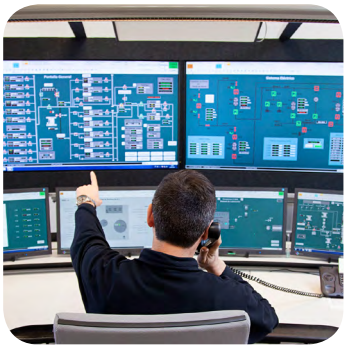
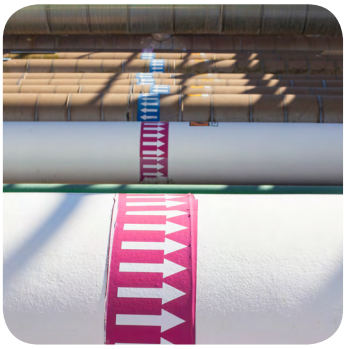
Annual Report
2017

enagas

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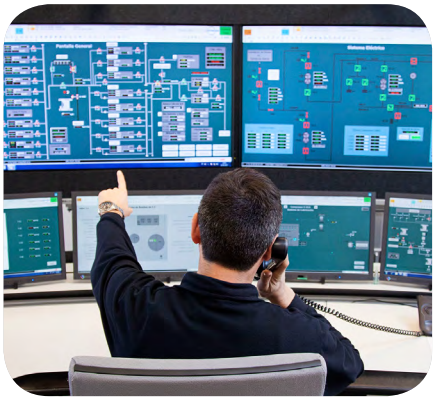

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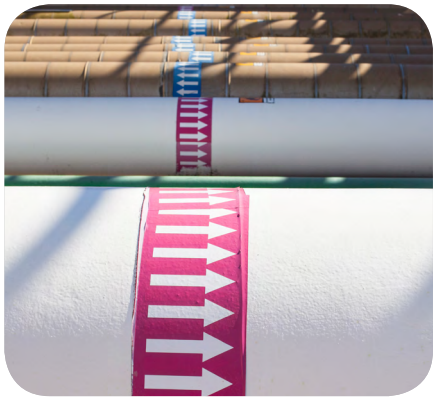

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Interview with the Executive Chairman of Enagás, **ANTONIO LLARDÉN** [GRI 102-14]

> "We have a firm commitment to increasing our dividend by 5% per year to 2020"

What are the main features of the 2017 results?
First of all, for another year, we've met and even exceeded the targets we set out at the start of the year. Our net profit with GNL Quintero, consolidated by means of the full integration method, has grown by 17.6%, compared to the 12% we had estimated, to reach 490.8 million euros.

We received 125 million euros from our affiliates, more than the 120 million we set as our target at the start of 2017.

Yet again, in 2017 we raised the dividend paid to our shareholders by 5%, a yearly commitment we set for ourselves until 2020.

What other aspects of the year stand out from a financial perspective?
Mainly, the strong growth in operating cash flow generated by the company in 2017, which has risen by almost 90%. This was due to a number of factors: the good behaviour in Spain of the regulated business and the transfer of the collection rights to cover the deficit in the gas system, and on an international level, the full integration of GNL Quintero and the dividends paid by our affiliates. Because of them, we carried out significant deleveraging: we were able to reduce our net debt by 725 million euros.

This gives us breathing room with regard to the ratios required of us by the rating agencies in order to retain our A-, and it also provides an even greater solidity to our balance sheet that we had a year ago.

How did Enagás shares perform in 2017?
There was a lot of volatility in the markets during the year and all the European utilities were affected by expected interest rate rises and the evolution of factors unrelated to company performance.

Including the returns from dividends for the year, Enagás shares behaved positively with 4.82%, slightly higher to the benchmark sector indices, both in Spain and Europe.

What comments can you make on the international investments made by Enagás?
2017 was a year for maturing investments, after the strong investment actions we undertook in 2016. We focused our efforts during the year on managing those investments, in order to obtain greater efficiencies.

There were two particularly relevant points in our international activity in 2017. Firstly, we continued to invest in the European Trans Adriatic Pipeline (TAP), which is developing favourably, with progress ▶

'Thanks to the strong growth in operating cash flow, we were able to ***reduce*** *our net debt by* ***725 million euros"***

[GRI 102-14]

made of 65%, and which we expect to be in service by 2020.

Secondly, we've started a process of direct contact with the Government of Peru, with the aim of reaching an agreement on the Gasoducto Sur Peruano that is favourable to our interests and in the shortest possible time.

How did the demand for gas evolve in 2017?

2017 was particularly positive for gas demand. It was the third consecutive year of growth since the financial crisis. It grew by more than 9%, mainly the result of two factors: first was the 6% growth in industrial demand, in line with the positive evolution of the Spanish economy.

And secondly, the strong growth in consumption by the electricity sector, essentially caused by the reduction in hydroelectricity generation in a drought year. Once again, natural gas infrastructure showed the key role it plays as a back-up for the electricity system.

Sustainability is one of the strategic priorities of Enagás. Did progress continue to be made during the year?

Precisely. Sustainability has been key to our business strategy for many years now. It's present in our day to day, in our way of thinking, and in our decision-making processes. In short, it's a part of the company's DNA. It has allowed us to continue to generate value and manage risks in the short, medium and long term, and to strengthen our relationship with our stakeholders.

The ongoing efforts made by the entire company in order to be increasingly sustainable were acknowledged a number of times during the year: we were ranked as leaders in the Oil & Gas Storage and Transportation in the latest update to the Dow Jones Sustainability Index and we received the RobecoSam Gold Class Award.

In our relationship with people, we have been receiving Top Employer certification for several years now, as one of the best companies to work for, thanks to our initiatives to attract and retain talent. In addition, we were one of the companies acknowledged by the Spanish Ministry of Health, Social Services and Equality this year for working under FRC (Family Responsible Company) certification over the decade, and for upholding our long-term commitment to work-life balance.

We also continued to deepen our support for for the UN Sustainable Development Goals (SDG) during the year, by aligning our performance with the goals set for the coming years.

What progress did you make in the field of environment that could you comment on?

Energy transition is going to be one of the key issues of 2018 and the coming years. Natural gas will play an essential role as an energy of the future in order to progress towards a low-carbon economy and improve air quality. We at Enagás are encouraging its use in sectors where it is technically and economically more efficient than other fuels, such as transport.

We continued our efforts to reduce atmospheric emission in 2017 and to invest in equipment and processes that enable us to keep on reducing these emissions into the future.

Furthermore, we are focused on reducing our carbon footprint through energy efficiency. We were one of the ten pioneering companies in taking on the commitment to report in accordance with the guidelines set out by the Task Force on Climate-Related Financial Disclosures (TCFD), which are useful to show how we're managing the challenges of energy transition and to strengthen the environmental credentials.

We know that innovation is key in the long term, which is why we're also working on renewable gas (biogas + hydrogen) projects.

What measures were implemented in 2017 with regard to corporate governance?

Throughout the year, the Board of Directors was evaluated by an independent external assessor, whose analysis concluded that there is an appropriate balance of knowledge and experience that will allow the Enagás strategy to be met. Moreover, we've

[GRI 102-14]

'It was a particularly positive year for gas demand, which grew by more than 9%'

continued with Board training processes in different financial and non-financial fields, which are key to company management.

As far as independence and diversity are concerned, out Board of Directors is still above the Ibex35 average, with 54% independent directors and 23% women.

Another of our main focal points in 2017 was to implement best practices in Corporate Governance in the international companies in which we have a stake, for the purpose of ensuring long-term asset sustainability and guaranteeing adequate returns.

To finish, would you like to point out any other relevant topic or issue?

I'd like to say that this Annual Report, which has been approved by the Enagás Board of Directors, stands for the renewal of our commitment to the ten principles of the Global Compact, and at the same time, it contains out contribution to achieving the United Nations Sustainable Development Goals. [GRI 102-32]

I'd like to thank the members of our Board of Directors for their responsibility and involvement throughout another year; their contribution is essential for the sound functioning of the company.

Thanks also go to the more than 1,400 professionals who make up Enagás, whose commitment and daily efforts are our main asset, allowing us to continue to grow as an international leader in energy infrastructure.

And, as always, I'm grateful to the Board of Directors and to all our shareholders for continuing to place their trust in us and to show their support. At Enagás, we work each day with the main aim of continuing to create value for you. [GRI 102-14]

Enagás in 2017

Financial results

+17.6%

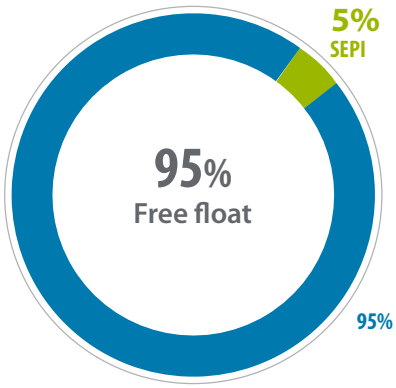
€490.8Mn
Net
profit

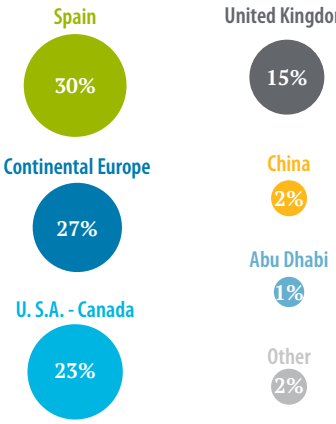
+15.1%

FFO
Funds From Operations
€871.2Mn

Investments
(79% international)
€328.5Mn

Distribution of capital





Share price performance

+5%
Dividend per share

€ 23.87
Share at 31/12/2017

95%
Free float

Debt status

17.4%
FFO (last 12 months) / Net Debt

€5.008BN
Net Debt

2.7%
Net cost of debt

Rating

A- **S&P**
Stable outlook

A- **FITCH**
Stable outlook

Sustainability indices

86 (Gold class) Classification **DJSI**

A- Classification **CDP**

Business growth

Consolidation of GNL Quintero by full integration, with an indirect holding of

45.4%

Chile

Increased shareholding in Compañía Operadora de Gas de Amazonas (COGA), to

51%

Peru

Environment

313,208 tCO_2e
EMISSIONS

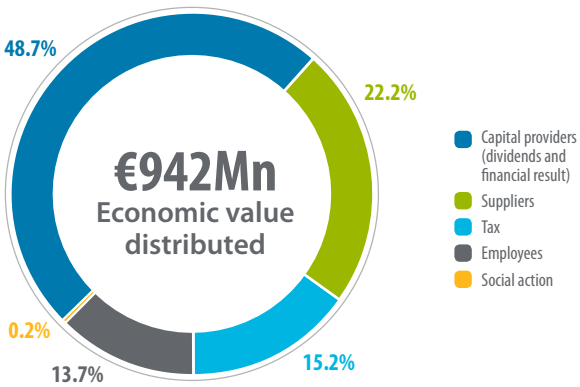
2,069 tCO_2e
avoided through energy efficiency measures

Gas Demand [GRI 302-2]

+9.2%
national demand for natural gas (351 TWh)

Workforce

Contribution to society



1 Our business model

Activities_ **11**

Geographies_ **14**

Activities

Enagás, a midstream company with almost 50 years' experience and 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]

See the *Services and Infrastructures Catalogue* on the corporate website

Service network operation

The main natural gas operator in Spain
Technical Manager of Spain's Gas System
Certified as independent European TSO

LNG

Spain, Mexico and Chile
LNG Terminals

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

Transmission

Spain
Underground storage facilities

Storage

1970 Enagás is founded

1990 Enagás is appointed as Technical Manager of Spain's Gas System

2002 Enagás is listed on the stock exchange

2009 Enagás is named the sole transporter for the primary gas transport trunk network

2010 Acquisition of the Gaviota underground storage facility and 40% of the BBG Plant (Bilbao)

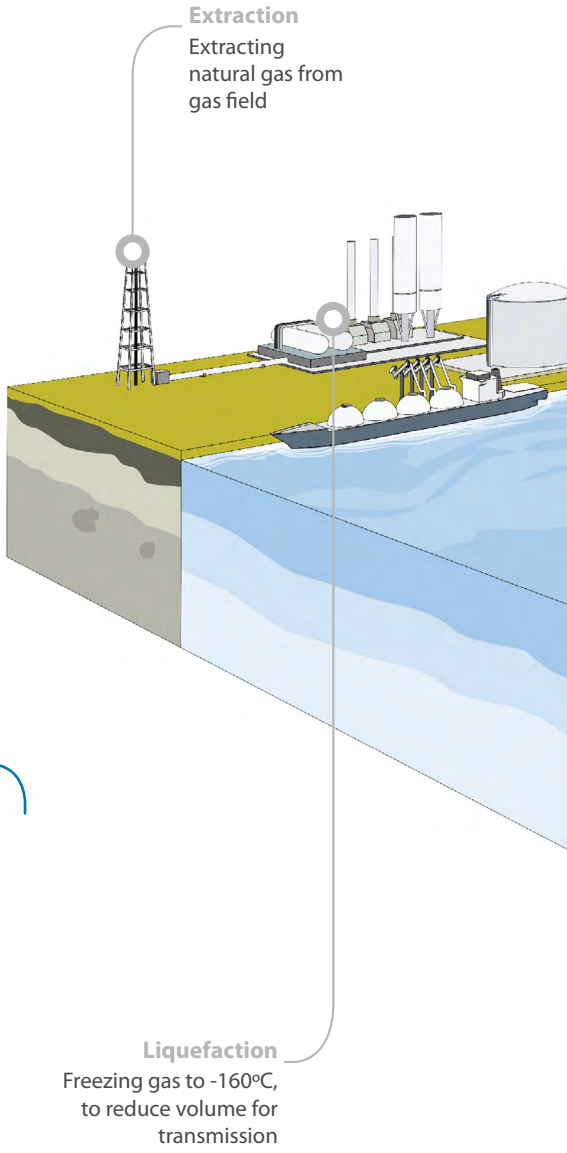
2011 First international acquisition: Altamira (Mexico)

Through our activities we develop, operate and maintain gas infrastructures, reinforcing and guaranteeing the security of the energy supply, fostering 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.

Enagás' activities do not include the purchasing or the sale of gas. Our customers are transmission companies, shippers, distributors and the direct consumers in the market (consumers which connect directly to our facilities), to which Enagás supplies a wide range of liquefied natural gas (LNG) services, transmission and underground natural gas storage.

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).

See the list of our clients on our corporate website



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

2012 International acquisition of Quintero (Chile). Certification as European TSO

2013 Acquisition of Naturgas

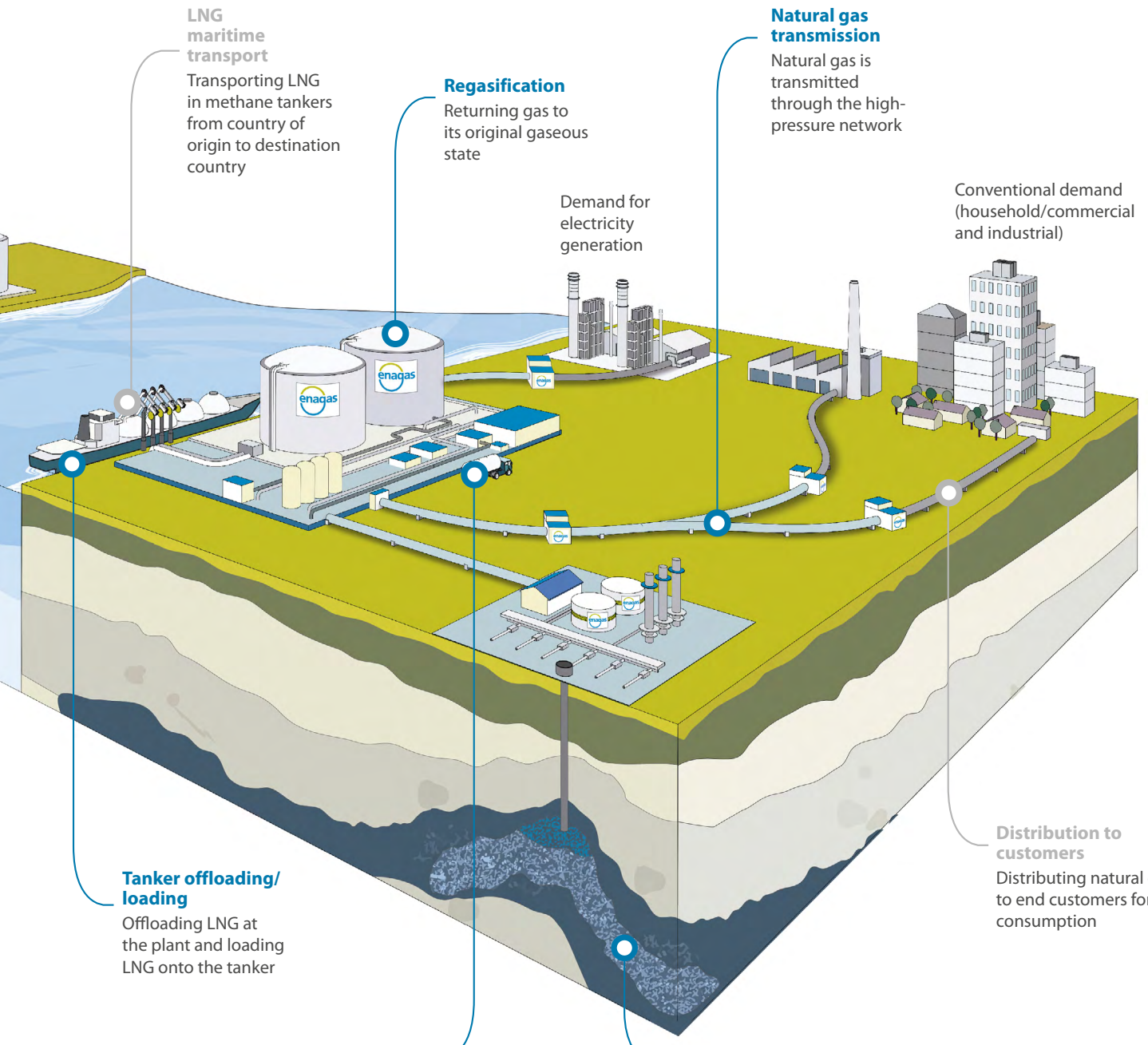
2014 International acquisitions: TgP (Peru) and TAP (Europe)

2015 Acquisitions: increased share in TGP (Peru) and Swedegas (Europe)

2016 Acquisitions: increased share in TGP (Peru), Saggas (Spain) and Swedegas (Europe)

2017 Acquisitions: increased share in Coga (Peru) Global consolidation of GNL Quintero. [GRI 102-10]

Activities carried out by Enagás on the gas value chain



Geographies

[GRI 102-3, GRI 102-4, GRI 102-6, GRI 102-10]

Mexico

Soto La Marina compressor station (50%) 2013

TLA Altamira plant (40%) 2011
300,000 m³
800,000 m³ (n)/h

Enagás Mexico office S.A. de C.V (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, 51%)
2014 / Operator TgP

