.	-	(649)	20	(181)	4,078	(25,795)	(22,527)
Compañía Operadora de Gas del Amazonas, S.A.C.	118,373	(586)	56	-	(1,160)	(114,866)	1,817
Tecgas, Inc.	-	-	-	-	-	(3,547)	(3,547)
EC Soto la Marina O&M S.A.PI. de C.V.	3,631	-	-	-	(59)	(3,489)	83
Morelos O&M, S.A.PI de C.V.	1,532	(5)	-	-	2	(1,517)	12
Subgrupo Swedegas	50,148	(13,680)	-	(9,261)	(2,046)	(17,881)	7,280
Iniciativas de Gas, S.L.	-	-	-	-	-	(25)	(25)
Planta de Regasificación de Sagunto, S.A.	101,193	(23,243)	-	(13,468)	(11,213)	(17,232)	36,037
Vira Gas, S.L.	-	-	-	-	5	(20)	(15)
Mibgas, S.A.	2,179	(20)	-	-	(56)	(1,934)	169

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the amounts in the income statement have been translated at the accumulated average exchange rate for the year.

The main aggregates in the individual financial statements for joint operations, joint ventures and associates which formed part of Grupo Enagás, S.A. at December 31 2015 are as follows:

BALANCE SHEET AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾								
	Assets			Equity		Liabilities			
	Non-current	Current		Other comprehensive income	Other equity	Non-current		Current	
		Cash and cash equivalente	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	36,743	28,176	3,766	-	62,670	-	-	-	6,015
Gasoducto de Extremadura, S.A.	15,804	20,489	2,323	-	35,625	-	-	-	2,991
Bahía de Bizkaia Gas, S.L.	262,550	26,805	7,842	(4,785)	64,402	193,627	23,406	14,876	5,671
Subgrupo Altamira LNG, C.V.	354,159	31,542	16,021	(873)	173,507	125,290	4,891	24,368	74,539
Gasoducto de Morelos, S.A.P.I. de C.V.	253,415	33,836	12,699	(4,454)	20,555	209,248	-	8,465	66,136
Morelos EPC, S.A.P.I. de C.V.	6	611	43,705	-	31,748	-	-	-	12,574
GNL Quintero, S.A.	880,554	181,950	18,679	-	111,075	863,237	77,441	19,542	9,888
Terminal de Valparaiso, S.A.	319,845	346	7	-	320,185	-	-	-	13
EC Soto La Marina SAPI de CV	97,731	825	5,319	-	(1,241)	66,352	-	862	37,902
EC Soto La Marina EPC SAPI de CV	11,797	17	9,337	-	(11,236)	-	-	45	32,342
Transportadora de gas del Perú, S.A.	1,319,410	137,587	89,111	-	392,794	980,233	112,352	7,904	52,825
Gasoducto del Sur Peruano, S.A.	1,321,776	60,262	35,847	-	516,944	598,137	-	-	302,804
Trans Adriatic Pipeline, A.G.	521,180	133,500	31,250	(2,600)	195,990	382,680	14,250	-	95,610
Compañía Operadora de Gas del Amazonas, S.A.C.	2,367	19,007	10,896	-	4,794	-	-	-	27,476
Tecgas, Inc.	1	-	-	-	1	-	-	-	-
EC Soto la Marina O&M SAPI de CV	106	21	3	-	(207)	-	-	-	337
Morelos O&M, S.A.P.I de CV	23	118	215	-	75	-	-	-	281
Subgrupo Swedegas	678,322	21,570	10,754	(279)	193,792	414,189	97,318	-	5,626
Iniciativas de Gas, S.L.	986	39	678	-	1,703	-	-	-	-
Planta de Regasificación de Sagunto, S.A.	315,917	33,894	26,734	(7,232)	26,498	294,935	25,132	32,122	5,090

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the balance sheet amounts have been translated at the year-end exchange rate.

INCOME STATEMENT AGGREGATES

(Thousand of euros)

Company	Investee information ⁽¹⁾⁽²⁾						
	Income Statement						
	Revenue	Depreciation	Interest income	Interest expense	Income tax	Other income and expense	Netprofit/(loss)
Gasoducto Al-Andalus, S.A.	42,599	(7,380)	12	-	(7,333)	(9,041)	18,857
Gasoducto de Extremadura, S.A.	26,833	(3,303)	10	-	(4,907)	(6,014)	12,619
Bahía de Bizkaia Gas, S.L.	53,747	(13,996)	8	(10,603)	(4,029)	(14,764)	10,363
Subgrupo Altamira LNG, C.V.	72,589	(13,905)	12	(6,254)	(14,271)	(16,711)	21,460
Gasoducto de Morelos, S.A.P.I. de C.V.	16,778	(5,242)	-	(6,145)	(6,214)	(3,970)	(4,793)
Morelos EPC, S.A.P.I. de C.V.	75,087	-	-	-	(7,316)	(46,090)	21,681
GNL Quintero, S.A.	179,572	(32,442)	275	(66,681)	(12,454)	(37,087)	31,183
Terminal de Valparaíso, S.A.	14,065	-	-	-	-	(29)	14,036
EC Soto La Marina S.A.P.I. de C.V.	1,728	(741)	-	(701)	7,978	(30,063)	(21,799)
EC Soto La Marina EPC S.A.P.I. de C.V.	25,025	-	-	(26)	9,148	(45,523)	(11,376)
Transportadora de gas del Perú, S.A.	490,344	(62,760)	44	(63,744)	(43,269)	(222,912)	97,703
Gasoducto del Sur Peruano, S.A.	794,187	(1,699)	128	(8,565)	(8,883)	(752,961)	22,207
Trans Adriatic Pipeline, A.G.	-	(501)	-	(1,811)	(7,208)	(26,691)	(36,211)
Compañía Operadora de Gas del Amazonas, S.A.C.	119,111	(585)	39	-	(950)	(115,346)	2,269
Tecgas, Inc.	-	-	-	-	-	-	-
EC Soto la Marina O&M S.A.P.I. de C.V.	766	-	-	-	86	(1,058)	(206)
Morelos O&M, S.A.P.I. de C.V.	169	(1)	-	-	(5)	(159)	4
Subgrupo Swedegas	42,305	(13,518)	-	(14,558)	(721)	(14,535)	(1,027)
Iniciativas de Gas, S.L.	8,523	-	-	-	13	(39)	8,497
Planta de Regasificación de Sagunto, S.A.	96,808	(30,589)	-	(14,825)	(9,917)	(15,882)	25,595