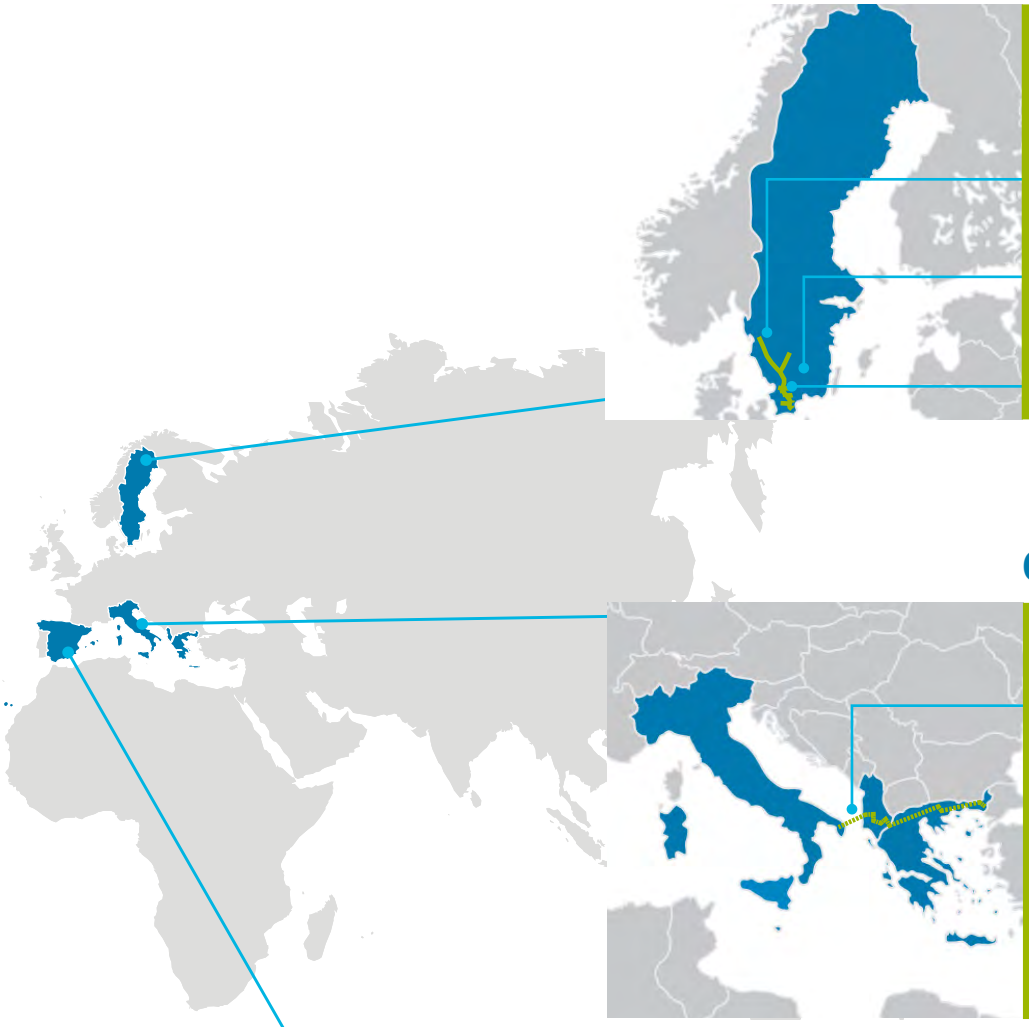
Enagás Peru office, S.A.C. (Lima)

Chile

Quintero LNG plant (45,4%)
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

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)

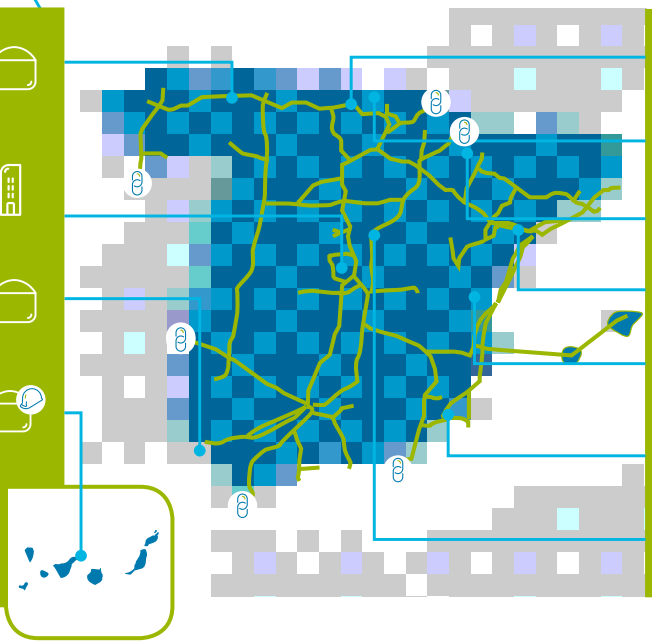
3 underground storage facilities

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%)
334,000 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

2 Our project for the future

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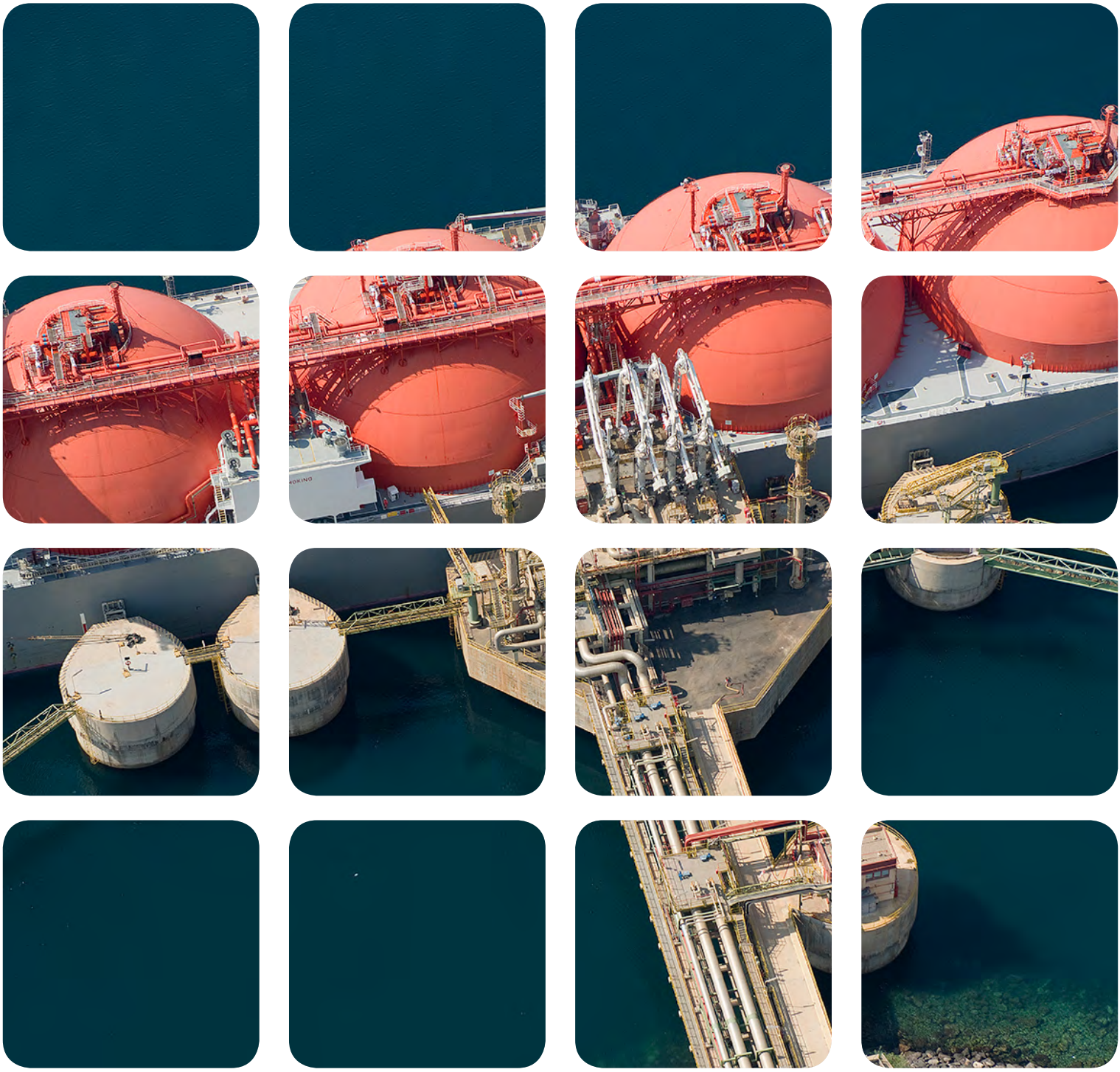
Risk management_ **24**



The positioning of Enagás in a low-carbon economy [GRI 102-15 , GRI 201-2]

Natural gas plays a key role in achieving sustainable, safe and efficient energy in a low-carbon economy.

It provides a more efficient technical and economic solution than other conventional fuels, at a lower cost to citizens and companies. Natural gas contributes to the competitiveness of industry and to reducing environmental impact.

Its use in the compressed natural gas (CNG) and / or liquefied natural gas (LNG) transport sector enables emissions of NO_2 to be reduced by about 85% and emissions of CO_2 to be reduced by 25% compared to other fuels and practically eliminates SOx emissions and particles with economic savings of between 30% and 50%.

Gas infrastructures offer the necessary flexibility for the variable development of renewable sources in the electricity sector, without the need for additional investment. In countries like Spain, the major development of natural gas infrastructures and logistics enables significant diversification of supply sources, which increase the security of supply.

In this sense, at Enagás we are working for the development of the gas sector through:

- The promotion of new services and uses of natural gas in transportation by road, rail and sea and in the industrial and household sectors.
- The promotion of the development of gas from renewable sources and hydrogen and their integration in gas infrastructures.
- The promotion of the development of new technologies and infrastructures for the capture, transmission and storage or use of CO_2 and small-scale liquefaction.

IEA Ministerial Meeting. Paris, 7th and 8th November 2017

Operating context [GRI 102-15]

In 2017, Enagás was operating in a context of relatively stagnant energy demand, in which growth in gas had accelerated in the previous two years, mainly displacing coal and being overtaken by renewables, which have seen more rapid growth.

By regions, non-OECD Asia (especially China) and Europe led growth in demand in 2016 (70% of gross growth) due to environmental policies and the favourable evolution of the prices of gas / coal and temperatures in the second half of the year. Iran (Nuclear Agreement) and Australia (wave of liquefaction) led growth in supply (50% of gross growth). In 2017, demand for gas maintained solid growth in many of the main markets (China, South Korea, Europe, etc.).

LNG is the clear leader in the gas sector with growth in the last two years way above demand for gas. Strong import growth, firstly in China and the Middle East and then in Europe is helping to absorb the start of the liquefaction wave better than expected.

All of this renewed demand for gas is being driven partly by the sharp fall in the price between 2014 and 2016. In 2017, gas prices increased due to higher demand, but market fundamentals are keeping them at low average annual levels and with favourable evolution compared to coal.

In the medium term, 2020, the abundance of supplies of gas and LNG at competitive costs, will mean a continuation of a relative price scenario that is favourable to gas, consolidating robust growth (1.5 - 2%, CAGR) in global demand for gas, particularly in non-OECD Asia, the Middle East and Europe. Latin America, despite its lower volume, also expects significant growth rates, with improved short-term prospects in countries like Brazil and Argentina and consolidation of the medium- and long-term fundamentals of countries like Mexico, Peru and Chile

In this context, the company defines its growth priorities in three areas:

- First, Enagás will be operating in the main gas infrastructure developments in Europe, contributing to market integration, ensuring security of supply and, therefore, playing a significant role in the transition to a low-carbon energy model. [GRI 201-2]
- Secondly, Enagás is positioned in growth markets with solid fundamentals and the company's priority is to continue growing in countries where it is already present and in their neighbours, thus exploiting the major potential of these markets based on its experience of the Spanish system.
- Finally, trade in LNG is growing, driven by the new liquefaction capacity in the USA and Australia, the increase of regasification in new non-OECD markets and the greater proportions of floating solutions. Investments to date in LNG and those planned for 2017-2020 will consolidate our leadership in the sector, with a focus on established markets.

Growth drivers

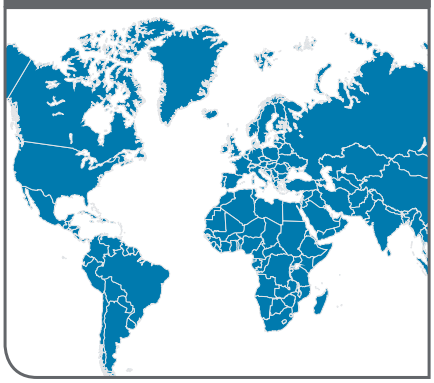
Participation in the integration of the European natural gas market

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

Develop natural gas infrastructures in growth markets

Growth markets
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

Our strategy

Strategic priorities 2017 - 2020

Growth

- Marketing of value-added services, leveraged by the existing capabilities and experiences in Enagás.
- Commissioning of TAP and development of Greenfield Gascan and Midcat/Step projects.

Sound financial and liquidity position

- Solid and visible cash flow generation
- Maintain FFO/ND at > 15%
- No significant debt maturities until 2022
- Fixed-rate 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 profit
- Sustainable dividend

Leadership in sustainability

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

Criteria for the development of the strategy

- **Transmission and storage of natural gas, LNG infrastructures, logistical solutions and related activities**
- **Long-term contracts and reliable *offtakers***
- **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 2017 objectives

The strategic priorities are established as company objectives linked to the variable remuneration of all Enagás professionals, including the Chairman and CEO, thus linking remuneration to economic, environmental and social objectives.
[GRI 102-35]

Moreover, Enagás has a Long-term Incentive Plan in place, requiring the fulfilment of objectives aligned with strategic priorities, thus linking remuneration to the commitment to long-term management.

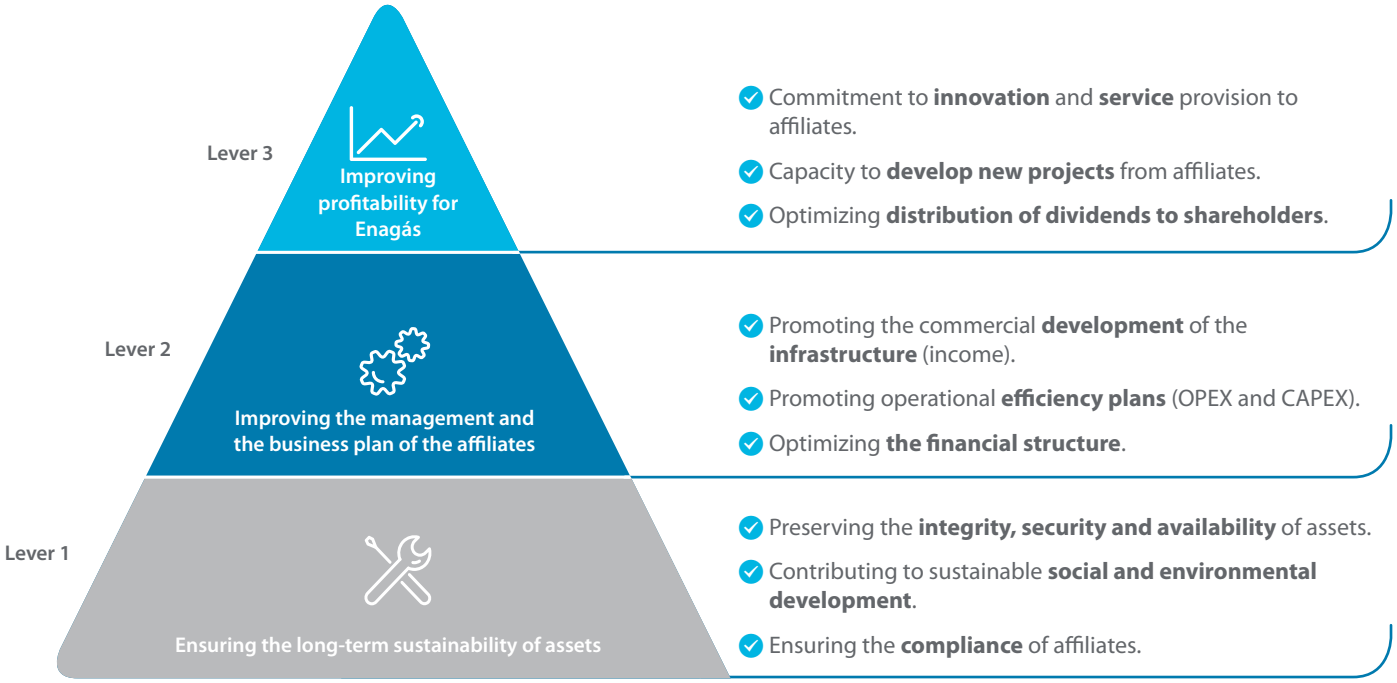
In 2017, we met the established objectives and we are making progress towards our long-term objectives:

Strategic priorities	Long-term Incentive Plan Objectives (% weighting)	Yearly company objectives (% weighting)	Meeting 2017 Objectives (%)
Ensuring adequate and competitive shareholder remuneration	Relative Total Shareholder Return (TSR) (20%) • 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%) • Net profit growth	100%
Financial soundness **Growth in net profit**	Funds from Operations (FFO) as an indicator of financial soundness and growth in net profit (40%) • It takes in both the EBITDA of the regulated business and dividends coming from international investment • It is a primary indicator for investors Meeting this objective enables the targets of Group dividend payment, investment and debt repayment to be met	Strengthening Regulated Revenues (25%): • Regulatory and remunerative actions • Integrated OPEX margin management • Development of the regulated income improvement plan	100%
Focus on international growth **Realistic/profitable investment plan**	Dividend from international investment (30%) • Measures the profitability of the international business • International investment is included as an indicator for yearly variable remuneration	Consolidation of the Company's Strategic Plan (25%): • Strategic analysis of the growth model • Development and consolidation of the affiliates business plan	95.2%
Sustainability, as a framework for developing Enagás' business	Sustainable Management Plan (10%): The assessment of the Sustainability Plan is carried out by the Appointments, Remuneration and CSR Committee: • 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%): • Sustainability and energy efficiency • Positioning Enagás vis-à-vis socially responsible investors (SRI) • Supply chain sustainability • Strategic Resources Plan • Digitalization	100%

Creation of value for our affiliates

In our affiliates we guarantee profitability as a business plan objective and its long-term sustainability, by providing the experience, knowledge and best practices of Enagás as an industrial partner.

Value creation levers



Long-term vision

Enagás has developed a robust long-term strategy that guarantees its future growth, based on its contribution of value in a context of progressive decarbonization of the global energy mix: [GRI 201-2]

- Gas is and will continue to be the most competitive and clean source of energy for the economic feasibility of the industry.
- The significant developments of gas infrastructure required by dynamic or emerging markets with great potential make it possible to meet the growing need for modern energy services and commitments to lower emissions and to air quality while also enabling the integration of renewable energies.
- Taking full advantage of the investments already made in stable or mature markets provides the necessary support and flexibility to ensure secure electricity supply, at the lowest cost, with a high penetration of renewables.
- Natural gas offers great potential for growth in the transport of goods by road and sea, by displacing polluting fuels.
- The commercial-scale development of renewable gas technologies, such as hydrogen and biomethane, will enable a gradual reduction in the gas industry's carbon footprint, using already-existing natural gas infrastructure.
- As shown by the long-term scenarios of the major institutions in the area of energy, gas will be part of the energy matrix for a long time to come.

Enagás promotes corporate entrepreneurship in new growth areas in the value chain and is developing a comprehensive catalogue of innovative logistics services and new applications to optimise the efficiency of the Gas System and move forward with the digitization and adaptation of the traditional business.

Digitization

Digital transformation is a strategic change lever for the company and is key to ensuring its position in the sector and achieving technological leadership.

This transformation is coordinated around the development of new capacities, new processes and methodologies, commoditized digital technologies and ground-breaking emerging technologies.

Enagás' digital transformation framework has been defined by alignment with the strategic priorities and sets out a realistic roadmap based on agile philosophy principles, to achieve real cross-company change in the short and medium term.