(1) Data to 100% of the individual companies according to IFRS and before making the homogenization adjustments prior to the consolidation of the Financial Statements.

(2) For companies whose local currency is different from the euro group currency (see Note 2.4), the amounts in the income statement have been translated at the accumulated average exchange rate for the year.

At December 31, 2016 and December 31 2015, the reconciliation of the carrying amount of joint ventures against the total value of investments in companies consolidated on an equity basis is as follows:

2016	Net carrying financial assets on 12/31/2016	Dividends	Shareholders' equity		Net unrealised gains (losses) reserve		Other adjustm.	Total equity accounted investments on 12/31/2016
			Profit for the year	Reserves	Translation differences	Hedging transactions		
Equity-accounted investments	1,727,427	(185,872)	41,205	95,482	193,093	(4,079)	3,717	1,870,973

2016	Net carrying financial assets on 12/31/2015	Dividends	Shareholders' equity		Net unrealised gains(losses) reserve		Other adjustm.	Total equity accounted investments on 12/31/2016
			Profit for the year	Reserves	Translation differences	Hedging transactions		
Inversiones contabilizadas por método de participación	1,048,295	(99.610)	46.235	49.247	142.153	(1.325)	6.110	1.191.105

33. Subsequent Events

At January 23, 2017, GSP had not achieved a financial closing agreement as required in clauses 6.5 and 6.6 of the concession agreement "Improvements to the energy security of the country and development of Gasoducto Sur Peruano". Thus, as a result of non-compliance with the contractually established deadline expanded by resolution no. 1293-2016-MEM/DGH of 18 July 2016 issued by the Directorate General for Hydrocarbons of the Ministry for Energy and Mines, the concession agreement was terminated and execution of the guarantees implemented (see Notes 8 and 15), thus initiating the termination procedure and transfer of the concession assets. The Company paid out most of the guarantees during the month of January 2017, consequently derecognising the related financial liabilities as recorded at December 31, 2016.

In the context of the transactions involving the purchase of shares in GNL Quintero, S.A. and the formalisation of the call and put options granted to Empresa Nacional del Petróleo, S.A. ("ENAP") and Sumhuram Energy Chile II Limitada ("OCC"), respectively (see Notes 2.3. and 15), all the shareholders agreed upon modification of the Shareholder Agreement in force up to that date, with said modifications becoming effective from January 1 2017. These modifications ensure control over GNL Quintero, S.A. by Enagás Chile, Spa., thus requiring consolidation using the full consolidation method during 2017.

Since January 1 2017 and the date on which these Consolidated Annual Accounts were drawn up, no events have occurred that would significantly affect the profit (loss) of the Group or its equity

34. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Appendix I – Subsidiaries of the Enagás Group at December 31 2016

Company	Country	Activity	%	Voting rights controlled by Enagás	Share capital
Enagás Transporte S.A.U.	Spain	Regasification, storage and transport of gas	100	100%	532,089,120 Euros
Enagás GTS, S.A.U.	Spain	Technical system operation	100	100%	5,914,451 Euros
Enagás Internacional, S.L.U.	Spain	Holding company	100	100%	125,659,766 USD
Enagás Financiaciones, S.A.U.	Spain	Financial management	100	100%	2,490,000 Euros
Enagás Transporte del Norte S.L.	Spain	Gas transport	90	90%	38,501,045 Euros
Compañía Transportista de Gas Canarias, S.A.	Spain	Storage of gas and regasification	100	100%	900,000 Euros
Enagás Chile, S.P.A.	Chile	Holding company	100	100%	382,630,442 USD
Enagás Mexico, S.A.	Mexico	Holding company	100	100%	2,696,486 USD
Enagás Peru, S.A.C.	Peru	Holding company	100	100%	2,654,120 USD
Enagás USA, LLC	United States of America	Holding company	100	100%	1,888,234 USD
Infraestructuras de Gas, S.A.	Spain	Holding company	85	85%	340,000 Euros
Enagas Emprende, S.L.	Spain	Holding company	100	100%	45,000 Euros
Gasoducto Villa de Reyes SAPI de CV	Mexico	Holding company	100	100%	2,758 USD
Gasoducto Tuxpan Tula SAPI de CV	Mexico	Holding company	100	100%	3,035 USD

Consolidated Management Report

I. Enagás situations

Business Model

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

It participates in gas infrastructures in Mexico, Chile, Peru, Sweden and in the TAP project, a key gas pipeline in Europe that will link Greece, Albania and Italy. In Spain, it has developed the major infrastructure of the Gas System, which has become a model for security and diversification of supply, and has been the Technical Manager of the System since 2000.

Enagás Gas Infrastructure

At December 31, 2016, the gas infrastructure of the Enagás Group was integrated by the Natural Gas Basic Network as follows:

- Nearly 11,000 kilometers of gas pipelines throughout Spain.
- Three underground storage facilities: Serrablo (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya).
- Four regasification plants in Cartagena, Huelva, Barcelona y Gijón.
- It also owns 50% of the Regasification Plant BBG (Bilbao) and 40% of the Altamira Plant (Mexico). In 2016, Enagás has increased its participation by 40% in the Bahía de Quintero plant (Chile) to a total participation of 60.4% and has acquired an additional 42.5% of the Sagunto plant (Valencia) owning 72.5% of that plant.
- In December 2016 the Enagás Group continued to increase its participation (4.6%) in the company Transportadora de gas del Peru (TgP), whose assets make up the Natural Gas Transportation System through pipelines from Camisea to Lurín and Transportation of Natural Gas Liquids through pipelines from Camisea to the Coast, reaching a total participation of 28.94%.
- On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%.
- In addition, it should be noted that the Enagás Group participates in the 30% of COGA, the company responsible for the operation and maintenance of the infrastructure of Transportadora de Gas del Peru.
- Enagás Group owns 50% of Knubbsal Topholding AB, an indirect holder of 100% stake in Swedegas AB, the company that owns the entire network of the high pressure gas system in Sweden and the only operator in Sweden with European TSO certification (Transmission System Operator).

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 (29% and 19%, respectively).

Enagás 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 has a percentage of independence (62%) 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

The future context of Enagás operation will be determined by the energetic transition process under way, which will mean a profound transformation towards an environmentally sustainable energy model with low greenhouse gas emissions and other pollutant gases. In the medium term, therefore, gas is an important part of the solution to pollution problems associated with energy supply, as a relatively clean, flexible, widely diversified and competitive source.

Gas demand is growing again, following the slowdown in recent years, supported by economic recovery, low gas prices and the increasing substitution of oil and coal derivatives in some regions. In Spain, the demand for natural gas grew by 2.1% in 2016 compared to the previous year (growth for a second consecutive year), mainly due to the evolution of industrial demand.

In relation to the net profit during 2017 it is expected to increase the by 12% in comparison with 2016 (including the effect of the revaluation of the cost of the first acquisition of Quintero). The Enagás Group plans to carry out investments for the 2017 worth approximately 650 million euros, of which 70% are expected to be used for international investment and 30% to regulated assets in Spain.

In 2015, Enagás presented an update of its Strategic Plan for 2015-2017, which gives continuity to the approach that the company has been developing. During 2016, Enagás continued to develop its activity in a consistent manner with the drivers and established strategic criteria, focusing on the three identified growth axes.

- **Participate in the integration of the European natural gas market:** Enagás aspires to become a key European player with growing relevance in the Internal Energy Market.
- **Develop natural gas infrastructures in growing markets:** lay the foundations for deploying Enagás' business model as an independent TSO in countries with high growth potential.
- **Strengthen Enagás' position as a global specialist in LNG (regasification and liquefaction):** Take advantage of opportunities to interconnect markets globally while maintaining Enagás' position as a leader in LNG.

The strategic plan of Enagás is based on the following strategic drivers:

- Efforts in operational efficiency
- Realistic / profitable investment plan
- Focus on international growth
- Sustainability as a framework for the development of the Enagás business

II. Evolution and results

Economic Dimension

Good governance

In 2016, new policies have been approved for the selection of directors, conflicts of interest, as well as succession of the president and the CEO. A Long-Term Incentive plan 2016-2018 was also approved, based on different objectives aligned with Enagás' strategic plan and with the expectations expressed by institutional investors and proxy advisors.

Financial and operational excellence

Principal Economic Results

Net income amounted to 417.2 million euros, 1.1% more than in 2015. The result of the equity method of 41.2 million euros (10% of the contribution of the investee companies to the profit after tax). In 2016, investments amounting to 912 million euros were made, making acquisitions that reinforce our position in assets in which we were already present.

The dividend per share for 2016 increased 5.3% over the previous year, reaching 1.39 euros per share. Enagás concluded 2016 at 24.1 euros per share. This implies a capitalization of 5,752 million euros. The share capital of Enagás at December 31, 2016 was 358.1 million euros in 2015, with 238.7 million shares.

During the first half of the year, Enagás successfully completed a € 750 million bond issue with one of the lowest coupons of a Spanish issuer and European utilities for a 12-year term. This operation has allowed to extend the average life of the debt up to the 6.3 years and optimize the profile of maturities.

On October, Enagás placed in the markets a bond issue amounting to 500 million euros. The issue, maturing in 2026, has a fixed annual coupon of 0.75% and an issue price of 99.397%.

In 2016 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 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.

Business growth

At national level, Enagás, through its subsidiary Enagás Transporte, SAU, closed in July the acquisition of 42.5% of Planta de Regasificación de Sagunto, S.A. (Saggas) with the acquisition of Unión Fenosa Gas, S.A. of the 85% stake in Infraestructuras del Gas, S.A., which owned 50% of Saggas. Given that Enagás Transporte S.A.U. already owned indirectly through its subsidiary Iniciativas del Gas, S.L. a 30% stake in Saggas, the percentage of indirect participation of Enagás Transporte, S.A.U. increases to 42.5% reaching a total participation of 72.5%.

At international level, Enagás, through its subsidiary Enagás Chile, S.p.A, closed in September the acquisition of 20% of GNL Quintero S.A. (GNL Quintero Plant) that Endesa Chile, Spa. maintained on GNL Quintero and in November the acquisition of an additional 20% to the Aprovechadora Global de Energía, S.A.. With the closing of this operations, Enagás Chile, Spa has directly acquired a 40% shareholding in GNL Quintero, in addition to the 20.4% that already had indirectly through its participation in Terminal de Valparaíso SA, increasing its total participation in the company to 60, 4%.