To this end, the framework represents a springboard for the definition of Enagás' digital transformation strategy, taking account of best practices in the sector, available technologies and internal opportunities in the different company teams. The framework pursues three critical objectives:

- To optimize the value chain by transformation of our business processes, to achieve agility, efficiency and flexibility. This involves a special emphasis on the development of core processes, leveraged .on models and technologies that enable asset operation and maintenance to be managed more efficiently and more predictively.
- Developing a company culture and a human capital with deep knowledge of the business and with digital thought, i.e. professionals who embrace change and adapt to transformation, work collaboratively, share knowledge and are receptive to new methodologies and technologies.
- Generation of new revenues, focusing on areas adjacent to our value chain and leveraged on digital models and platforms and growth and diversification of revenues through the application of customer-focused models and technologies.

Corporate Entrepreneurship and Open Innovation Programme

Enagás has launched Enagás Emprende, a company to promote and develop the Corporate Entrepreneurship and Open Innovation Programme, through which the company supports business ideas and projects with the aim of diversifying the Enagás business portfolio by generating new business models and incorporating new capabilities in line with the company's strategy.

The programme searches inside and outside the company for projects related to the business to grow them and make them into viable companies. It is thus structured in the following phases:

- **Intrapreneurship:** the company's professionals have a channel, Ingenia Business, for the submission of their business ideas.
- **Open Innovation:** Enagás engages in scouting for innovation projects and start-ups and invites external entrepreneurs to present entrepreneurship projects to Enagás.
- **Enagás Fab:** the company offers an innovative space at its central headquarters where projects arising from the programme are incubated and accelerated.

The support provided by Enagás Emprende has led to four projects becoming start-ups:

VIRA GAS IMAGING

Company founded by Enagás, the Carlos III University and internal and external entrepreneurs, in order to provide technological solutions for the detection of gas through its own infrared cameras and specific customized solutions.

e4efficiency

E4Efficiency focuses on the development of activities related to energy efficiency in liquefied natural gas (LNG) terminals. The project is being driven by an Enagás internal entrepreneur.

SCALE GAS Scaling LNG markets

Company developed by two internal entrepreneurs, working on a small scale with natural gas to offer design, development and infrastructure management services and logistics solutions.

gas2MOVE

Founded by 5 internal entrepreneurs, it aims to promote demand for vehicular natural gas as an alternative fuel in transportation, to provide a comprehensive and essential solution for transport fleet companies.

In turn, during 2017 Enagás Emprende promoted other projects, such as a pilot in the field of industry 4.0 (Smart Energy Assets) and approved the incorporation of two new companies: H2GAS to position Enagás in the development of projects related to hydrogen and SERCOMGAS to provide support and backing for gas supply companies.

For further details on the Enagás Emprende Programme, visit the corporate website.

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

Enagás has established a risk management and control model aimed at ensuring 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:

- 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 functions of risk control and management at the company, on three lines of "defence":
  - On the one hand, the business units that are responsible for the risks they take on when conducting their ordinary business activities, and are therefore responsible for identifying and measuring them.
  - Moreover, there is a risk control and management area responsible for:
    - Ensuring that the risk control and management system functions properly.
    - Active participation in the development of the risk strategy and definitions of impacts on their management.
    - Ensuring that the control and management systems adequately mitigate 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 in the process of risk control and management 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.

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

The integral analysis and periodic monitoring of all risk permit 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. There is a risk function that performs this analysis independently, transversally (covering all risk types) and homogeneously (with similar operations and measuring overall risks).

Comprehensive analysis and periodic monitoring of all risks enable their appropriate control and management

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

Detail of the main risks [GRI 102-11, GRI 102-15]

Type of risk	Risk description	Level of risk	Control and Management Measures
Strategic and business risks			
Regulatory risk	The activities carried out by the Enagás Group are notably affected by the current remuneration framework. Any change in regulatory frameworks or compensation parameters could affect the revenues of business activities.	Acceptable	• Ongoing working relationship with regulatory bodies and government bodies. Regulatory development proposals. • Participation in different associations with gas sector agents.
Commercial risk and demand	• The evolution of demand for transmission, regasification and underground storage of natural gas in Spain has a direct impact over the regulated remuneration received by these activities. • In some international markets in which the company operates, revenues are affected by the performance of its commercial activity.	Acceptable	• Internal analysis about the evolution of demand, gas system capacity, etc. • Participation in projects to promote the use of natural gas. • Development of strategic commercial plans, detailed studies of potential markets for LNG, biogas and gas-powered electricity generation, and the development of new projects.
Risk in the development of infrastructures	• New infrastructure developments are subject to obtaining licences, permits and administrative authorisations. The development of these complex processes could affect the company adversely. • The execution of infrastructure projects may give rise to unforeseen circumstances resulting in missed deadlines or deviations from the initially planned investment costs.	Acceptable	• Ongoing working relationship with government bodies. Monitoring processes of the required procedures. • Contingency plans established to address unforeseen deviations.
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.	Acceptable	• Management and monitoring of court cases.. • Monitoring of existing situation with corresponding administrative authorities.

Type of risk	Risk description	Level of risk	Control and Management Measures
Operational and technological risks			
Industrial risks in infrastructure operation	In the operation of the infrastructure for transmission, regasification plants and underground storage facilities, accidents, damage or incidents involving loss of value or lost profits may occur.	Manageable	• Emergency, maintenance and continuous improvement plans, the existence of control systems and alarms that guarantee service continuity and quality. • Quality, prevention and environmental certifications and redundancy of equipment and systems. • Insurance policy contracts.
Cybersecurity	Damage to corporate and industrial systems as a result of deliberate attacks by third parties.	Manageable	• Development and updating of the Cybersecurity Master Plan including specific action measures.
Financial and fiscal risks			
Interest rate, exchange rate and liquidity	Volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.	Acceptable	• Hedging using derivatives to establish a fixed or optimally protected debt structure. • Natural hedging through financing in the business's functional currency. • Taking out credit lines with unconditional availability and temporary financial investments.
Tax risks	Possible changes to tax legislation that could affect the company's results.	Acceptable	• Consultancy services provided by tax specialists. • Principles of action that govern compliance with tax obligations, avoiding risks and tax inefficiencies.
Credit and counterparty risks			
Credit and counterparty	Possible losses due to third parties failing to pay the Enagás group.	Not applicable	• Monitoring of commercial debt positions and collection management based on customer profile. Credit management mechanism through the establishment of guarantees. • Financial operations with high solvency entities. • The application of NIIF9 from January 2018, involving provision for the expected loss due to this risk.
Reputational risks			
Direct reputational risks	Possible deterioration of the perception or image of the Enagás Group from the different interest groups.	Manageable	• Fluent, direct communication with stakeholders. • Regular tracking of information harmful to the company.

Additionally, the Enagás Group has started a direct contact process (prior to international arbitration) with the Peruvian State for the recovery of the investment in the Gasoducto Sur Peruano project due to interpretative differences in the concession contract.

Additional information on the risks arising from climate change is included in the chapter 'Climate Change and Energy Efficiency'.

[GRI 102-11, GRI 102-15]

3 Our culture: doing things properly

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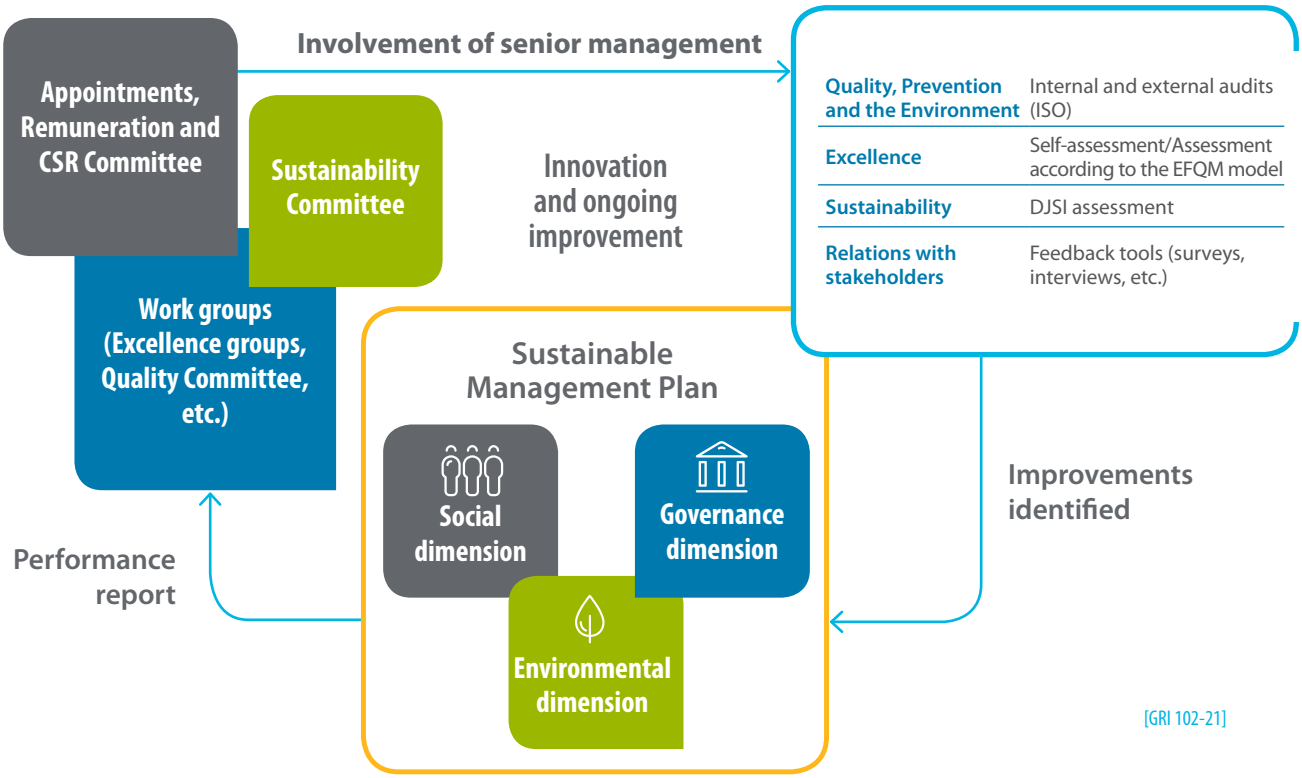
Sustainable Management Model

The Enagás Sustainable Management Model establishes the company's responsibilities as regards sustainability and defines the assessment tools 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 create short, medium and long-term value and achieve results in three spheres: environmental, social and governance. [GRI 102-44]



[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, formed of members of the Management Committee reports to the ARCSRC and is responsible for approving initiatives in this connection (by delegation from the ARCSRC). [GRI 102-29, GRI 102-31]

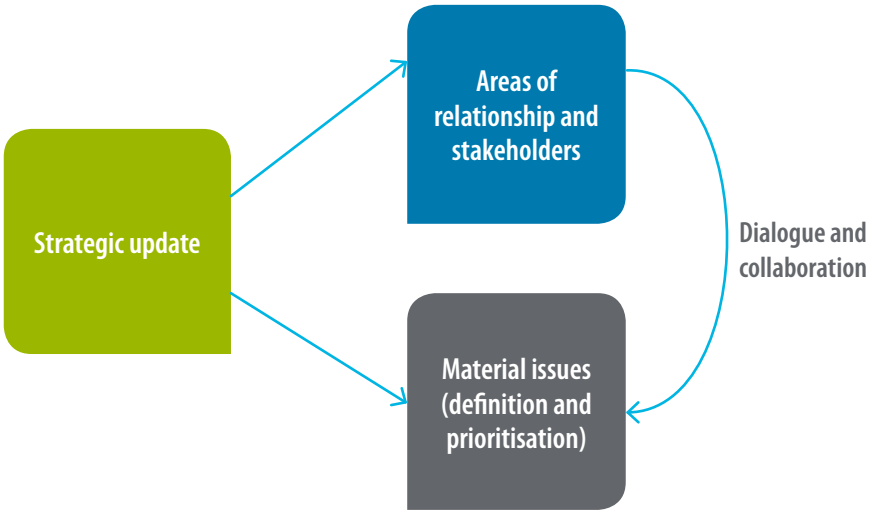
At an executive level, it is the role of the Chairman to promote and continuously coordinate the management of the activities of Enagás and, under his oversight, the Chief Executive Officer is assigned the authority to administer the company's businesses.

Under the umbrella of the Chief Executive Officer and as a general rule, the Finance Department is responsible for managing financial matters, while the Human & Corporate Resources Department is responsible for environmental and social matters. The Annual Report has been approved by the Board of Directors. [GRI 102-18, GRI 102-19, GRI 102-20, GRI 102-32]

Stakeholder management and materiality

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

In 2017, Enagás updated its stakeholder map and the material issues, in line with the company strategy.



Enagás stakeholders

Enagás has updated its stakeholders map based on the review of key relationship spheres, which are derived from the company strategy. This update has resulted in the identification and prioritization of those entities and organizations whose decisions and actions influence the company and / or are impacted by the company's activities. [GRI 102-40, GRI 102-42, GRI 102-43]

Stakeholders	Relationship channels
Regulatory bodies (state, local and international)	• Regular meetings (face-to-face, telephone, email) • Corporate website
Investors (fund managers, rating agencies, analysts)	• Regular meetings (face-to-face, telephone, email) • Corporate website • Shareholder Office • Free shareholder helpline • Electronic mailbox • Meetings with minority shareholders and analysts
Employees (professionals, social organizations)	• Regular meetings (face-to-face, email) • Corporate Intranet • *AzulyVerde* in-house magazine • *Ráfagas* e-bulletin • In-house communication campaigns • Ethics Channel • Workplace climate surveys and associated improvement plans • Interactive coffee for employees with the CEO
Customers (distributors, shippers, transmission companies, direct consumers in the market)	• Account managers • Regular meetings (face-to-face, telephone, email) • Main Control Centre • SL-ATR • Spanish Gas System Follow-up Committee • Corporate website: SL-ATR 2.0 portal and SITGAS portal • Customer newsletter • Meetings with customers (Shippers' day) • Customer satisfaction surveys and associated improvement plans

Stakeholders	Relationship channels
Partners (business, strategic business and management of companies)	• Coordinators of affiliates • Regular meetings (face-to-face, telephone, email) • Audit Committees
Media and social media	• Regular meetings (face-to-face, telephone, email) • Corporate website • Permanent telephone service to the media • Media attention email inbox • Social media
Suppliers (critical and non-critical)	• Regular meetings (telephone, email) • Corporate website: supplier portal • Supplier attention email inbox
Financial institutions	• Regular meetings (face-to-face, telephone, email)
Associations and foundations (from the energy / gas sector, from social, environmental, ethical (sustainability) areas, in education and culture, health and development cooperation)	• Regular meetings resulting from participation in groups and forums (face-to-face, telephone, email)

Enagás regularly evaluates the satisfaction of its customers and professionals through satisfaction surveys, the results and associated improvement plans being reported to those same stakeholders (see chapter 'People').

In the case of customers, the results obtained in 2017 were as follows:
[GRI 102-21, GRI 102-42, GRI 102-43, GRI 102-44]

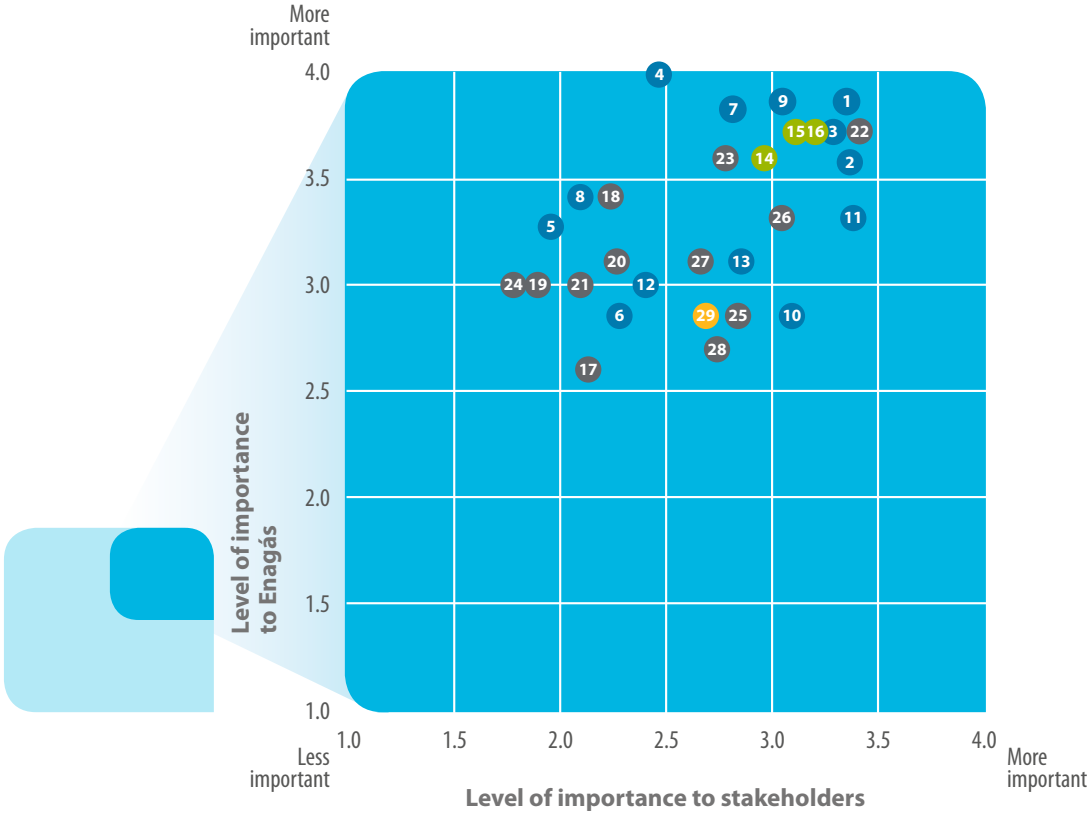
			Number of responses out of the total	Assessment of services rendered	Services
Business operation	Enagás as transmission company	Shippers	43/56	8.57/10	Capacity management and viability analysis, infrastructure operation and programming, etc.
		System operators (transmission and distribution companies)	5/6	8.50/10	
	Enagás as Technical Manager of the System	Shippers	45/102	8.39/10	Programming, operations, distribution and balances, etc.
		System operators	11/17	8.23/10	

Consult the improvement plans associated with satisfaction surveys on the corporate website

Materiality analysis [GRI 102-21, GRI 102-42, GRI 102-43, GRI 102-44, GRI 102-46, GRI 102-47]

Enagás has evaluated and prioritized the interests and concerns of its stakeholders in light of the company's strategic and business priorities, representing those key issues in the materiality matrix shown below.

The chapter 'Creation of value for our stakeholders', describes our management models, relevant initiatives, indicators and objectives for each of the identified material issues.