In addition, Enagás has closed the acquisition of 4.6% of Transportadora de Gas del Perú, S.A. (TgP) through its subsidiary Enagás Internacional, S.L.U. (1.64% acquisition in April and 2.96% acquisition in December). Extending its participation from 24.34% to 28.94% throughout 2016 and maintaining the situation of significant influence on the company.

On December 15, 2016 the capital increases carried out in the last quarter of 2016 by the Enagas Group and the Graña y Montero Group in GSP became effective, resulting in the Enagas Group increasing its interest by 1.87% and thereby totalling 26.87%. For its part, the Graña y Montero Group increased its interest, rising from 20% to 21.49%, with the interest held by the Odebrecht Group decreasing from 55% to 51.64%.

In June 2016, in compliance with the provisions of article 65 of Law 34/1998, of October 7, on the Hydrocarbons Sector, on the process of stock split of the company MIBGAS, SA, the acquisition by Enagás GTS, SAU of 13.34% of the share capital the company has made.

On July 29, 2016 two companies were formed: Enagás Emprende, SLU, with 150 thousand euros, with registered office in Spain and 100% owned by Enagás, SA, and Vira Gas Imaging, SL, amounting 400 thousand euros, with registered office in Spain and owned by 49% by Enagás Emprende, SLU.

Social Dimension

Human resources management

Enagás, as a Top Employer certified company, has maintained in recent years the stability and quality of employment with a sustained growth of staff of 3.5% a year since 2009. Enagás is characterized by stable and quality employment, with 94.5% of open-ended contracts and a voluntary rotation rate of 0.63% in 2016. Out of the 103 new contracts made in 2016, 39% are women and 72% under 35.

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 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.

Enagás has renewed in 2016 the certification as company efr and the Equality badge.

In 2016 the labor climate survey was carried out, with a 71% participation (3% more than in 2014), and the degree of commitment has remained at 85%.

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.

The Enagás Group's 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 is certified as a Healthy Company.

Ethical compliance and human rights

The Enagás 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 that is configured as the core of the company's criminal compliance.

Enagás 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 2016 three communications have been received through the ethical channel, a suggestion on labor issues not related to compliance with the Code of Ethics, which has been transferred to the area responsible for its management and two notifications related to compliance with the Code of Ethics that have been dismissed by express resignation of the complainant.

Relationships with the community

The objective of Enagás 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 (223 participating employees and 1,475 dedicated hours), sponsorship, patronage or donation (2.2 million euros in 2016).

Supply chain

In order to work with Enagás, 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 Group's average payment period for its suppliers is 38 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 Group'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. In 2016 the scope of certification was extended in accordance with ISO 14001 to the Head Office, thus attaining certification of 100% of Enagás activity in accordance with ISO 14001. In addition, analysis was conducted in connection with obtaining EMAS certification for the storage facilities of Serrablo and Yela. The Huelva and Barcelona regasification plants have already received EMAS certification.

During 2016, environmental actions were carried out in the amount of 11,084 thousand euros, recognised as investments under assets in the balance sheet (29,440 thousand euros in 2015). The Company also assumed environmental expenses amounting to 1,853 thousand euros in 2016, recognised under "Other operating expenses" (1,468 thousand euros in 2015).

Climate change and energy efficiency

Enagás 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 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 set itself new objectives in 2016 related to energy consumption (natural gas and electricity); electricity generation from its own clean sources; and reduction of fugitive emissions. The 2016 Programme for the Enagás Energy Efficiency and Emissions Reduction Plan was also implemented. The ecological fleet certification (in the master modality) issued by AEGFA and IDEA was also obtained, certifying that the Enagás transport fleet complies with strict standards of respect towards the environment and sustainability.

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 2016 increased by 5,089 thousand euros with respect to 2015.

The Enagás debt structure is noteworthy in that fixed rate debt predominates, comprising more than 80% of debt. Likewise, 61% of the debt corresponds to capital markets, 26% to long-term institutional debt (BEI and ICO), and 13% to bank financing.

	2015	2016
Net debt/ EBITDA* Adjusted	4.5x	5.2x
FFO / Net Debt	16.40%	15%
Cost of debts	2.70%	2.40%
Liquidity (million of euro)	2,268	2,409

*Adjusted EBITDA for dividends received from subsidiaries.

IV. Additional Information

This additional disclosure is included to comply with article 116.bis of Securities Market Law 24/1988, of 28 July.

a) Capital structure, including securities which are not admitted to trading on a regulated market in a member state, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching thereto and the percentage of total share capital represented

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390	238,734,260	238,734,260

All the shares are of the same class.

b) Any restriction on the transferability of the shares

Legal restrictions:

Additional provision 31 of Hydrocarbon Sector Law 34/1998, of 7 October, in force since 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 individual or body corporate may hold a direct or indirect stake of more than 5% in the share capital of the parent company (ENAGAS, S.A.), nor exercise voting rights exceeding 3%. These shares cannot be syndicated under any circumstances. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in said parent company of over 1%. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector. Interest held in the share capital cannot be syndicated under any circumstances.

Thus, the sum of direct or indirect interest held by the entities carrying out activities in the natural gas sector cannot 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 Securities Market Law 24/1988, of July 28, 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 there is evidence to the contrary, it shall be deemed that the members of the Board of Directors of a body corporate act on its behalf or in a concerted fashion with it.
- b) Partners with those with which one of them exercises control over a dominated company in accordance with article 4 of the LMV”.

In any event, both the primary ownership of shares and other securities as well as any voting rights shall be taken into account.

Non-compliance with respect to the limitations regarding interest in share capital to which the present provision relates will be considered a serious violation in accordance with the terms set out in article 109 of the Securities Market Law, holding those natural or corporate persons responsible who hold title over the securities or to whom the excess interest in share capital or voting rights can be attributed, as per the stipulations of the previous paragraphs. At any rate, the fines established in said Law will be applicable.

Enagás S.A. cannot transfer the shares of subsidiaries which carry out regulated activities to third parties”. In addition, section 3 of Additional Provision 31 of this law states that:

“The limitations to the percentage amount of interest that can be held as well as the non-transferability of the shares to which this provision relates shall not be applicable to other subsidiaries that ENAGÁS, S.A. may incorporate for the performance of business activities different to the transport activities regulated by article 66 of Hydrocarbon Sector Law 34/1998, of 7 October, on management of the transport network and technical management of the Spanish gas system”.

Statutory restrictions:

In accordance with the aforementioned law, article 6 bis of Enagás bylaws (“Limitations on holdings in share capital”), establishes the following:

“No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights of over 3%. These shares cannot be syndicated under any circumstances. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights of over 1%. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector. Interest held in the share capital cannot be syndicated under any circumstances.

Thus, the sum of direct or indirect interest held by the entities carrying out activities in the natural gas sector cannot exceed 40%.

For purposes of calculating the interest held by the Company legislation of the Hydrocarbon sector will be applicable.

Enagás cannot transfer shares of subsidiaries belonging to the Group and who carry out transport and technical system management activities regulated in accordance with Hydrocarbon regulations to third parties”.

c) Significant direct and indirect shareholdings

Significant shareholdings (excluding directors):

Name or corporate name - of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
RETAILS OEICS AGGREGATE	0	2,410,274	1.01
BANK OF AMERICA CORPORATION	0	8,627,588	3.61

Significant shareholdings of directors holding voting shares in the company:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting shares
LUIS VALERO ARTOLA	2	0	0
DON ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.02
DON MARCELINO OREJA ARBURÚA	3,875	0	0
SOLANA GONZALEZ, GONZALO	440	50	0
DON LUIS JAVIER NAVARRO VIGIL	1,405	0	0
DON MARTÍ PARELLADA SABATA	910	0	0
DON RAMÓN PÉREZ SIMARRO	100	0	0
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5
TOTAL	12,001,839	50	5.02

d) Any restriction to the voting right

Without prejudice to the content of section b) above, there are no additional restrictions to voting rights.

e) Agreements between shareholders

There is no record of any agreements among the Company's shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35º. – COMPOSITION OF THE BOARD.

The Company shall be governed and managed by the Board of Directors, which shall represent the Company collegiately, both in and out of court. Its representation shall extend, with no limitation of powers, to all acts embodied in the Company's objects.

The Board of Directors shall be composed of a minimum of 6 members and a maximum of 14, appointed at the General Shareholders' Meeting.

Directors shall be elected by vote. For this purpose, the shares that are voluntarily pooled, to make a share capital that is equal to or greater than the result of dividing the latter by the number of Directors, shall be entitled to appoint a number of Directors equal to the integer number resulting from that proportion. If this power is exercised, the shares pooled in this way shall not take part in the voting for the appointment of the remaining Directors.

A director need not be a shareholder, may step down from office, may have his appointment revoked, and may be re-elected on one or more occasions.

Appointment as director shall take effect upon acceptance of the post.

The following persons cannot be directors or, if applicable, natural-person representatives of a body-corporate director:

- a) Natural persons or bodies corporate who hold the post of director in more than 5 (five) companies whose shares are listed on national or foreign exchanges.
- b) Natural or legal persons who fall under any incompatibility or prohibition regulated by the general provisions, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

ARTICLE 37º.- POSTS.

The Board of Directors, shall appoint its Chairman pursuant to a report of the Appointments, Remuneration and Social Corporate Responsibility Committee. Should an executive director be appointed as Chairman, a favourable vote of two thirds of the Board will be required.

The Board of Directors may appoint an Independent Director, on the proposal of the Appointments, Remuneration and Social Corporate Responsibility Committee, who will be empowered, under the title of Lead Independent Director, to:

- a) request the Executive Chairman to hold a Board meeting when said Lead Independent Director deems it appropriate;
- b) request the inclusion of items in the Board meeting agendas;
- c) coordinate and arrange meetings of non-executive Board members;
- d) oversee assessment of the Executive Chairman by the Board and, where appropriate, the CEO;
- e) perform the functions of Chairman as Vice-Chairman with respect to the Board of Directors in case of absence, illness, or any other reason making attendance impossible for the Chairman. In the absence of a Lead Independent Director, the Chairman will be substituted for purposes of this section by the most senior director in age.

The appointment of a Lead Independent Director shall be obligatory, if the Chairman of the Board is an Executive Director. In such cases, the Lead Independent Director shall be appointed by the Board with the Executive Directors abstaining from the vote.

The Chairman and the Secretary to the Board of Directors and the Deputy Secretary, should there be one, who have been re-elected to the Board by a resolution of the General Meeting, shall continue to perform the offices hitherto held on the Board without need of being freshly elected, subject to the power of revocation of such offices that rests with the Board of Directors.

Provisions of the Board of Directors Organizational and Procedural Rules (approved by the Board of Directors on 21 December 2015):

ARTICLE 3.- QUANTITATIVE AND QUALITATIVE COMPOSITION.

1.- Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, and without prejudice to the powers of proposal enjoyed by shareholders, the Board of Directors shall submit to the General Meeting such Board membership size as it deems appropriate in the interests of the Company at the given time. The General Meeting shall decide on the final number.