Ethics and compliance

1. Ethics and integrity (corruption, tax responsibility, conflicts of interest)
2. Transparency
3. Compliance

Good Governance

4. Governance structure (independence, experience and knowledge, average term)
5. Operation (evaluation, training, selection)
6. Remuneration (performance-related, long-term related, share ownership)
7. Transparency (dialogue with investors, publication of information)
8. Shareholder remuneration (dividends)

Financial and corporate excellence

9. Regulation (impacts of regulatory changes)
10. Unregulated business growth (growth drivers, new services)
11. Operational excellence (continuous improvement and quality, digitalization, R + D + I, entrepreneurship, collaboration with stakeholders (creation of shared value))
12. Customer management (satisfaction, quality of service)
13. Financial excellence (financing, efficiency and cost control strategy)

Environmental management

14. Management of environmental matters (noise, water, spillages, waste, discharges, consumption of materials, non-greenhouse gases)
15. Environmental accidents and incidents (prevention of accidents and incidents, management of emergencies / catastrophes, treatment of accidents and incidents)

Climate change and energy efficiency

16 Management of climate change (energy consumption, CO_2 emissions, methane emissions)

People

17 Recruitment (selection, local recruitment, youth employment)

18 Development of human capital (evaluation, training, work-life balance, knowledge management)

19 Diversity (gender, generational, cultural, functional)

20 Labour rights (freedom of association, collective bargaining, decent work, forced labour, child labour)

21 Remuneration (performance-related, transparency, long-term related, equality)

Health and safety

22 Infrastructure security (crisis and emergency management, IT security (cyber security) staff safety)

23 Safety of people (life safety, fatalities, accidents and incidents)

Local communities

24 Health (stress, occupational diseases, common diseases)

25 Right of local communities (resettlements, expropriations, information and consultations, indigenous populations, cultural heritage)

26 Environmental impact (protection of ecosystems, protection of animal species)

27 Social impact (employment creation, social inclusion, attention to social emergencies)

28 Distributed economic value (payments to suppliers, taxes, staff expenses, dividend)

Supply chain

29 Supply chain management (environmental, social, ethical risks)

[GRI 102-21, GRI 102-42, GRI 102-43, GRI 102-44, GRI 102-46, GRI 102-47]

Respect for Human Rights

Enagás, by acting on each of the material issues, ensures compliance with Human Rights applicable to the context and activities of the company. Accordingly, it follows the roadmap set by the United Nations through the Sustainable Development Goals.

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.

Enagás has an online human rights training programme which aims to ensure that all Enagás professionals understand the company's methods for ensuring its compliance.

Human Rights are addressed using a continuous improvement approach aligned with our Sustainable Management Model. The following are the different elements of the Enagás human rights management model, which starts from the identification of the human rights applicable to the company based on their impacts:

Types of rights

- **Labour**(1) (see the chapter on 'People')
- **Safety** (see the chapter on 'Health and Safety')
- **Environmental context** (see the chapter on 'Environmental Management')
- **Land** (see the chapter on 'Local Communities')

(1). Decent work, family life, rest and free time, freedom of information, freedom of association, collective bargaining, non-discrimination and diversity, equal pay, fair and favourable remuneration, abolition of child labour.

Risk assessment [GRI 412-1]

- **Country-specific risk assessment** (see the chapter on 'Strategy')
- **Corporate Risk Map** (see the chapter on 'Risk management')
- **Safety risk assessments in posts and installations** (see the chapter on 'Health and Safety')
- **Environmental impact assessments / environmental risks** (see the chapter on 'Environmental management')
- **Supply chain assessments** (see the chapter on 'Supply chain')

Prevention systems

- **Risk mitigation monitoring and actions** (see the chapter on 'Risk management')
- **Annual health, safety and environment plans and programmes** (see the chapters on 'Health and Safety' and 'Environmental Management')
- **Procedures for the construction of gas pipelines and study of their layout** (see the chapter on 'Local communities')
- **Awareness-raising and dissemination campaigns**
- **Stakeholder relations:**
  - **Suppliers: ensuring compliance with corporate policies through the general contracting conditions**
  - **Business partners: encouraging compliance with the corporate policies in business agreements (according to the level of influence)**
  - **Security personnel: ensuring compliance with principles on respect for Human Rights by requesting proof of membership to associations promoting respect for Human Rights** [GRI 410-1]

Grievance mechanisms

- **Ethics Channel and Ethical Committee Compliance** (see the chapter on 'Ethics and integrity')
- **Corporate mailboxes**

Compensation processes

- **Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics** (see the chapter on 'Ethics and integrity')
- **Plans for self-protection and internal emergency, action plan for incidents and emergencies in the transmission network and the procedures that regulate it, procedure for processing accidents and incidents and communications to stakeholders (crisis manual, communication of incidents, etc.)** (see the chapters on 'Health and Safety' and 'Environmental Management')
- **Damages and compensation procedure for passage of the gas pipeline through private property** (see the chapter on 'Local communities')

Our contribution to the Sustainable Development Goals

Enagás, as a leading company in sustainability, contributes to the achievement of the Sustainable Development Goals, which represent the Agenda for Humanity 2030 and which address several fundamental human rights.

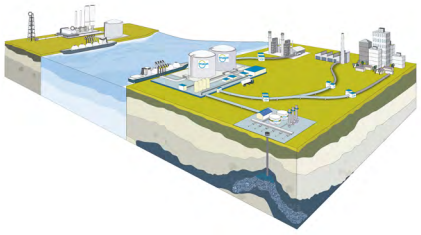
First, our corporate activities and strategy contribute to guaranteeing access to natural gas, an affordable, safe and sustainable energy (SDG7). Additionally, natural gas is of great importance for industrialization and improved competitiveness and it creates direct and indirect jobs (SDG9).

Secondly, with our management models, policies and corporate guidelines defined for our material issues, we contribute to guaranteeing gender equality (SDG5), economic growth and the creation of full and productive employment and decent work (SDG8), to combat climate change (SDG13), as well as the conservation of terrestrial ecosystems (SDG15).

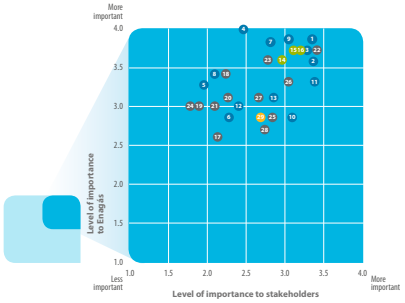
Finally, dialogue and collaboration with our stakeholders allow us to establish alliances for the creation of shared value and, therefore, to achieve the objectives set (SDG 17).

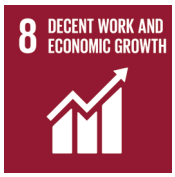
The Appendix 'Our contribution to the SDG' includes references to those sections and chapters of this report in which we outline our contribution, indicators and corporate objectives for meeting each of the objectives of these priority SDG.

Business model



Management models of material issues





Dialogue and collaboration with stakeholders

Companies4SDGs Initiative

Enagás has joined the Companies4SDGs initiative, led by the Spanish Network of the United Nations Global Compact, in order to make the SDG known to professionals and show how the company is contributing to their fulfilment and providing advice at individual level for the achievement of each goal.

Sustainable Management Model of affiliates

The Enagás affiliates management model is structured around the transfer of critical management standards and the governance model.

Critical management standards

Affiliate companies have autonomous management. The influence exerted, and the monitoring performed by Enagás is through the transfer of the following critical management standards, defined according to the material issues of the company. Enagás is also conducting internal audits in order to verify the solidity of internal controls associated with the processes at greatest risk in companies (see the chapters on 'Ethics and integrity' and 'Local communities').

In affiliates where Enagás has control, the company increases its influence in the company through the progressive implementation of management models in those more relevant areas. This is the case of GNL Quintero, a company in which Enagás acquired control in 2017. This report provides information about this company on a consolidated basis and indicates the areas of management in which work has taken place in recent months (as is the case with ICFR).

Critical management standards

Financial and operational excellence

Financial excellence:
- Planning and financial management and treasury
- Insurance
- Management control
- Taxation
- Financial reporting
- Accounting and billing

Operational excellence:
- Quality management system
- Operational efficiency
- Asset ranking
- Maintenance management system
- Operation
- Warehouse management
- Customer service
- Affiliate programming management
- Measurement
- Balance sheet and distributions

Good Governance

- Regulation of operation
- Board remuneration policy
- Company governance (agreements, working groups, etc.)
- Risk map: identification and monitoring of risks
- Internal control (general and process controls)
- Internal audit

Ethics and compliance

- Code of conduct
- Whistleblowing channel

People

- Remuneration policy
- Contractual relations and union rights
- Negotiation and representation
- Human resources policy
- Development of resources (training and selection)
- Workplace climate

Health and safety

- Protection of assets
- Health and safety management system
- Emergency plan
- Risk analysis
- Health surveillance

Local communities

- Stakeholders management model
- Local development actions

Environmental management

- Environmental management system
- Environmental impact studies

Climate change and energy efficiency

- Energy efficiency and emissions reduction measures

Supply chain

- Approval of suppliers
- Procurement and reporting (purchasing processes)

Governance model

For each affiliate, a manager is defined by Enagás to act as the coordinator. Its responsibilities include ensuring the alignment of the actions to be carried out in the company with the Enagás strategy.

Critical management standards are transferred through working groups led by the coordinator of the affiliate, involving members of the General Management of Enagás who co-lead its oversight matters. These working groups are instruments for the alignment of positions and ensuring the operation of the Board of the affiliates, where decisions agreed in the groups will be enacted.

The working groups are the only communication channel between the subsidiary and the partners (see the chapter on 'Good Governance').

The Management Committee for the Management of Affiliates, with representation of the involved Directors of Headquarters, supervises the critical decisions of the groups and reports to the Enagás Management Committee.

Positioning in indices and certifications

The following are the distinctions awarded to the Enagás sustainable management model.

Enagás has been a member of the United Nations Global Compact since 2003. The Progress Report has been at GC Advanced Level since 2011. The company has also been listed on the Global Compact 100 index since 2013.

Enagás has been a member of the Dow Jones Sustainability Index World (DJSI) since 2008. It has Gold Class rating and, in the 2017 review, was identified as a leader in the Oil & Gas Storage & Transportation sector.

Enagás has been a member of the FSE4Good index since 2006.

Enagás has been a member of Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers since 2009.

Enagás has been listed on the MSCI Global Sustainability Indices since 2010.

Enagás has held the Family Responsible Company (FRC) Certificate since 2007, at "B+ Proactive" level.

Enagás has held the "Equality in the workplace seal" since 2010, granted by the Ministry of Health, Social Services and Equality.

In 2015 Enagás received the Bequal seal for its commitment to the inclusion of the disabled in the company.

The Enagás management model renewed its European Seal of Excellence EFQM 500+ in 2012. Furthermore, Enagás was recognised as an Ambassador of European Excellence 2016.

Since 2008, the Annual Report has been externally audited and drafted under standard AA1000APS and the Global Reporting Initiative (GRI) guidelines. Since 2012, it has been prepared according to integrated reporting principles. The 2016 Annual Report was rated first among Spanish companies in the utilities sector according to Report Watch and achieved 2nd position in the Reporta ranking. The Annual Report 2017 has been put forward for the GRI Content Index Service: Exhaustive Conformity Option.

Enagás has held the Oekom "B Prime" classification since 2010, and has been on the Global Challenges Indices since 2014.

Enagás has been part of CDP Climate Change since 2009. In 2017 it retained its position of leadership with an A- rating. It has also been on the CDP Supply Chain since 2014 and CDP Water since 2015.

Enagás was recognised in 2017, for the seventh consecutive year, as one of the Top Employers in Spain, one of the best companies to work in.

Enagás has held SSAE 16 certification for its processes of Skills management and System Feasibility Analysis, and System Supply Security/ Technical Management of Underground Storage Systems.

Enagás has been a member of the STOXX Global ESG Leaders indices since 2011.

In 2017, Enagás was included among the 200 leading global companies in the promotion of gender equality in the workplace.

Enagás holds ISO 9001:2008 certification for its processes of Technical Systems Management, Asset Management, Infrastructure Development and Information Systems Management.

Enagás has ISO 14001: 2004 certification for its Gas Transmission and Storage Infrastructure Development processes, its Asset Management, the Enagás Central Laboratory and the corporate head office. In addition, the Huelva and Barcelona plants and the Serrablo and Yela storage facilities are EMAS certified.

The Occupational Health and Safety Management System for the Enagás Group Companies Enagás GTS, S.A.U., Enagás Internacional S.L.U., Enagás S.A. and Enagás Transporte S.A.U. is certified under OHSAS 18001:2007.

Furthermore, Enagás has been a certified healthy company since 2015 and has obtained ISO 39001 road safety and ISO 27001 information security certification.

Enagás was once again in the Euronext Vigeo Europe 120 index in 2017.

4 Creation of value for our stakeholders

The following chapters explain how we are creating value for our stakeholders through our performance in each material issue, including corporate governance and the supply chain as key transversal aspects for this. [GRI 102-47]

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4.1 Good governance [GRI 103-1, GRI 103-2, GRI 103-3]

Good governance is a primary concern for the company, as is reflected in the Enagás Sustainability and Good Governance Policy. This policy confirms that a good governance model permits us to create value in the short, medium and long term for shareholders, customers, suppliers and other stakeholders. It also strengthens the company's control environment, reputation and credibility for third parties.

The key areas on which our governance model is structured are the company's strategy and objectives (see the chapter 'Our project for the future'), the structure and functioning of our governing bodies (independence, diversity, etc.), performance and the system of incentives for decision-making.

Milestones 2017

- **Continuation of the training sessions to the Board of Directors on key financial and non-financial matters regarding the management of the company.**
- **Evaluation of the Board by independent external assessors.**

Targets 2018

- **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.**
- **Publication of the indicators and set goals linked to variable remuneration (short and long term).**
- **Creation of an individual matrix of the Board's competences.**

23%
female members on the Board
[GRI 405-1]

18%
women in the Management Committee

13
members of the Board of Directors

54%
Independent Directors

45.6%
Quorum at 2017 GSM

Board of Directors and Committees [GRI 102-18, GRI 102-22, GRI 102-23]

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	Other External	Member	
Isabel Tocino Biscarolasaga	Director	Independent	Chairwoman	
Ana Palacio Vallelersundi	Lead Independent Director	Independent		Chairwoman
Antonio Hernández Mancha	Director	Independent		Member
Luis Javier Navarro Vigil	Director	Other External		Member
Jesús Máximo Pedrosa Ortega (proposed by SEPI - Sociedad Estatal de Participaciones Industriales)	Director	Proprietary		Member
Luis García del Río	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 Bartolomé Lara Toro)	Director	Proprietary	Member	
Rafael Piqueras Bautista	General Secretary	-	Secretary	Secretary

Board structure: independence and diversity

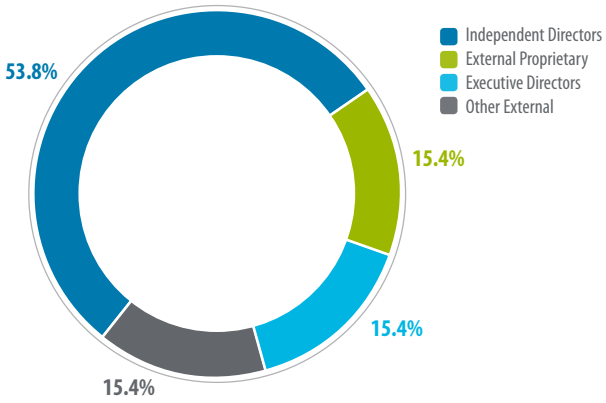
[GRI 102-18, GRI 102-22, GRI 405-1]

The Rules of the Organisation and Functioning of the Board of Directors of Enagás includes conditions which must be met by Board members in order for them to be considered independent. An additional target has been defined to have at least half of the Board consisting of independent directors.

The Enagás Board of Directors maintains a 54% ratio of independent directors compared to the 49% of the Spanish market (Ibex 35 average).

Consult the Rules of the Organisation and Functioning of the Board of Directors of Enagás on the corporate website

Board of Directors



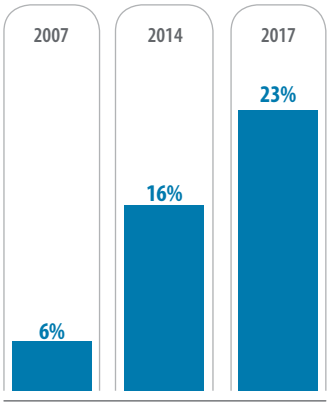
Furthermore, the policy for the selection of directors sets out the principles on which the selection processes for members of the Board of Directors:

- The principle of diversity of knowledge, gender and experiences.
- The principle of non-discrimination and equal treatment, so that the selection procedures for members of the Board of Directors are not subject to implicit bias which could entail any discrimination of any kind, whether due to race, sex, age, disability, etc.
- Compliance with laws in force and with the Enagás corporate governance system; likewise, with the recommendations and principles of good governance adopted by the Company.

See the Director Selection Policy on the corporate website

The Enagás commitment to promote gender diversity on the Board is reflected in the significant increase in the ratio of female members, rising from 6% in 2007 to 23% in 2017 (above the Ibex 35 average).

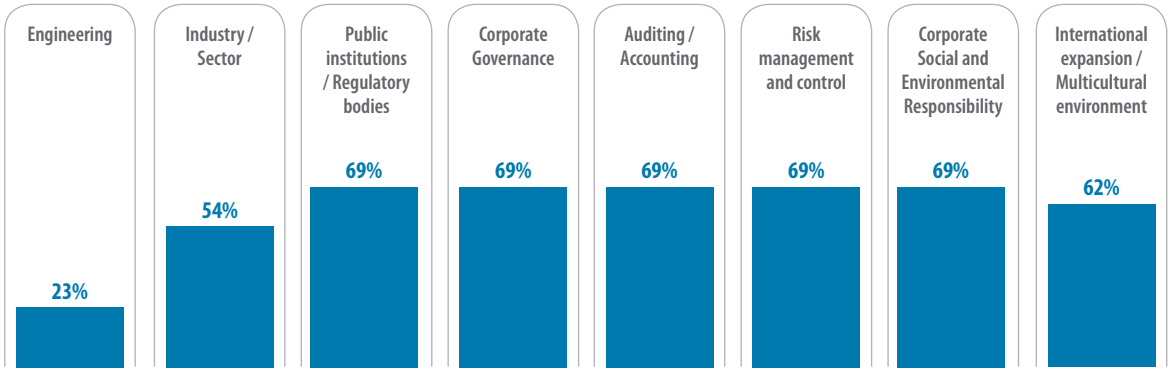
Percentage of female members on the Board of Directors



As concerns diversity of knowledge and experience, the Enagás Board of Directors was evaluated by an independent external assessor who concluded that the Board presents an appropriate balance of knowledge and experience that allows it to fulfil the company's strategy and given the context of its markets.

For this purpose, analysis was made of the proportion of Board members with key skills and experience that will permit strategic priorities to be met:

Key Board competences



Moreover, the Board of Directors of Enagás covers other relevant abilities and experience for the development of the business, for instance, in the fields of business and management, economics, legal and tax, finance and capital markets, human resources, infrastructure, information technology, and marketing and sales.

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

Functioning of the Board [GRI 102-28]

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, an assessment of the Board is performed with participation from an independent external expert. This assessment is performed objectively and from a best-practice viewpoint by means of questionnaires completed by all members of the Board.

The aim is to sustain and bolster the performance of the Board. The results of the latest evaluation on the functioning of the Board reached the following conclusions:

- Adequate number of meetings and time devoted to them. There were 11 meetings held in 2017, with attendance averaging 82%.
- Effective and appropriate communication between the Board of Directors and their committees and executives, and with stakeholders.
- Need to continue to strengthen certain areas of knowledge in the Board, such as technology, legal, tax, finance and strategy.