2.-The Board of Directors shall be composed of Directors classified into the categories specified below:

a) Internal or Executive Directors: directors who perform senior management functions or are employed by the company or its Group.

If a director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of Directors may belong to this category.

b) External Consultants: Also, these will turn into three categories:

b1) Proprietary directors: directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

b2) Independent Directors: directors of acknowledged professional prestige who are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present regulations. The number of independent directors shall represent at least one third of all directors.

b3) Other external directors: external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of these regulations

In exercising its powers of co-optation and proposal to the General Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, Independent Directors represent a broad majority over Executive Directors, and that among Non-Executive Directors the ratio of Proprietary to Independent Directors reflects the existing ratio of share capital represented by Proprietary Directors to all other capital.

The following persons cannot be directors or, if applicable, natural-person representatives of a body-corporate director:

a) Natural persons or bodies corporate who hold the post of director in more than 5 (five) companies whose shares are listed on national or foreign exchanges.

b) Natural or legal persons who fall under any incompatibility or prohibition regulated by the general provisions, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

c) Neither can the position of director be held by natural or legal persons who exercise control or rights in a company which performs natural gas production or marketing functions, or any other natural or legal persons whose presence on the Board of Directors could affect the Company's transport network management, in accordance with the legislation applicable in the Hydrocarbon sector.

ARTICLE 8.- APPOINTMENT OF DIRECTORS

- 1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Companies Act and the company's Bylaws.
- 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 bylaws.

Appointment proposals for independent directors correspond to the Appointments, Remuneration, and Corporate Social Responsibility Committee.

Proposals for the appointment of 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 and Remuneration Committee. When the Board of Directors departs from the Committee's recommendations, it must explain the reasons for this, and such reasons must be duly recorded in the minutes.

Proposed appointments must always be accompanied by a justifying report issued by the Board which assesses the competence, experience, and merits of the proposed candidate, which will be attached to the minutes of the General Shareholders Meeting or the Board's meeting.

The above shall be equally applicable to natural persons designated as representatives of a body-corporate director. The proposed natural-person representative must be subjected to the report of the Appointments, Remuneration, and Corporate Social Responsibility Committee.

- 3.- The Board of Directors must ensure that the selection procedures for its members favour diversity in relation to gender, experience, and know-how, and that there is no implicit bias which may lead to discrimination, especially against female candidates. .

ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS

Independent Directors are defined as those who, appointed based on their personal and professional aptitudes, may perform their duties without being affected by dealings with the Company, its significant shareholders or its executives. As such, the following shall in no circumstances qualify as independent directors:

- a) Persons who have been employed by, or served as Executive Directors of, Group companies, unless three or five years, respectively, have elapsed since the termination of that relationship.
- b) Persons who receive any sum or benefit other than Director's remuneration from the Company or its Group, unless such benefit is negligible. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the Company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.
- c) Persons who are, or have been during the past three years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for that period.
- d) Are Executive Directors or Senior Managers of another company in which an Executive Director or Senior Manager of Enagás, S.A. be an external counselor.
- e) Persons who maintain, or have maintained in the past year, a significant business relationship with Enagás, S.A. or any other Group company, whether on their own behalf or as a significant shareholder, director or senior manager of any company that maintains or has maintained such relationship. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.

- f) Persons who are significant shareholders, executive directors or senior managers of any entity that receives, or have received during the past three years, significant donations from Enagás, S.A. or its Group. Mere sponsors of a foundation receiving donations are not included here.
- g) Spouses, partners or relatives up to the second degree of any of the Company's Executive Directors or senior managers..
- h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.
- i) Persons who have been directors for a continuous period longer than 12 years.
- j) Those involved in any of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with Board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder, but also with his or her Proprietary Directors in the investee Company.

Proprietary Directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as Independents Directors once said shareholder has sold all remaining shares in the Company.

A director with shares in the Company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

ARTICLE 10.- TENURE AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting or the following one, should the vacancy arise once the General Meeting has been convened and before it is held.

ARTICLE 11.- DIRECTOR'S REELECTION

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the directors proposed during the previous term of office, shall provide information required to assess proposal for re- appointment of directors presented by the Board of Directors to the General Shareholders' Meeting and shall propose, if applicable, the reelection of independent directors.

Proposed reelections must always be accompanied by a justifying report issued by the Board which assesses the competence, experience, and merits of the candidate and which will be attached to the minutes of the General Meeting or the Board meeting.

In general, an effort must be made to rotate independent directors appropriately. For this reason, when one of them is proposed for reappointment, it will be necessary to justify the circumstances that make continuity advisable.

ARTICLE 12.- REMOVAL OF DIRECTORS

- 1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with law, the company's bylaws and the present Regulations.
- 2.- Directors must place their office at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:
 - a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition, as established under legislation, the bylaws, or 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 harm its name and reputation. If a director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 123 of the Spanish Companies Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.

All the above shall be disclosed with a reasoned explanation in the Annual Corporate Governance Report.

- d) When the circumstances motivating their appointment as directors no longer exist.
- e) When Independent Directors no longer fulfil the criteria required under article 9.
- f) When the shareholder represented by a Significant-Shareholder Appointed Directors sells its entire interest. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

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

Directors who give up their position before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Irrespective of whether such a resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

- 3.- The Board of Directors shall not propose the removal of independent directors before expiration of the term of office established in the bylaws, except where just cause is found by the Board upon a report issued by the Appointments, Remuneration and Social Corporate Responsibility Committee. Specifically, just cause will be understood to have arisen when the director occupies new positions or assumes new obligations which prevent him/her from dedicating the required time for discharging his/her functions as director, fails to comply with the duties inherent to his/her functions, or changed circumstances lead to independence being lost, in accordance with prevailing legislation.
- 4.- After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the Articles of Association:

ARTICLE 26. –SPECIAL QUORUM.