The following critical issues were dealt with by the Board of Directors in 2017: [GRI 102-21, GRI 102-27, GRI 102-33, GRI 102-34]

Issue	Type	Resolution
Annual risks report	Corporate Governance	Unanimously approved
Compliance model, standard and policy, crime prevention model	Corporate Governance	Unanimously approved
2017-2020 strategic reflection in line with the company's long-term view	Economic	Unanimously approved
Updating of tax policy, adherence to the Code of Good Tax Practices and inclusion in the Spanish tax department's Large Companies Forum	Economic	Unanimously approved
Monitoring of the Company's contributions to social action and corporate volunteering	Social	Unanimously approved
Corporate directives concerning diversity	Social	Unanimously approved
Corporate Directives concerning Sustainable Mobility	Environmental	Unanimously approved
Carbon offsetting strategy	Environmental	Unanimously approved

See the Sustainability and Good Governance Policy on the corporate website

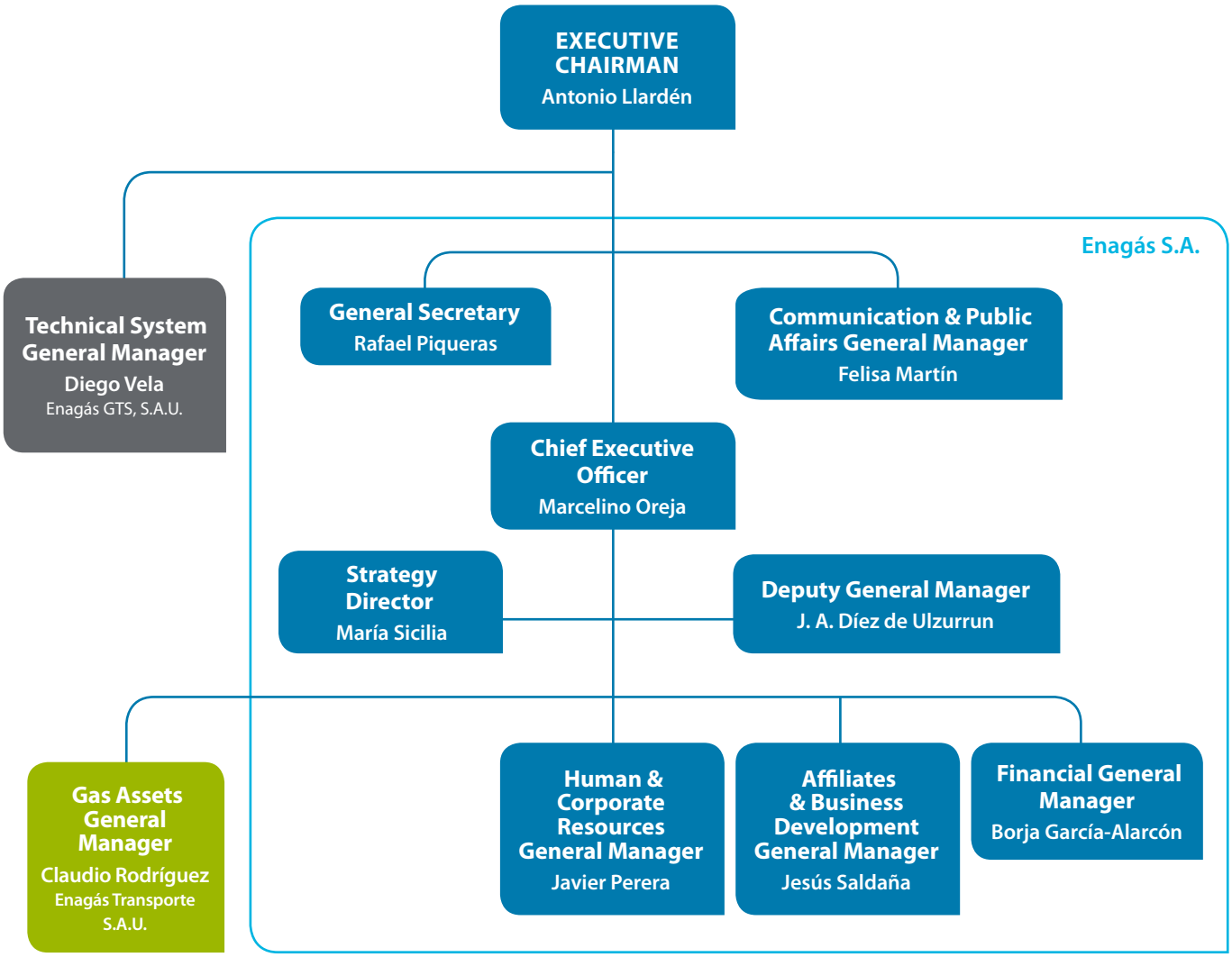
Management Committee

In keeping with the Enagás efficiency drive, which is being implemented in order to ensure the sustainability of the business in the short, medium and long term, the company has introduced a new organisational structure with two main aims:

- To enhance the company's long-term orientation in order to be able to meet the different challenges faced, through importance given to the functional areas of strategy, digitalisation and services.
- Consolidation of the short-term vision, through the concentration of technical functions, guaranteeing efficiency in the regulated business and enhancing the company's technological leadership.

With this in mind, the composition of the Management Committee is as follows:

Management Committee



Remuneration of the Board of Directors [GRI 102-35, GRI 102-36, GRI 102-37]

The Remuneration Policy for Board of Director members for 2016, 2017 and 2018 was approved in detail by the GSM of 18 March 2016.

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.

Enagás has a Long-Term Incentive Plan for 2016–2018 that fulfils the criteria of independence, stakeholder involvement the remuneration report is put to a consultative vote at the General Shareholders' Meeting) and internal and external assessment (see the chapter on 'Our project for the future').

The two executive directors and members of senior management are beneficiaries of the approved 2016–2018 long-term incentive.

The Executive Directors and Senior Management are covered by the mixed group insurance policy for pension commitments. From the premium paid in 2017, 419 thousand euros corresponded to the Executive Directors and 708 thousand corresponded to Senior Management.

The remuneration payments made to each member of the Board of Directors, as described above, without inclusion of the insurance premium, were:

Remuneration of the Board of Directors in 2017 [GRI 102-35]

Directors	2017	2016
Mr Antonio Llardén Carratalá (Executive Chairman)(1)	1,793	1,839
Mr Marcelino Oreja Arburúa (Chief Executive Officer)(2)	818	693
Sociedad Estatal de Participaciones Industriales (Proprietary Director)(4)	140	127
Mr Luis García del Río (Independent Director)(3) (4)	98	-
Mr Ramón Pérez Simarro (Independent Director)(3) (4)	37	126
Mr Martí Parellada Sabata (External Director)(4)	148	142
Mr Luis Javier Navarro Vigil (External Director)(4)	144	126
Mr Jesús Máximo Pedrosa Ortega (Proprietary Director)(4)	144	126
Ms Rosa Rodríguez Diaz (Independent Director)(4)	144	127
Ms Ana Palacio Vallelersundi (Lead Independent Director)(4)	166	133
Ms Isabel Tocino Biscalorasaga (Independent Director)(4)	157	139
Mr Antonio Hernández Mancha (Independent Director)(4)	144	126
Mr Luis Valero Artola (Independent Director)(4)	144	127
Mr Gonzalo Solana González (Independent Director)(4)	144	127
Total	**4,221**	**3,958**

(1) The remuneration for the Executive Chairman for the 2017 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 2017, the Executive Chairman received a fixed remuneration of €1,000 thousand and a variable remuneration of €540 thousand; he also received Board meeting attendance fees of €117 thousand, as well as other items of remuneration in-kind amounting to €135 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 €1,793 thousand. He was also provided with a life insurance policy, with total premiums in the year of €20 thousands. The Group has outsourced its pension obligations with its Directors by means of a mixed group insurance policy. In addition to pension obligations, the cover provides benefits in the cases of life expectancy, death or disability. The Executive Chairman is part of the group covered by this policy: of the total premium paid for this during the year, 252 thousand euros corresponded to the Executive Chairman. 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 eight 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 2017, he received a fixed remuneration of €460 thousand and a variable remuneration of €215 thousand; he also received Board meeting attendance fees of €117 thousand, as well as other items of remuneration in-kind amounting to €26 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 €818 thousand. In addition, he was provided with a life insurance policy, with total premiums in the year of €0,2 thousands. The Chief Executive Officer is also covered by the mixed group insurance policy for pension commitments, and of the premium paid in 2017, 167 thousand euros 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 eight 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) On 31 March 2017, Mr Ramón Pérez Simarro discontinued his role as a Director and his place was taken by Mr Luis García del Río.

(4) The remuneration of these Directors being on the Board and its Committees 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."

Governance model for affiliates

The decision-making processes in our affiliates are regulated through partnership agreements, which guarantee their control or joint-control and provide Enagás with the right of veto in relevant decisions.

Enagás has the ability to influence decision-making through its leadership of Boards of Directors, by means of the appointment directors from managers with broad experience in the sector and country.

There is a team in these companies that is responsible for supporting directors, who report to the management of Enagás and ensure compliance with the affiliates' business plans.

In addition, relevant information is regularly reported to the Enagás Board of Directors and Enagás executive directors, who are responsible for overseeing critical decisions and take part in internal committees that meet every two months.

The remuneration scheme implemented in our affiliates is aligned with Enagás standards.

4.2 Ethics and integrity [GRI 103-1, GRI 103-2, GRI 103-3]

Ethics and integrity form one of the most relevant aspects for the company, as reflected in its Code of Ethics and Compliance Policy. They guarantee the honest behaviour of our professionals, and of the third parties with whom we form relationships; even when this behaviour is not set out in the legislation, it is one of our priorities. This commitment allows us to guarantee appropriate decisions are made, creating trust in our stakeholders and facilitating the sustainability of the business.

Key aspects that are covered by our ethics and integrity model are the frameworks of policy, procedures and applicable regulations, including the Code of Ethics, and the implementation of Compliance and Crime Prevention Models, and their dissemination.

Milestones 2017

- Approval of the Enagás Group Compliance Model, including the Compliance Policy and General Compliance Regulations.
- Training on the Crime Prevention Model in use in Spain.
- Inclusion, within the scope of the partnership audits that Enagás carries out on affiliates, verification of ethical and criminal liability aspects.
- Conducting of internal audits on fraud prevention in affiliates.
- Adherence to the Code of Good Tax Practices.
- Extension of the Internal Control over Financial Reporting System (ICFR) to the affiliate GNL Quintero.
- Updating of the Enagás Mexico Crime Prevention Model.

Targets 2018

- Implementation of the Enagás Group Compliance Model, in keeping with the obligations set out in the General Compliance Regulations, including regular reporting from divisions and reporting to the Audit and Compliance Committee.
- Definition of a Corruption Prevention Model, including the review of the Anti-Fraud, Corruption and Bribery Policy, and creation of the General Regulations for its implementation.
- Strengthening of internal auditing into fraud, corruption and bribery in affiliates.
- Definition of the Enagás Peru Crime Prevention Model.

2
communications received via the Ethics Channel

92%
of Enagás' employees received training on the Code of Ethics

90%
of employees have received training on the Crime Prevention Model in use in Spain

94%
of employees received training in anticorruption policies and procedures in the past three years [GRI 205-2]

Code of Ethics

The Enagás Code of Ethics (Enagás Group Code of Ethics and Enagás GTS Code of Conduct) sets out the conduct that is expected from all professionals in the company, irrespective of their responsibilities and their geographical 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.

The Ethical Compliance Committee, functionally and directly dependent on the Board of Directors' Audit and Compliance Committee, has competencies relating to the Code of Ethics.

Enagás also has the following procedures in place associated with the Code of Ethics:

- Procedure for the functioning of the Ethical Compliance Committee.
- Management of offering and acceptance of gifts, which states the professionals who offer or receive gifts over a specific value are obligated to report those gifts.
- Management of consultations and reporting regarding irregularities or breaches of the Code of Ethics in order to encourage compliance with the Code of Ethics and the regulations that govern its implementation. For this purpose, the company enables Enagás employees and the company's suppliers, contractors and those who collaborate with it or act on its behalf, including business partners, to resolve any doubts or to report any irregularities or breaches through one of the following channels or any other means the company may set up in the future (Ethics Channel): [GRI 102-17]

See the Code of Ethics and Policies section on the corporate website [GRI 102-16]

Electronic mailbox: canal.etico@enagas.es

Post addressed to any member of the Ethical Compliance Committee

Form available on the corporate Intranet

In 2017, two communications were received via the Ethics Channel: [GRI 205-3]

A report regarding abuse of position and privileges by a superior, which, after consideration, led to an investigation (interviews with the reporter, individual reported, and people in the vicinity of both parties). The case was closed with the adoption of corrective measures.

A report regarding a selection process, which was rejected, after communication with the interested party. The case was closed.

Compliance model

The Enagás Compliance Model is managed by a compliance function which 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 structured around the Compliance Policy and its associated regulations:

- The Compliance Policy approved by the Board of Directors in 2017 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 model defines double line reporting in order to have a compliance function that is coordinated on a global level; this mitigates the risks of regulatory non-compliance in the national and international arena, which may in turn have serious reputational consequences. This double line reporting is on the one hand, that developed by the corporate areas and, on the other hand, that developed by compliance officers in the different affiliates. Loss of information and inconsistencies are therefore avoided.

The Compliance Policy, implemented by the General Compliance Regulations, sets out the commitments of all professionals to compliance

Consult the Compliance Policy on the corporate website

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.
- 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.

Anti-fraud, corruption and bribery

Enagás has an Anti-Fraud, Corruption and Bribery Policy in place which reflects the company's vehement opposition to the committing of illicit or unlawful acts and its firm will to combat and prevent them, for the purpose of fulfilling its 'zero tolerance' principles.

The Crime Prevention Model includes risks related to corruption, such as bribery, influence peddling and corruption in business. All activities in Spain have been analysed for these risks and the company has put in place controls and guidelines for action in order to prevent and mitigate those risks. [GRI 205-1]

In 2018, the company is working on the definition of a Corruption Prevention Model, based on ISO 37001, which includes a review of its Anti-Fraud, Corruption and Bribery Policy, and the creation of regulations that implement and will serve as a framework for the corruption prevention controls.

Enagás is also conducting internal audits of its affiliates in order to verify the solidity of internal controls associated with the processes at greatest risk for fraud, corruption and bribery, establishing control activities to strengthen them wherever necessary. The following reviews were conducted in 2017:

- Purchasing and payment audits in the Altamira Group (TLA), Trans Adriatic Pipeline AG (TAP) and Transportadora de Gas del Perú (TGP), including among other controls, analysis of data associated with procurement processes for the detection of purchasing patterns and possible indications of fraud, verification of the existence of proper segregation of functions in the process, and validation that purchases are made with previously approved suppliers.
- Audit in TgP to review the manual entries made by the company in order to avoid recording of unauthorised entries, to know the integrity of the manual entries, breakdown of the entries in order to circumvent levels of authorisation, and to ensure the existence of a an adequate internal control environment.
- Audits on ethics and good governance at Compañía del Gas del Amazonas, S.A.C (COGA) and TLA, where verification was made of, among other issues, a risk model, a matrix of authorisations and responsibilities for governing bodies, a code of ethics and a reporting channel, crime prevention models, anticorruption policies, and training of employees in the detection of fraud.
- Creation of an anti-bribery questionnaire at Swedegas, aimed, among others, at verifying that no intermediary and/or third party operated in countries included on lists such as the US Department of Treasury's OFAC, and to obtain information on the type of transactions or activities that exist between Swedegas and third parties, and to know the criteria and restrictions found in the third-party remuneration model.
- Extension of the Internal Control over Financial Reporting System (ICFR) to GNL Quintero.

In 2018, the company will continue to make progress in the prevention of fraud, corruption and bribery in its affiliates, strengthening its internal auditing process and following up on audits conducted in previous years.

See the Anti-fraud, Corruption and Bribery Policy on the corporate website

Responsible tax practice

Enagás adopts a focus of responsible tax practice based on prudence and aligned with the recommendations set out in the OECD Guidelines for Multinational Companies.

The Fiscal Responsibility Policy sets out the strategy and principles that must guide the conduct of all employees, executives and directors of Enagás, as well as third parties with whom the company has relationships.

in 2017, in line with the company's commitment to tax transparency, Enagás adhered to the Code of Good Tax Practices.

Moreover, in accordance with the public reporting commitments set out in the Fiscal Responsibility Policy, the company has published in this report the total tax contribution and the taxes paid in the different jurisdictions where the company operated through affiliates (see the chapter on 'Financial and operational excellence').

Consult the Fiscal Responsability Policy on the corporate website

Transparency in lobbying activities

The company is included in the European Transparency Register, and reports on information related to the cost of activities connected with the regulation and implementation of European policies that directly or indirectly impact the gas transmission and storage business, the liquefied natural gas business, and the Spanish and European gas industry. It also reports on lobbying initiatives carried out by the company in Brussels in relation to these policies and implementations, and the associated costs.

Enagás has 3 professionals participating part-time in different activities related to the transparency register, including a permanent representative in Brussels. In 2017, annual costs were less than 200 thousand euros, distributed as follows: personnel expenses (46%), office and administration expenses (1%), representation, communication and public relations expenses (2%), internal expenses (14%), association membership fees (37%).

Training in and dissemination of ethics and compliance [GRI 205-2]

Enagás professionals are provided with the opportunity to undergo 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 has been completed by 92% of professionals in Spain.

Training was given in 2017 on the Enagás Crime Prevention Model, which was completed by more than 90% of professionals in Spain. The course includes general information on the Crime Prevention Model and practical cases related to the most relevant crimes related to the company's activity, and professionals are provided with a Crime Prevention Manual. This manual includes a description of each crime and behavioural guidelines for its prevention.

Furthermore, one of the most highly valued aspects of the workplace climate survey carried out in 2016 (see the chapter on 'People') 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.

In 2017, 90% of professionals in Spain completed the training course on the Crime Prevention Model

4.3 Financial and operational excellence [GRI 103-1, GRI 103-2, GRI 103-3]

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

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

Milestones 2017

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

Targets 2018

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

Dividend of
€1.46
per share

€490.8MN (+17.6%)
net profit

€5.008BN
net debt (4.4x net debt/adjusted EBITDA)

€328.5MN
in investment

Net cost of debt
2.7%

Financial excellence

2017 Results Figures

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

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

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

Evolution of the share price

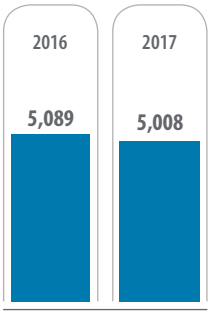
At year-end 2017, Enagás shares were trading at €23.87 each, a fall of 1.06% on the previous year-end, with a share capitalisation of €5.699Bn. Taking into account the dividends paid during 2017, the total yield for company shareholders stood at +4.82% for 2017. This behaviour is in line with the performance of the company's main benchmark indices by sector: the IBEX produced a yield of +7.40%; EuroStoxx Utilites, +4.82%; and Bolsa Madrid Utilties, +3.87%.

During the course of 2017, the price of the Enagás share peaked at €26.715 (7 June), with a low of €22.405 (2 February). The average volume traded for the year was 1,010,783, higher than recorded at year-end 2016, which was 893,213 shares. Analysts agree on an estimated target average price for the end of 2018 of €26.16 per shares, with 50% recommending 'hold', 30% 'buy' and 20% 'sell' for the company's shares.

Financing strategy

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

Net Debt (€MN)

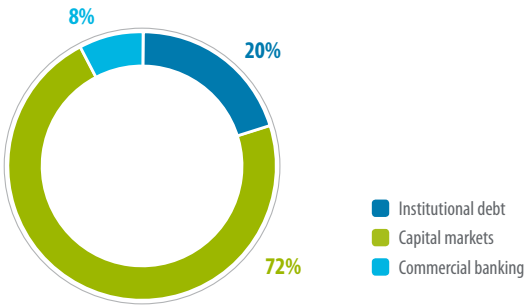


Leverage and liquidity

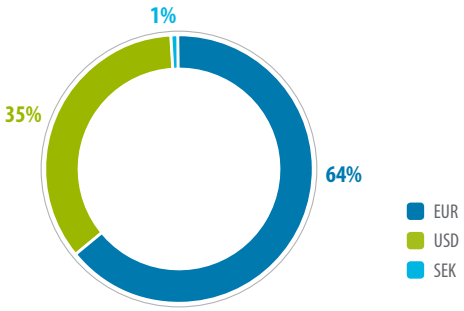
	2016	2017
Net Debt/Adjusted EBITDA(1)	5.2x	4.4x
FFO/Net Debt	15.0%	17.4%
Cost of debt	2.4%	2.7%
Liquidity	€2.409Bn	€2.484Bn

(1) EBITDA adjusted by dividends received from affiliates.

Debt structure



Fixed-rate debt above 80%

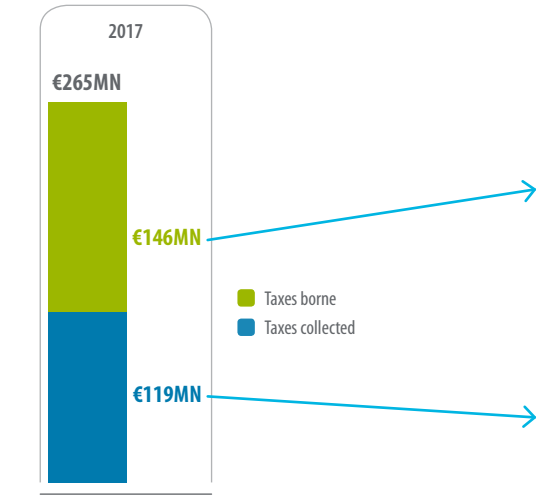


Total tax contribution

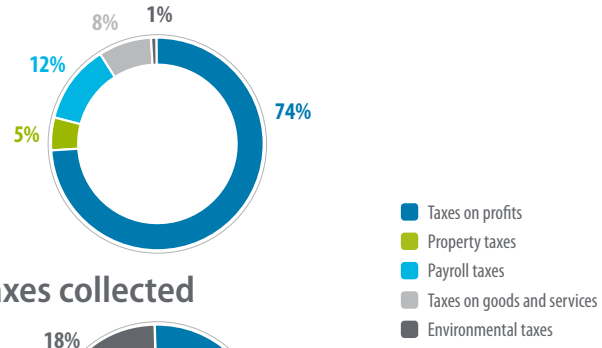
The total tax contribution made by Enagás in 2017 amounted to €265 million, of which 55% corresponded to taxes borne (€146 million) and 45% to taxes collected (€119 million).

Total Tax Contribution was calculated according to the PwC Total Tax Contribution (TTC) methodology, with a cash approach and taking into account the group entities consolidated through full integration (Enagás S.A., Enagás GTS, S.A.U., Enagás Transporte S.A.U., ETN, S.L., Enagás Mexico, S.A. de C.V, Enagás Perú, S.A.C, Enagás Financiaciones, S.A.U., Enagás Internacional, S.A.U., Enagás USA LLC and Enagás Chile SPA) and entities consolidated through proportional integration(Gasoducto Extremadura, S.A., Gasoducto Al-Ándalus, S.A. and GNL Quintero).

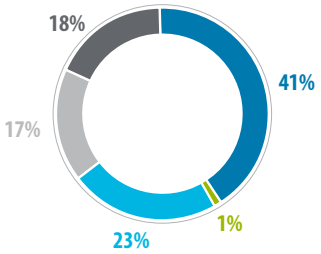
Total tax contribution



Taxes borne



Taxes collected



Operational excellence

Efficiency Plan

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

- Infrastructure, by implementing plans for greater efficiency and optimising maintenance management using tools for continuous improvement and operating excellence (continuous improvement programme and digitalisation process); reducing CO_2 emissions through energy efficiency and elimination of fugitive emissions (see the chapter on 'Climate change and energy efficiency').
- People, by implementing measures to adapt the resources and organisational structure to the strategy, and strengthening talent as a critical asset of the company (see the chapter on 'People') and innovation (corporate entrepreneurship programme).
- Administration and support services, by putting in place actions to ensure control of spending, adjusting it to the needs of the business at all times (cost efficiency plan).

Continuous improvement programme

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

The programme is structured along the following lines:

- Training and skills training to ensure the implementation of a philosophy of continuous improvement and sustainability for the programme.
- Development and implementation of a culture of improvement in daily operations with a focus on problem solving.
- Creation of multidisciplinary groups aimed at developing specific improvement projects focusing on efficiency and process improvement.

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

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

People management is a key area for the company, since, as reflected in the Enagás Human Capital Management Policy, attracting, developing and retaining talent enables the company to equip itself with the resources necessary for the deployment of its strategy.

The key aspects that we address in our people management model are the structure and sizing of our organization (staff), the stability and quality of employment, our professional development programmes and compliance with labour rights in the areas of diversity, conciliation and non-discrimination.

Milestones 2017

- Approval and publication of corporate directives concerning diversity.
- Implementation of individualised development plans.
- Implementation of mentoring/coaching programmes.
- Implementation of a professional development model in the technical sphere
- Renewal of our commitment to the Diversity Charter.
- Renewal of Equality Badge with the Ministry for Health, Social Services and Equality.
- Launch of the remote working (spatial flexibility) pilot project

Targets 2018

- Communication and implementation of the Flexible Remuneration programme
- Implementation of the spatial flexibility model (remote working) in all positions not under collective agreement compatible with this approach.
- Signing of the UN's Women's Empowerment Principles.
- Signing of a collaboration agreement with the Capacis Foundation for the development of training practices at the Enagás facilities for young people with disabilities.
- Bequal Recertification.
- Launch of the Corporate University project.

81
employees have taken part in talent identification programmes

65.14
training hours per employee (€ 1,081.2 investment per employee)
[GRI 404-1]

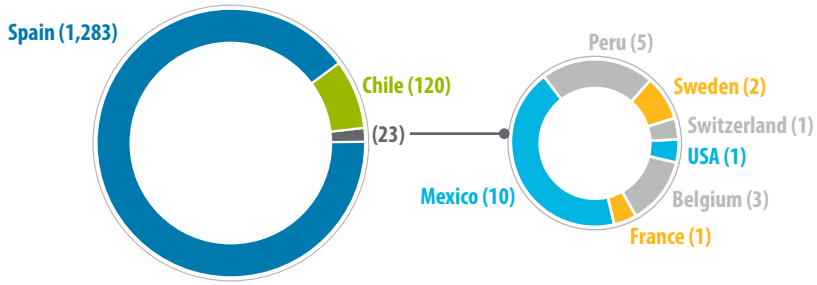
81%
of the workforce underwent a performance assessment (*)
[GRI 404-3]

42
Internal promotions (26.2% women)

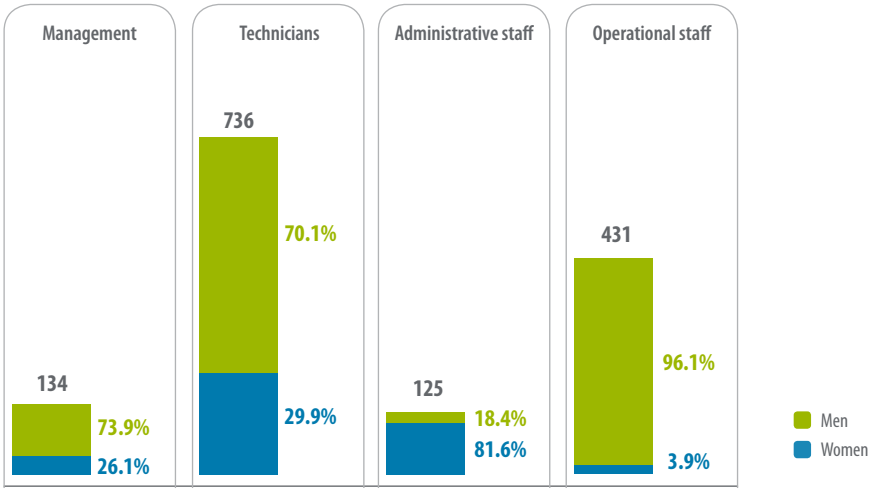
(*) Performance assessment linked to their career development and the increase in their fixed remuneration.

Our professionals

Number of employees by country [GRI 102-8]



Number of employees by professional category and gender [GRI 405-1]



Number of employees by age group and category [GRI 405-1]

	<=35 years		36-55 years		> 55 years		
	People	%	People	%	People	%	Total
Management	5	3.73%	108	80.60%	21	15.67%	134
Technicians	202	27.45%	436	59.24%	98	13.31%	736
Administrative staff	12	9.60%	75	60.00%	38	30.40%	125
Operational staff	107	24.83%	264	61.25%	60	13.92%	431
Total workforce	**326**	**22.86%**	**883**	**61.92%**	**217**	**15.22%**	**1,426**

In 2017, there were 72 new recruitments, 74% being people aged under 35 and 28% women. [GRI 401-1, GRI 102-10]

Stable, quality employment

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

See the Human Capital Management Policy on the corporate website

Percentage of employees by type of contract, gender and country [GRI 102-8]

	Spain		Chile		Total	
	Women	Men	Women	Men	Women	Men
Full-time	92.11%	99.68%	100.00%	100.00%	92.51%	99.71%
Permanent contract	97.18%	98.42%	100.00%	100.00%	97.33%	98.57%

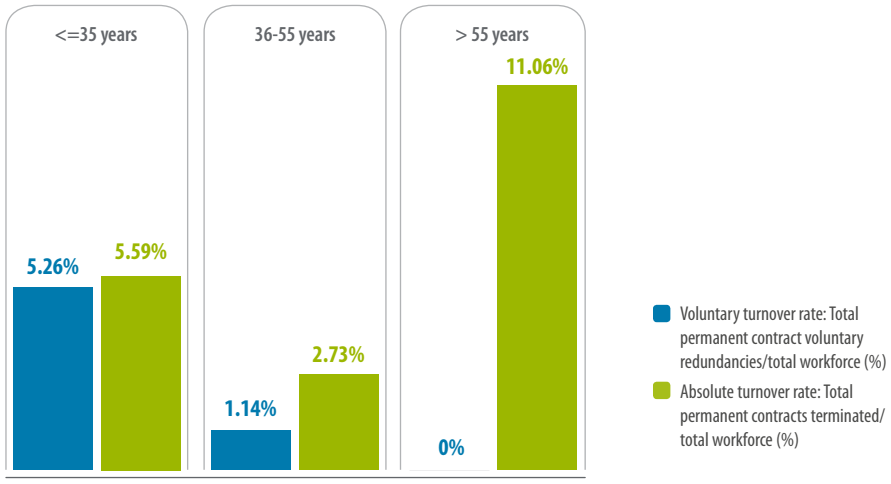
In addition, during 2017, 40 professionals recruited through temporary employment agencies worked at Enagás.

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.

Voluntary and absolute rotation rate by country and gender [GRI 401-1]

	Spain			Chile			Total		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Voluntary turnover rate: Total permanent contract voluntary redundancies/total workforce (%)	3.19%	0.75%	1.40%	5.26%	7.00%	6.72%	3.30%	1.35%	1.86%
Absolute turnover rate: Total permanent contracts terminated/total workforce (%)	5.80%	3.63%	4.21%	5.26%	10.00%	9.24%	5.77%	4.24%	4.64%

Rate of employee turnover by age group [GRI 401-1]



Knowledge of internal talent [GRI 404-3]

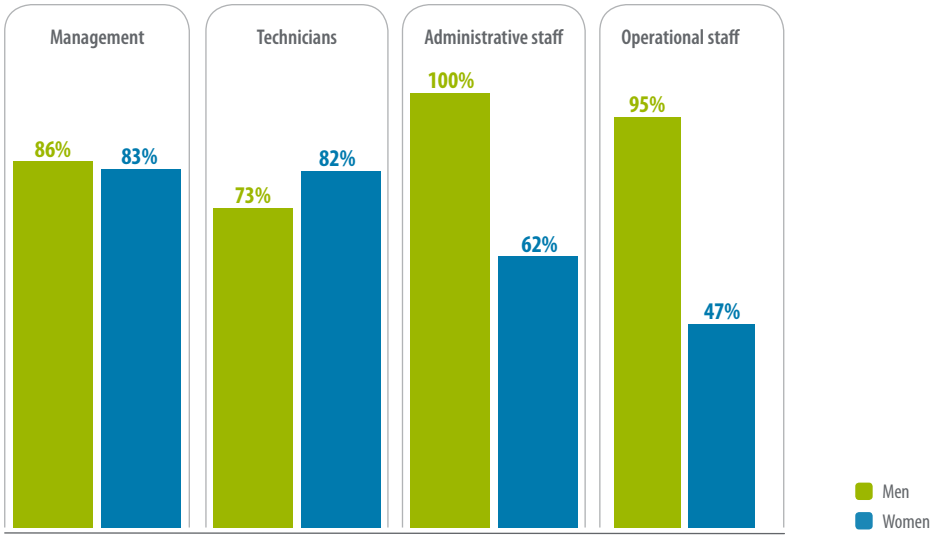
Evaluation of the performance and skills of our professionals means that we can know our internal talent and guide their training and professional development effectively.

Performance assessment 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. The competences and behaviours of professionals are evaluated annually, based on corporate values. The outcomes of these assessments are linked to their career development and the increase in their fixed remuneration.

The performance assessment process for senior positions includes 180º upward assessments. By using upward assessments, teams assess their superiors and, via the 180º assessment, the Management Committee assesses a part of the management team.

Moreover, competencies are evaluated through Development Centre workshops, in which participants get feedback on the strengths and areas for development.

Percentage of employees who have received performance assessment by category and gender



Professional development programmes

The information obtained from the different evaluations of professionals is used to design customized development plans adapted to the needs identified.

On the one hand, 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. In addition, professionals in the company have received training and are certified in coaching; they are therefore qualified to carry out internal coaching processes.

During the coming year, there will be work to strengthen existing mentoring and coaching programmes.

Lastly, an extensive programme of training actions is available on the corporate training portal and these are offered both face-to-face as well as via e-learning.

Training [GRI 404-2]

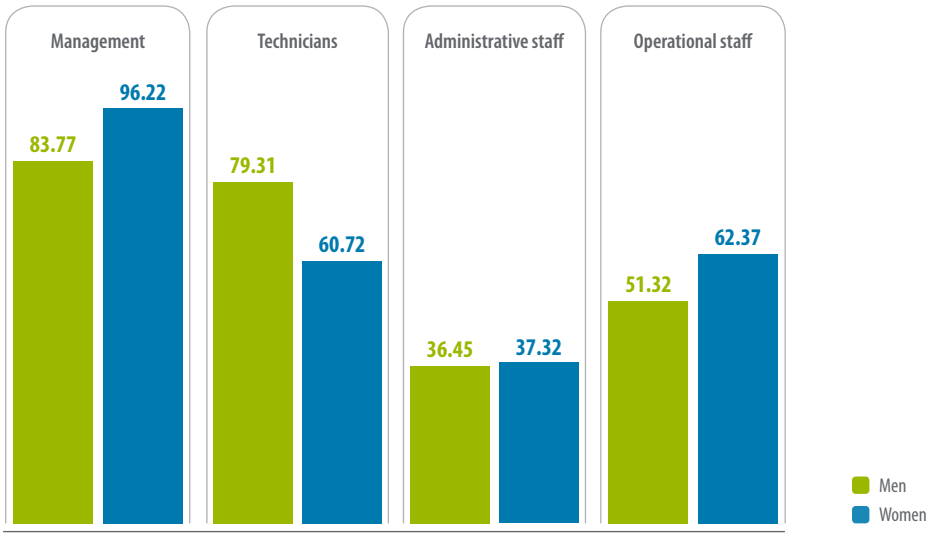
Enagás is committed to training its professionals from when they join the company and throughout their professional career.

Training begins with Enagás' Welcome Plan. 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's 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. This face-to-face training in the classroom and in the workplace is complemented by e-learning, mobile training, communities of practice, etc.

Hours' training received by employee, category and gender [GRI 404-1]



1,673
training courses given

The International School of LNG

The first "Safe Handling of LNG" course was attended by 14 delegates from various professional sectors related to LNG. The International LNG School has been created through an agreement between Enagás and the Spanish Maritime Safety Agency.

Diversity

The corporate directives on diversity and equal opportunities define the principles by which Enagás frames its actions in this area.

These principles include the integration of diversity in the main human resources processes such as access to employment, personal progress and professional development and promotion. It also reflects the company's commitment to the promotion of policies and measures to enhance work-life balance and the personal life of its professionals. In the same way, Enagás extends this commitment to all its stakeholders, paying special attention to suppliers and contractors as indispensable partners in achieving the company's business objectives.

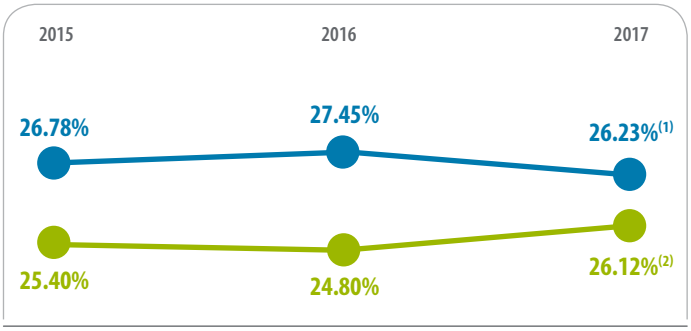
To achieve this commitment, Enagás, aware of the wealth that the combination of knowledge, abilities and different experiences bring to the organization, bases its diversity management strategy on the following aspects:

In the area of 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.

In 2017, 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.

In addition, Enagás is collaborating with the Junior Achievement organization, through participation of female company managers in careers guidance events for girls aged 14 to 16 so that they do not encounter barriers when choosing STEM careers.

Evolution of women on the staff and in management positions [GRI 102-8, GRI 405-1]



% of female employees
% of women in senior positions

(1) 27.16% Spain and 15.97% Chile
(2) 26.77% Spain and 14.29% Chile

Women in Networking Enagás 2017

In 2017, in line with the commitment undertaken with the CEO of Enagás during its participation in the EngageMEN challenges, an initiative on gender equality of Top 100 Women Leaders of Spain, Enagás developed a discussion and networking forum to promote female leadership.

Consult the Corporate directives concerning diversity and equal opportunities on the corporate website

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. This is the case of operators (29% of the workforce), a category in which the lower historical representation of women, reflected in a greater average age of men compared to women (7.5 years more than average), makes the ratio somewhat lower. However, the ratio has increased by 2% compared to the previous year.

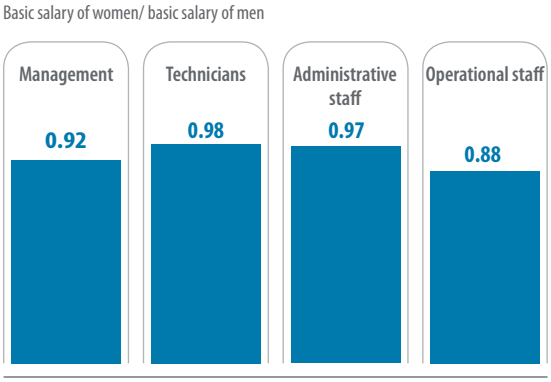
In Chile, the ratio for managers is 0.90, for technicians it is 0.87. As in the case of Spain, the lower ratio in the technical category is due to the greater average age of men compared to women in that category. In the case of the operators category, there is only one woman, whose position is at operator entry level (junior) and the ratio is therefore 0.41. Finally, the category of administrative officers includes qualified jobs fully occupied by women (secretaries) and unskilled jobs occupied entirely by men (couriers), so that the ratio is not relevant.

In generational diversity, the company is a partner of the Generation and Talent Observatory which encourages innovation and promotes active policies of generational diversity based on values and ethics. In 2017, Enagás hosted a forum on intergenerational leadership of the Generation and Talent Observatory. Enagás 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.

In addition, initiatives such as the expert knowledge transfer programme are being implemented in order to retain the critical knowledge of more experienced employees.