In order to enable the Ordinary or Extraordinary General Shareholders' Meeting to validly resolve to issue bonds, increase or reduce capital, transform, merge or spin-off the Company and, in general, to amend the bylaws in anyway, it will be necessary, at first call, that the shareholders in attendance (either in person or represented) hold at least fifty per cent of the share capital with voting rights.

At second call, attendance of at least twenty-five percent of the paid up voting capital shall be sufficient.

g) The powers of board members and in particular the power to issue or buy back shares

The powers delegated to the Executive Chairman, Antonio Llardén Carratalá, by the company's Board of Directors, were granted in the public deed executed on February 9, 2007 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 324 in his notarial archive, and recorded in Volume 20,090, Book 0, File 172, Section 8; Sheet M-6113; Entry 668 of the Madrid Mercantile Register.

On March 25, 2014 the Board of Directors of Enagás, S.A. delegated to MARCELINO OREJA ARBURÚA the powers that 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 were granted in the public deed executed on May 28, 2014 before the Notary Public of Madrid Pedro de la Herrán Matorras, under number 1,306 in his notarial archive, and recorded in Volume 32,018, Book 0, File 5, Section 8, Sheet M-6113, Entry 777 of the Madrid Mercantile Register.

Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the agreement adopted at the Shareholders in General Meeting on 27 March, 2015 is effective on the following terms:

“Authorising and empowering the Board of Directors, or any of its members in its place, to carry out derivative acquisitions of treasury shares, in accordance with article 146 of the Corporate Enterprises Act, on the following terms:

1. The acquisitions may be carried out directly by Enagás, S.A. or indirectly via its subsidiaries, on terms identical to those established in this agreement.
2. The acquisitions may be carried out through a purchase-sale agreement, exchange, or any other legally permitted transaction.
3. The maximum number of shares that may be acquired shall be that permitted by law.
4. The acquisition price shall not be greater or less than the result of adding or subtracting, respectively, 15% of the weighted average quoted price from the last trading session.
5. The present authorisation is granted for a maximum period of 5 years from the date of adopting the present agreement.

For purposes of the stipulations in article 146 of the Corporate Enterprises Act, it is expressly noted that the shares acquired under this authorisation, or as a consequence of exercising options on them, can be, entirely or partially, delivered directly to the employees or directors of the Company or the companies belonging to the Group.

This agreement revokes and renders ineffective, with respect to unused amounts, the authorisation granted by the Shareholders in General Meeting on 30 April, 2010 for the derivative acquisition of treasury shares’.

h) Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.

No agreements of this kind exist.

i) Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.

The Company has an agreement with the Executive Chairman, the Chief Executive Officer and eight 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, legal 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.

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

V. Main business risks

The Enagás Group 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 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 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:

- Establishing a context of appetite for risk that is consistent with the established business goals and the market context in which the company is developing its activities;
- The consideration of some standard types of risk that the company is subject to;
- The segregation and independence of the risk management and control functions brought together in the company on three levels of “defense”;
- The existence of certain governing bodies with responsibilities for supervising the level of risk in the company;
- Transparency in the information provided to third parties, guaranteeing its reliability and rigour.

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 Group'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 Enagás Group 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 internalisation process that Enagás Group is undertaking means that its operations are being developed in specific regulatory frameworks and contexts of different investment needs, which have specific risks associated with them. This context includes risks resulting economic or political crises that affect the operations of subsidiaries, the expropriation of assets, changes in commercial, tax, accounting or employment legislation, restrictions applied to the movement of capital, etc.

Major infrastructure projects are being undertaken, which are exposed to various risks of construction, for example deviations in completion deadlines or changes to plans and designs, with potential negative impact on the planned investment, penalties, etc.

Certain internal regulatory frameworks mean that subsidiaries assume a commercial risk and their short-term revenue is affected by the increase in the demand, competitiveness of natural gas compared with other sources of energy or the negotiation of tariffs with industrial clients.

The Enagás Group 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.

2. Operational and technological risk

During the operation of the infrastructures of the Enagás group, 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 Enagás Group 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 the Enagás Group. 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.

The Enagás Group 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: (i) 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 Group business activity does not allow an active customer concentration risk management policy to be established. However, the internalisation process that the Company is carrying out will facilitate the reduction of this potential risk.

Information concerning credit and counterparty risk management is disclosed in Note 17 to the consolidated financial statements.

4. 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 accrued interest at fixed rates, and the future flows from assets and liabilities that accrue interest at floating rates. The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over a multi-year horizon with low volatility in the income statement. For this purpose, hedges are put in place using derivatives and at the moment the Enagás Group maintains its fixed or protected debt structure of over 70%.

Foreign currency risk relates to debt transactions denominated 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. Exchange rate risk management at the Enagás Group pursues a balance between the flows relating to assets and liabilities denominated in a foreign currency at each of the companies. The possibility of arranging exchange rate derivatives to cover the volatility affecting the collection of dividends is also analysed at each opportunity for international expansion.

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.

With respect to large-scale projects, the Enagás Group is also exposed to the uncertainty of whether it will effectively obtain the required financing on the terms foreseen in its business plans. On certain occasions, this financing risk could be related to other risks arising from contractual terms and conditions regarding services (which may even lead to termination of the concession agreement).

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 17 to the consolidated 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.

The Group 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 Enagás Group 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 Group 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 Group has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the Company.