Regarding functional diversity, Enagás works for the social inclusion of people with disabilities, through direct and indirect recruitment, signing agreements on work practices in the company and through corporate volunteer initiatives (see the chapter on 'Social Investment'), as well as training and awareness-raising measures on disability.

Ratio between basic salary of women and men by employee category [GRI 405-2]



* General managers / members of the management committee are not included in the management category.

"Equality at Work" accolade since 2010

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

Adherence to the Diversity Charter (plurality in enterprise)

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. It has 94 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.

Family Responsible Company, Proactive B+ status

Recognition for the commitment to conciliation in the last ten years

Enagás has been one of the companies recognized by the Ministry of Health, Social Services and Equality, for having worked during this decade under FRC certification and for maintaining its long-term commitment to the values of conciliation as an essential part of the organization.

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.

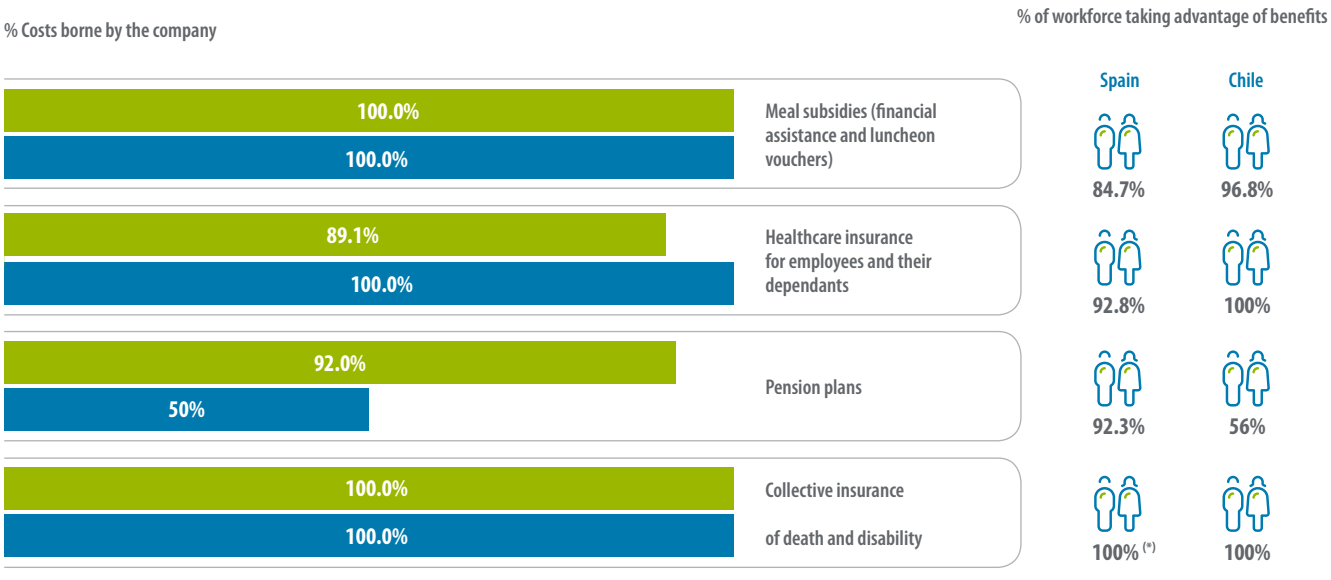
Work flexibility

- 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.

Health and well-being

- 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.

Social benefits most used by employees [GRI 201-3, GRI 401-2]



(*) Social benefit for newly recruited employees, with less than two years' service. Subsequently, this benefit was included in the Pension Plan.

Additionally, Enagás improves and extends paid leave beyond the provisions of current labour regulations (birth of a child, lactation or death of a close relative, special circumstances, etc.). [GRI 401-3]

38	25	100%	88.0%	95.9%	66.7%
Maternity/paternity leave		Return to work rate of employees who took leave prior to 31/12/2017		Retention rate of employees in the company 12 months after returning	

Collective bargaining [GRI 102-41]

Enagás has collective agreements in Spain and Chile. In addition, the company also enters into collective negotiations and carries out regular consultations with authorised representatives of the employees regarding working conditions, remuneration, dispute resolution, internal relations and issues of mutual concern.

Percentage of employees included in collective bargaining agreements

	Management	Technicians	Administrative staff	Operational staff	Total
Spain	0.00%	31.96%	89.92%	100.00%	**53.86%**
Chile	0.00%	3.70%	0.00%	96.15%	**43.70%**
Total	**0.00%**	**29.89%**	**85.60%**	**99.54%**	**53.02%**

Satisfaction and motivation of professionals [GRI 102-21]

Enagás conducts workplace climate surveys in Spain every two years. The most recent survey, in 2016, had a 71% response rate, 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.

In 2017, Enagás received the Top Employer certification for the eight consecutive year.

4.5 Health and safety [GRI 103-1, GRI 103-2, GRI 103-3]

Health and Safety is one of the material aspects for Enagás, as is reflected in the company's Health & Safety, Environment and Quality Policy. From an overall safety perspective, the company seeks the involvement of leaders and the development of a behavioural model for health and safety that guarantees the operation and maintenance of the facilities, processes and equipment, in safe conditions, so that people can carry out their work in optimal health and safety conditions.

The key aspects that we address in our approach to overall safety are the management of occupational risk prevention, including road safety, crisis and emergency management, information security and the health of professionals.

Milestones 2017

- Conducting stress management workshops for Enagás professionals.
- Road safety certification according to the ISO 39001 standard.
- Certification of the corporate website in accordance with the information security standard . (ISO/IEC 27001).
- Upgrading of the critical process of the Industrial Control System for certification according to ISO 27001.
- Implementation of a training and awareness plan in cybersecurity..

Targets 2018

- Preparation of the structure of the Health and Safety Management System by country for affiliates with Enagás majority control.
- Evaluation of psychosocial factors.
- Certification under ISO / IEC 27001 of the industrial control systems of the Compression Stations of Enagás.
- Extension of the ISO / IEC 27001 certification of the corporate website to the set of applications and services that make up the Logistics System for Third Parties Network Access (SL-ATR, MS-ATR, Orion, etc.).
- Adaptation to the new General Data Protection Regulation (RGPD).

100%
of activity certified in accordance with OHSAS 18001

1.33
Lost time injury frequency rate (own staff + contractors) [GRI 403-2]

2.94
Rate of absenteeism [GRI 403-2]

16,976
training hours in health and safety [GRI 403-2]

0.06
Lost time injury severity rate (own staff + contractors) [GRI 403-2]

Health and Safety management

The Integrated Health, Safety, Environment and Quality System of the Enagás Group is certified under OHSAS 18001 and has procedures and systems to seek to prevent injuries and illnesses caused by working conditions in addition to the protection and health promotion of the employees.

In addition, this system includes the Road Traffic Safety Management System, certified in 2017 according to ISO39001. In this area, the company has Corporate directives in connection with Road Safety, a vehicle use protocol, as well as a Guide to Good Road Safety Practices.

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, contractors and the whole subcontracting chain.

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 Committees(1) meet 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.

(1) The Health and Safety Committees are statutorily established for centres with more than 50 workers, in centres with fewer than 50 workers in which there is a Prevention Delegate, health and safety meetings are held regularly.

Awareness

In 2017, a total of 16,976 hours of health and safety training were provided for company employees. [GRI 403-2]

During 2017, 40 awareness-raising campaigns were carried out, most aimed at promoting the physical and mental well-being of Enagás workers through the development of activities that favour a healthy diet, promote regular physical activity and help improve general health.

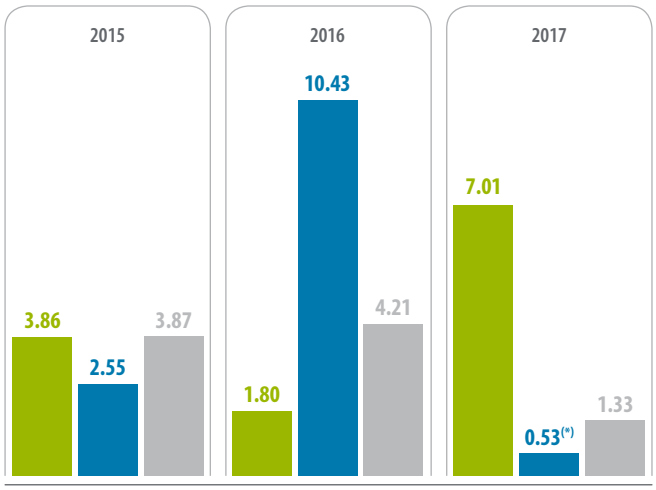
In addition, 11 informative talks were held in health and safety on various topics: choking, stroke, nutrition, Alzheimer's prevention, first aid and basic emergencies.

Consult the Health and Safety, Environment and Quality Policy, the Corporate directives in connection with major accident prevention and the Corporate directives in connection with Road Safety on the corporate website

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 10^6 / 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)

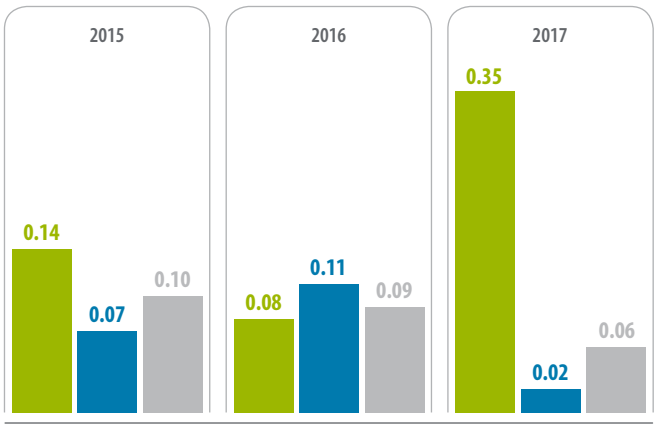
In Chile, there was no accident in 2017.

(*) 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 2017 there were eight accidents leading to sick leave, while there were nine in 2016). In 2015 it was seven).

In 2017, there were 17 accidents. The most frequent causes include slips and trips and accidents while driving (commuting).

Lost time injury severity rate

Number of days lost due to accidents per thousand hours worked. (Number of working days lost x 10^3 / Number of hours worked).



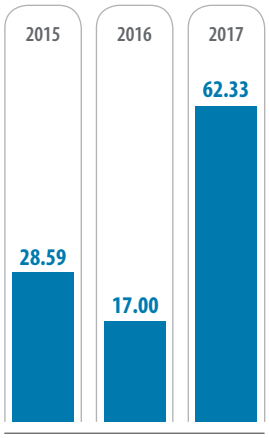
Lost time injury severity rate (own staff)
Lost time injury severity rate (contractor staff)
Lost time Injury Severity Rate (own staff + contractor staff)

In Chile, no working day was lost in 2017.

Enagás promotes safety in its employees and in its supply chain

Lost day rate

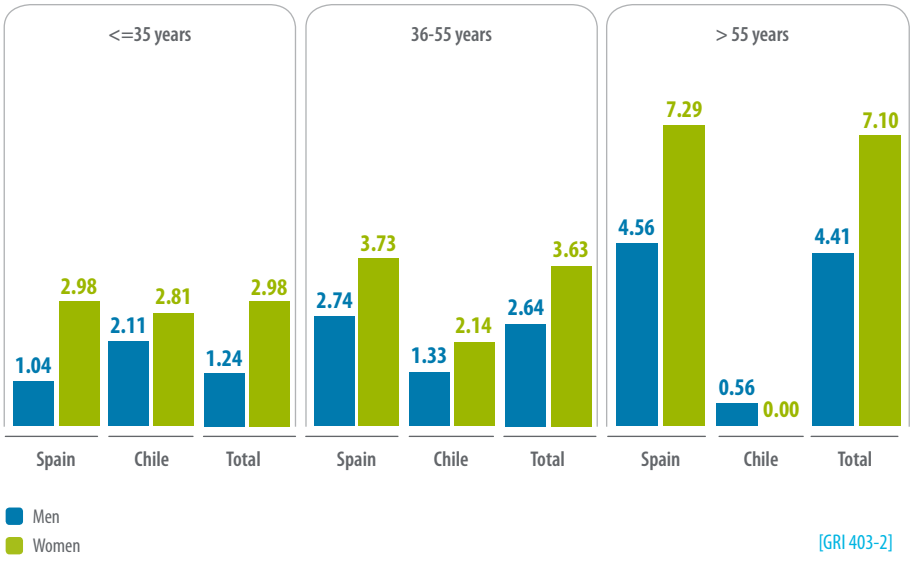
Total cases with lost days (own staff) / Total hours worked per 200,000



In Chile, no working day was lost in 2017.

Absenteeism rate by gender, age and country

Hours of absenteeism x 100 / Theoretical hours (average workforce x 1,682 hours).



[GRI 403-2]

Crisis and emergencies management

During 2017, internal communication channels were reviewed and collaboration with crisis management external support agencies was extended to improve the resilience and business continuity of the company.

Enagás has 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. In 2017, the company signed an agreement with the Emergency Service of Asturias (SEPA), to enable companies in the area to work together in preventive activities to reduce the vulnerability of the environment in which their facilities are located.

Enagás has a stakeholders map for managing crises affecting infrastructures so that, in a hypothetical crisis situation, all key people as well as the channels and issues can be identified.

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.

Cantabria Simulation 2017

Enagás successfully participated in a new simulation of a natural catastrophe organized by the Military Emergency Unit. The exercise tested the response capacity of more than 3,000 personnel involved in the initiative faced with a huge flood event.

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, awareness and training initiatives on cybersecurity were delivered. Moreover, the Enagás corporate website was certified under the ISO 27001 standard. During 2018 this certification will be extended to the set of applications and services that make up the Logistics System for Third Parties Network Access (SL-ATR, MS-ATR, Orion, etc.) and progress will be made in the certification of the control system for compression stations under that standard.

Furthermore, the company is working on adapting the new General Data Protection Regulation (RGPD).

Cybersecurity incidents

As in previous years, Enagás IT systems were not subjected to any successful attacks in 2017.

See the Cybersecurity Policy on the corporate website

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]

- 1,259 medical consultations of Enagás staff plus 107 of external personnel.
- 181 cases of vaccinations against flu, tetanus, hepatitis A and B, and typhoid.
- 997 health examinations.
- 867 examinations for high blood pressure and cardiovascular risk (including 73 blood tests and 148 blood pressure measurements in the medical service, both at specific times and in follow-up)
- 404 tests of early diagnosis of prostate cancer.

With the aim of promoting a healthy lifestyle among employees, Enagás provides professionals with a healthy and natural diet at head office and in the canteens of the facilities, and promotes exercise through programmes such as *"En Forma"* and the changing rooms, showers and bicycle parking services.

In 2017, several informative talks on nutrition and health, diseases such as Alzheimer's, basic emergencies and first aid were held. Additionally, Enagás has financed sports activities, organized with social themes, in which professionals from Enagás have participated (Heart Run, "Hay Salida" Run, Race against Domestic Violence, Companies Race, etc).

Enagás is certified as Healthy Company

4.6 Environmental management

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

Environmental management is one of the key areas for Enagás, as is reflected in the Company's Health and Safety, Environment and Quality Policy. The control and minimization of our impacts on the environment produces direct internal benefits by improving the use of resources, ensuring the sustainability of our business and generating confidence in our stakeholders.

The key aspects that we address in our environmental management model are the environmental management system, the analysis of environmental impacts through the evaluation of environmental aspects (atmospheric emissions, control of spillages and waste, noise control, water management and biodiversity) and environmental impact studies.

Milestones 2017

- EMAS verification of the Serrablo and Yela underground storage facilities.
- Adaptation of the management system to the requirements of the new ISO9001 and ISO14001 standards..
- 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.

Targets 2018

- Preparation of the environmental performance report of the facilities.
- 40% reduction in the consumption of municipal water at the Barcelona Plant through the installation of a desalination plant for the use of fire fighting water to replace drinking water.
- Control and optimization of network water consumption in the Barcelona and Cartagena Plants through the installation of flow meters.
- Preparation, approval and publication of a Consumption Control Procedure for all infrastructures.
- Creation and execution of a plan to disseminate information regarding the environment.

100%
of activity certified in accordance with ISO 14001

128,711 m³
of water consumption[GRI 303-1]

896 t of NOx

3,036 t
of waste generated

16 t of SOx

38 t CO

Environmental management system

Enagás undertakes its environmental commitments (as outlined in the Health and Safety, Environment and Quality Policy) via its Environmental Management System. 100% of Enagás activity is ISO 14001 certified. In 2017, work was carried out to adapt the management system to the requirements of the new ISO9001 and ISO14001 standards (version 2015).

Likewise, in 2017 the EMAS analysis was carried out on the Serrablo and Yela underground storage facilities which are joining the regasification plants in Huelva and Barcelona that already have this certification.

See the Health and Safety, Environment and Quality Policy on the corporate website.

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. (See the chapter on 'Local communities').

In 2017, environmental audits were carried out on site in one facility.

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. In 2017, environmental monitoring was carried out on 124 km of gas pipeline.

Circular economy

Enagás has signed the Pact for the Circular Economy promoted by the Ministries of Agriculture and Fisheries, Food and Environment and Economy, Industry and Competitiveness.

Through this Pact, Enagás undertakes to promote the transition to a circular economy through different actions:

- Promotion of a model of responsible consumption that includes the use of sustainable products and services and lower use of non-renewable natural resources.
- Empowering the principle of waste hierarchy, promoting the prevention of its generation, promoting reuse and recycling and promoting its traceability.
- Promoting guidelines to increase process innovation and efficiency.
- Promoting analysis of the product life cycles (incorporating ecodesign criteria, making repair possible and prolonging service life).
- Raising awareness on the importance of moving towards a circular economy.

This commitment is evidenced by the initiatives that Enagás has been developing over the last year with the works carried out in the Gaviota Underground Storage environment certified under the Ecodesign standard (ISO 14006: 2011); the signing of the agreement with the Otro Tiempo association, which promotes the recycling of coffee capsules at the Enagás head office while employing women at risk of social exclusion; the signing of a protocol with the Huelva City Council for the implementation of an energy efficiency project, linked to the use of the residual cold of the Huelva regasification plant.

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.