As a result of the international development of the company, the Crime Prevention Model is being expanded for the purpose of meeting the requirements of Mexican criminal legislation and US anti-corruption legislation.

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 Group Enagás.

VI. Subsequent events

At 23 January 2017, GSP had not achieved a financial closing agreement as required in clauses 6.5 and 6.6 of the concession agreement "Improvements to the energy security of the country and development of Gasoducto Sur Peruano". Thus, as a result of non-compliance with the contractually established deadline expanded by resolution no. 1293-2016-MEM/DGH of 18 July 2016 issued by the Directorate General for Hydrocarbons of the Ministry for Energy and Mines, the concession agreement was terminated and execution of the guarantees implemented (see Notes 8 and 15), thus initiating the termination procedure and transfer of the concession assets. The Company paid out most of the guarantees during the month of January 2017, consequently derecognising the related financial liabilities as recorded at 31 December 2016.

In the context of the transactions involving the purchase of shares in GNL Quintero, S.A. and the formalisation of the call and put options granted to Empresa Nacional del Petróleo, S.A. ("ENAP") and Sumhram Energy Chile II Limitada ("OCC"), respectively (see Notes 2.3. and 15), all the shareholders agreed upon modification of the Shareholder Agreement in force up to that date, with said modifications becoming effective from January 1 2017. These modifications ensure control over GNL Quintero, S.A. by Enagás Chile, Spa., thus requiring consolidation using the full consolidation method during 2017.

Since January 1 2017 and the date on which these Consolidated Annual Accounts were drawn up, no events have occurred that would significantly affect the profit (loss) of the Group or its equity.

VII. Research and Development activities

In the field of technological innovation developed by Enagás during 2016, 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 CO₂) 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 2016 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. At present Enagás has an installation of each of these three types, having been put in place during the year 2016 an installation in the LNG Plant of Barcelona, of maximum power of 3.2 MW, that takes advantage of the gas pressure jump in the point of delivery to the distribution network of the City of Barcelona. This facility, which is providing very satisfactory results, has led Enagás to expand its studies to identify similar solutions elsewhere in its gas transportation network. It is also worth mentioning that a feasibility study has been started at the end of 2016 to evaluate the possibility of installing photovoltaic plants in certain areas of the Enagás facilities, in which, due to their characteristics and type of use, this proves of interest.

Technical Efficiency

As a result of the experience acquired in previous years, during 2016, 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 equipments have been added to the two previously existing ones.

Also, during 2016 and after concluding the pertinent feasibility studies, work has begun on the desalination of sea water by means of a reverse osmosis plant to obtain the drinking water required for different uses in the Barcelona Plant.

Finally, it should be noted that during the second half of 2016 a project has been initiated to assess the opportunity to identify odorant products that would, with advantage, replace the odorant currently used to provide its characteristic odor to natural gas and identify their presence in the event of possible leaks. In parallel they are going to study the possible desirability of simplifying the current double system to smell natural gas both in the entrances and exits of the trunk transport network.

2. Measurement and analysis of natural gas

Enagás 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 2016, among which we highlight the following: evaluation of "Coriolis" type mass meters to validate their suitability in the direct measurement of LNG flow; Improvement of the internationally established procedure (Custody Transfer Handbook) for the determination of the energy transferred in the recharge of tankers; development and implementation of a simulation tool to improve the determination of calorific value at points where the gas is not directly analyzed by chromatography; development of new formulas for the calculation of calorific value; identification of suitable techniques for the measurement of flows in biphasic flows.

Although it is a matter of minor economic importance compared to the previous one, due to its possible impact on the operation, Enagás also continued during 2016 its effort to improve the results obtained in the analytical of certain minor components of natural gas: water, sulfur, hydrocarbons and odorant.

3. Operational safety

Throughout 2016, Enagás 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 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 and equipment

During 2016, Enagás 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 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 CO₂ 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 CO₂).

In line with the above, during the year 2016, the development of the RENOVAGAS Project was continued, a project Enagás was the driving force and currently leads, which is expected to be concluded in March 2017. This project consists, mainly, in the design and installation of a pilot plant with a capacity of 15 kW, which enables the CO₂ present in the biogas stream produced at the FCC-AQUALIA waste treatment plant in Jerez de la Frontera to be converted into methane. For this purpose the biogas stream is passed through a reactor which, through suitable catalysts and counting on the supply of hydrogen produced by hydrolysis with surpluses of renewable energy, reacts the CO₂ with the hydrogen to produce methane.

Finally, during 2016, participation in the Spanish CO₂ 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.

VIII. Acquisition and sale of own shares

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.

On February 13, 2017, the Board of Directors of Enagás, S.A. authorised the consolidated financial statements and management report for the year ended December 31, 2016, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce.

Declaration of responsibility.

For the purposes of article 8.1 b) of Spanish Royal Decree 1632/2007, of 19 October 2007, the undersigned directors state that, to the best of their knowledge, the annual consolidated financial statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the Group and that the Group's management report includes a fair analysis of the performance and results of the businesses and the situation of the Group, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the annual consolidated financial statements or management report..

Chairman

D. Antonio Lladén Carratalá

Chief Executive Officer

D. Marcelino Oreja Arburúa

Directors

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por D. Federico Ferrer Delso)

D Antonio Hernández Mancha

D. Luis Javier Navarro Vigil

D^a Ana Palacio Vallelersundi

D. Martí Parellada Sabata

D. Jesús Máximo Pedrosa Ortega

D. Ramón Pérez Simarro

Dña. Rosa Rodríguez Diaz

D. Gonzalo Solana González

Dña. Isabel Tocino Biscarolasaga

D. Luis Valero Artola

Secretary to the Board

D. Rafael Piqueras Bautista