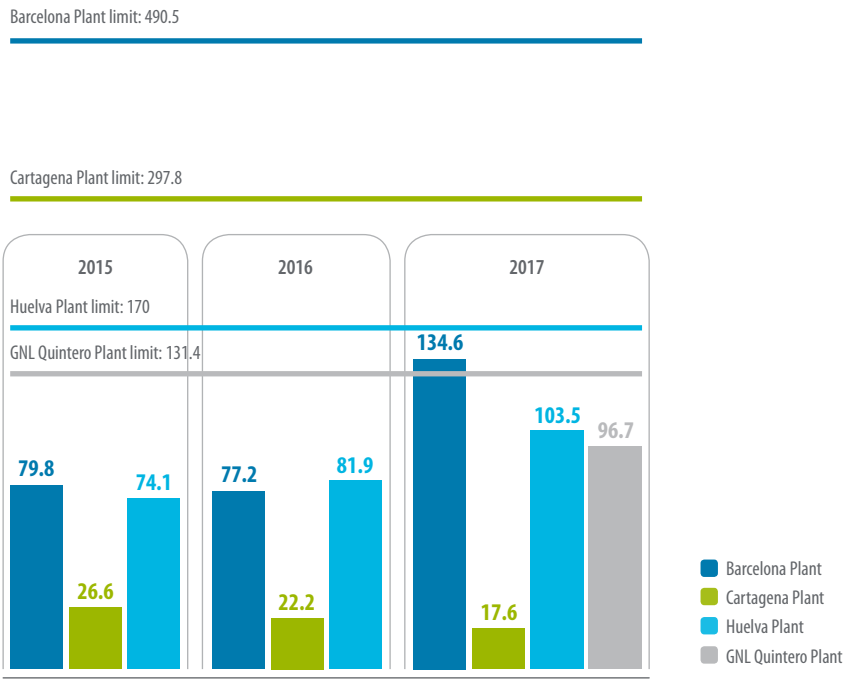
Enagás is working on the concept study of the interconnection corridor of the South Transit East Pyrenees Project as part of the Common Interest Project "Interconnection point between Spain and France at Le Perthus, Eastern Spain-France Axis (now known as MidCat)". This study is being carried out in 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 OG4]

Water management

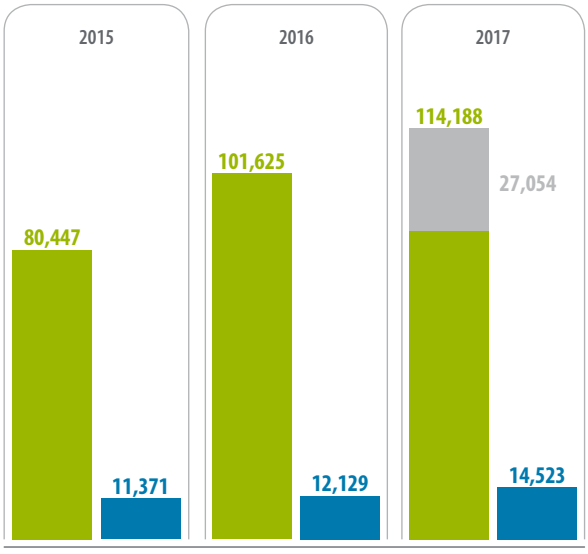
At Enagás, we do not consume water in our production processes. The company has thus not stated significant risks linked to water shortages in the yearly assessments that are conducted in line with the company's risk management model. In addition, environmental risk assessments are conducted at each 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).

We withdraw seawater for use in floodwater and seawater evaporators at regasification plants. This water is returned under the same conditions as those in which it is withdrawn (the temperature decrease is minimal and it does not affect the marine ecosystem). The volume of water taken is directly proportional to the quantity of gas regasified. [GRI 303-2]

Seawater withdrawn and returned to its source (hm^3) [GRI 303-2]



Consumption of water by source (m^3) [GRI 303-1]



NB: Consumption data for 2016 has been changed from what is reported in the 2016 Annual Report, due to an error detected in the accounting of the invoices received. [GRI 102-48]

Enagás reports on its water performance, risks and opportunities through its participation in CDP Water

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 2017, a general water consumption reduction plan was drawn up, with specific consumption reduction measures established for the facilities, in order to reduce water consumption to 8.000 m^3.

The wastewater discharged by Enagás is comparable to urban waste. In 2017, we discharged 4,587 m3 of water into the public mains and 10,585 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 2017 was: [GRI 306-3]

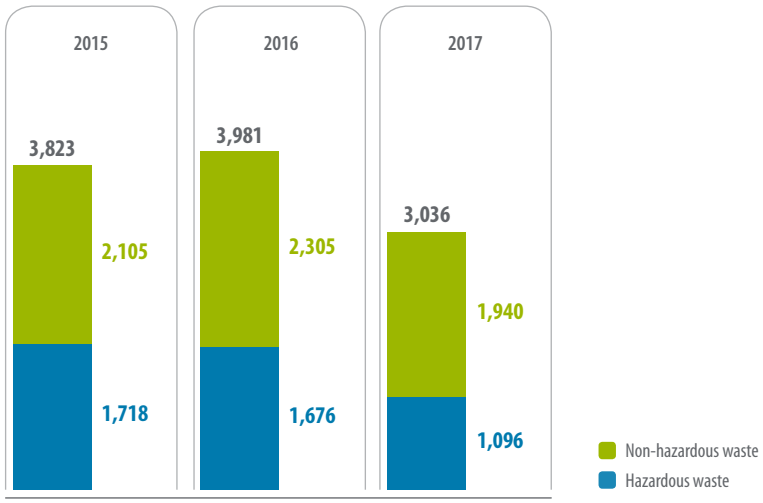
Accidental spills in 2017

5.1 litres of gasoil	Corrective actions include damage assessment, land decontamination and replenishment, removal and treatment by the waste manager and preparation of the incident report.
192 litres of oils	
15 litres of water with ethylene glycol	

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. In this sense, the objective of treating (recycling / re-using) 95% of hazardous and non-hazardous waste has been established in the contract with the waste management company. [GRI 306-2]

Enagás has recycled 68% of the waste generated

Waste generated and managed (T)



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 2017, a total of 43 noise measurements were conducted at the regasification plants, 7 compression stations and at 32 sites. During 2017, actions were taken to minimize noise levels in the following silencing regulation stations at positions K-45 Valdepeñas and K-19 Morón de la Frontera. At Alcazar compression station, a turbocompressor soundproofing booth has been installed.

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. These emissions are produced in the natural gas combustion process of the different equipment.

The energy efficiency measures and the objectives of reducing CO_2 emissions (see the chapter on'Climate Change and Energy Efficiency') are directly related to the reduction in these atmospheric emissions. [GRI 305-7]

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

The 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.

Non-GHG emissions (t)

	2015	2016	2017(*)
CO	45	39	38
NOx	784	826	896
SOx	14	14	16

(*) 2017 includes emissions from the Quintero LNG regasification plant

4.7 Climate Change and Energy Efficiency [GRI 103-1, GRI 103-2, GRI 103-3]

Improved energy efficiency and lower greenhouse gas emissions are major factors in reinforcing the vital role that natural gas will play in a low carbon economy as a key element for achieving sustainable, safe and efficient energy.

The most relevant aspects that we address in our climate change management model are public commitment and the setting of objectives, emissions reduction and compensation measures, as well as reporting on our performance and results.

Milestones 2017

- Production of analyses and studies to promote the use of natural gas instead of other more polluting fuels.
- Approval of Corporate Directives concerning Sustainable Mobility.
- Renewal of the maintenance and management fleet with vehicles using compressed natural gas (CNG).
- Involvement in the project for the promotion of the use of natural gas as a fuel on the railways through a pilot test of liquefied natural gas in a passenger train.
- Launch of the voluntary carbon offsetting programme.
- Signing of the commitment to adopt the recommendations of the report drafted by the *Task Force on Climate related Financial Disclosures* (TFCD).
- Registration with the 'Carbon Footprint, Compensation and Absorption Projects' of the MAPAMA, with 'calculation and reduction' seal achieved for 2016.

Targets 2018

- Energy management system establishment under ISO 50001.
- Evaluation of the most significant suppliers in terms of climate change.
- Setting short and long-term (science based targets) emissions reduction objectives.
- Review of economic quantifications of risks and opportunities arising from climate change (preparation of scenarios based on temperature increases - TCFD).
- Review of electricity supply contracts with the aim of increasing the percentage of electricity supplied with 40% guarantees of origin in practically all the infrastructures.

0.4%
of reduction of the 2017 carbon footprint reduction (Scopes 1 and 2) in the facilities in Spain compared to 2016

2,069 tCO_2e
avoided through energy efficiency measures

266,357 tCO_2e
Scope 1 emissions [GRI 305-1]

46,851 tCO_2e
Scope 2 emissions [GRI 305-2]

Commitment to action on climate change

Enagás has taken on a major commitment to the fight against climate change and for the improvement of air quality.

Accordingly, the company has adopted a public commitment by joining the 'WE MEAN BUSINESS' initiative, with an undertaking to promote policies towards a low carbon economy, to set a carbon price and report information on climate change in corporate publications. In relation to this last commitment, Enagás has been a pioneer in signing the commitment to adopt the report recommendations drafted by the *Task Force on Climate related Financial Disclosures* (TFCD). Likewise, it is part of the Spanish Green Growth Group and we are members of the Action for Climate initiative.

Climate change management model

Enagás' climate change management model is based on the evaluation and minimization of the environmental impact of our activity, plus reporting through the company's Annual Report and carbon footprint.

Since 2013, Enagás calculates and verifies its carbon footprint according to ISO 14064 before an independent third party to provide reliability and transparency to its calculations based on a realistic scenario for the definition of its strategy.

As part of this strategy, the setting of a carbon price for the period 2015-2020 has enabled environmental externalities to be included in the company's business and investment decision-making.

Likewise, the company sets itself improvement challenges by setting annual and medium-term emissions reduction targets, as well as through the definition of an emissions compensation strategy.

We extend our commitments and actions on climate change to our supply chain through the inclusion of criteria related to the management of climate change in procurement processes.

To achieve these objectives, for several years, there has been an Energy Efficiency and Emissions Reduction Plan which annually identifies, develops and quantifies different energy saving measures. They include a campaign to detect, quantify and reduce leak emissions (LDAR), which continued in 2017, ensuring the regular monitoring of the methane emissions of our facilities.

Moreover, Enagás participates in numerous international studies and lines of research related to the quantification and reduction of greenhouse gas emissions (mainly carbon dioxide and methane) in the natural gas value chain, which is currently a highly debated problem in the sector.

In innovation matters, Enagás has supported the creation of the Vira Gas Imaging start-up, a manufacturer of infra-red cameras (Optical Gas Imaging) for use in early detection of methane leaks into the atmosphere and their subsequent quantification.

Enagás has been a pioneer in signing the commitment to adopt the recommendations of the *Task Force on Climate related Financial Disclosures* (TCFD)

Management of the climate change-related risks

[GRI 102-29, GRI 102-31, GRI 201-2]

By applying the company's risk management model (see the chapter on 'Risk Management'), 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.	• Promotion of new services and uses of natural gas in transportation by road, rail and sea and in the industrial and household sectors. • Promotion of the development of gas from renewable sources and hydrogen and their integration in gas infrastructures. • Promotion of the development of new technologies and infrastructures for the capture, transmission and storage or use of CO_2 and small-scale liquefaction.	Medium	High
	Increased costs associated with compliance with laws governing CO_2 emissions.	• Setting the target of 30% reduction in emissions for 2016–2018, linked to variable employee remuneration. • Energy Efficiency and Emissions Reduction Plan. • 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.	Medium	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.	• 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, cyclones, etc.). • Emergency response action plan for the Spanish Gas System. • Insurance policy covering catastrophic damage. • Review of plans for adaptation to climate change in infrastructures.	Low	Low

Energy efficiency and emissions reduction targets

Enagás annually sets energy consumption targets as well as targets for its own power generation from efficient, clean and renewable sources. These targets are linked to the variable remuneration paid to professionals.

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.

During the first two years, emissions were reduced by 37% compared to the 2013-2015 annual average.

In 2017, the percentage of electricity with guarantees of origin out of total grid electricity consumption was 20%. From 2018, the percentage of electricity with guarantees of origin has increased by up to 40% in practically all facilities.

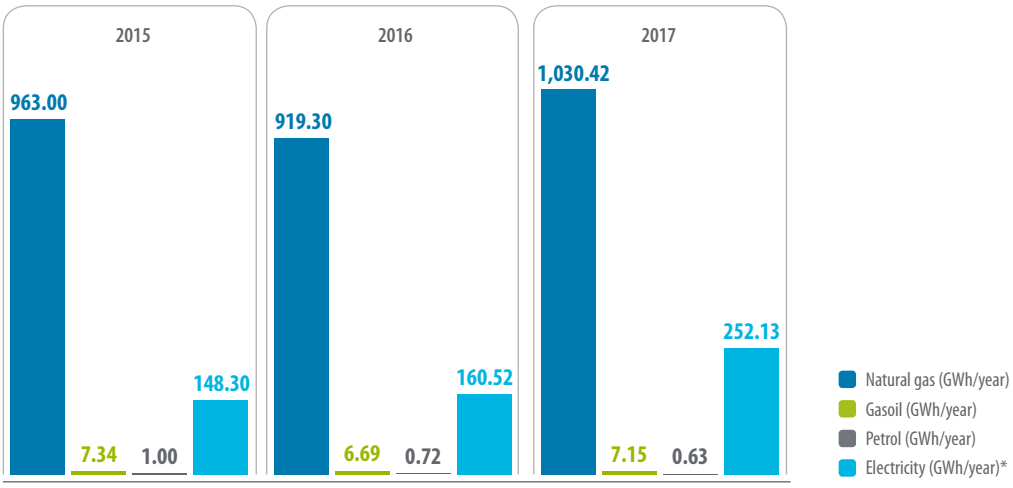
Self-generated electricity from renewable, clean or efficient sources in 2017 accounted for 11% (21.1 GWh) of total consumption, with part of this electricity delivered to the national grid and the other part used at Enagás facilities. [GRI-OG3]

Energy Efficiency and Emissions Reduction Plan

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 2017 were able to prevent the emission of 2,069 tCO_2into the atmosphere.

Savings of 1.22 GWh of natural gas and 4.91 GWh of electricity were achieved with an investment of more than 2 million euros. [GRI 201-2]

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



(*) Power consumption in 2017 includes 60.13 GWh of the GNL Quintero regasification plant.

Energy intensity

[GRI 302-3]

	2015	2016	2017
Energy intensity per turnover (GWh energy consumed /M€)	2.71	2.61	2.63
Energy intensity per employee (MWh energy consumed /employee)	837	813	905
Energy intensity per gas output (MWh energy consumed/GWh total outputs)	2.994	2.973	3.034

Energy Efficiency Measures established in 2017 [GRI 302-4, GRI 302-5, GRI 305-5]

Energy Efficiency Measures	Type of energy saving	Energy savings achieved in 2017	Emission reductions achieved in 2017
Campaign to detect, quantify and reduce fugitive emissions in four compression stations, 72 regulation and measurement stations, 82 valve positions and in the Huelva Regasification Plant and Serrablo Underground Storage Facility (in injection)	Natural gas savings	0.75 GWh	1,162 tCO_2e
Upgrading of the TC4 compressor in the Almendralejo Compression Station		0.47 GWh	94 tCO_2e
Installation of frequency inverter on primary LNG pumps (115 J) at the Huelva Regasification Plant	Electric consumption savings	1.48 GWh	221 tCO_2e
Installation of a frequency inverter on a seawater collection pump (116 J) in the Huelva Regasification Plant		1.01 GWh	151 tCO_2e
Installation of a frequency inverter on a seawater collection pump (116 J) in the Barcelona Regasification Plant		0.89 GWh	134 tCO_2e
Installation of a frequency inverter on a seawater collection pump P-1440-D1 in the Barcelona Regasification Plant		0.33 GWh	49 tCO_2e
Installation of frequency inverter on secondary LNG pumps GA-223-E at the Cartagena Regasification Plant		0.79 GWh	119 tCO_2e
Installation of frequency inverter on a primary LNG pump GA-231-B at the Cartagena Regasification Plant		0.03 GWh	5 tCO_2e
Installation of 122 frequency inverters in regulation and measurement station pumps		0.36 GWh	131 tCO_2e
Detection and repair of compressed air leaks in the Barcelona Regasification Plant		0.02 GWh	3.1 tCO_2e
Detection and repair of nitrogen leaks at the Barcelona Regasification Plant		0.0000012 GWh	0.00018 tCO_2e
Replacement of light fixtures in the warehouse and workshop of the Huelva Regasification Plant		0.01 GWh	0.9 tCO_2e
Total			**2,069 tCO_2e**

Reduction of fugitive emissions [GRI 305-5]

Fugitive emissions account for 17% of the company's carbon footprint and are responsible for most of methane emissions.

After several campaigns for the detection, quantification and repair of natural gas leaks in its facilities, Enagás has internalized these actions in the maintenance ranges of its facilities in order to reduce losses from emissions leaks from its activity year after year.

Simultaneously, Enagás analysed other existing best practices to reduce methane emissions in its facilities, taking account of its cost / benefit analysis, by identifying a list of measures to be included in the Energy Efficiency and Emissions Reduction Plan 2018.

Furthermore, Enagás participates in a number of associations actively collaborating in the preparation of reports, studies and research related to methane emissions. Among the published studies, the following are of note:

- Climatic and methane metrics, developed by the *Sustainable Gas Institute of London Imperial College*. This study analyses the different existing climate metrics and more suitable periods for the conversion of emissions of different greenhouse gases into tons of CO_2 equivalent (GWP, GTP, etc.). It should be noted that currently the 100-year GWP is the most widely recognized metric, used by expert bodies.
- The *Thinkstep/NGVA* study, Greenhouse Gas Intensity of Natural Gas, shows that greenhouse gas emissions from the natural gas value chain are lower than those of other fossil fuels both for use in power generation and in road transport (light and heavy vehicles) and maritime transport.

Carbon offsetting

In 2017, Enagás defined its carbon offsetting strategy, through which the company undertakes to achieve carbon neutrality in key strategic areas:

- Carbon neutrality of regasification plants: this involves key infrastructures for the security and diversification of supply. Furthermore, they are one of the priorities at strategic level, insofar as the company wishes to position itself as a global specialist in LNG (see the chapter on 'Our future project').
- Carbon neutrality of the corporate fleet: one of the strategic priorities of Enagás is the promotion of new uses of natural gas in transport. The corporate fleet, certified as an ecological fleet, is one of the key areas of the company's Sustainable Mobility Plan.
- Carbon neutrality of the corporate headquarters: the corporate headquarters is the company's most representative building and has recently received LEED Gold certification.

For the first time, Enagás has offsetted part of its 2017 footprint emissions with credits generated by emissions reduction projects developed in the countries where it operates, Peru and Chile, which also involve an improvement of environmental and social impact on local communities .

Thus, 19,478 tCO_2 have been offsetted with carbon credits generated by the following projects:

- Project for the substitution of stoves made with stones or terracotta with kitchen stoves with a chimney that emit fewer polluting gases among Peruvian populations.
- Project for the protection of forest areas within the Cordillera Azul National Park of Peru.
- Project for the collection and use of gas from one of the most important landfills in the region, in Chile, for power generation. The project includes electrical substations and a transmission line.

Enagás has offsetted part of its emissions with carbon credits generated by projects with social and environmental impact in local communities in Peru and Chile

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.

Maritime transport

Enagás participates in projects such as CORE LNGas Hive. In this case, it is the coordinator of the project that includes 42 partners with a budget of € 33.3Bn, with the objective of the development of an integrated, safe and efficient logistics chain for the supply of liquefied natural gas (LNG) for fuel in the transport sector, especially in maritime transport, in the Iberian Peninsula: Spain and Portugal. This will promote the use of this alternative fuel not only for supply to ships but also for industrial equipment in port areas.

In addition, from its position as Vice President of the Maritime section of Gasnam, Enagás is promoting all necessary measures for the promotion and development of the infrastructures required for the use of LNG as a maritime transport fuel.

Rail transport

Enagás is collaborating with Renfe and other companies, supported by the Ministry of Public Works and Transport, to develop a test for the use of LNG in a passenger car on the Spanish railway network, as part of the Driving Vehicles with Alternative Energies Strategy in Spain 2014-2020 and in line with the implementation of Directive 2014/94 on the implementation of an infrastructure for alternative fuels in Europe. This project seeks to analyse the technical, environmental, legal and economic feasibility of railway traction with LNG to assess the possibility of extending this new traction solution to the commercial area in Spain.

Also, a second project will be developed, in collaboration with Renfe, to convert the railway traction of a diesel freight locomotive to LNG (raiLNG project). Enagás is also involved with RENFE in the development of intermodal transport of LNG isocontainers for combined transportation by Road-Rail-Sea.

Road transport

The company is participating in the ECO-GATE project, a consortium of natural gas operators and technology and service providers, end users and experts in market knowledge and promotion in Spain, Portugal, France and Germany, whose aim is to construct 23 gas stations (21 L-CNG, 1 Biomethane, 1 H2CNG) in the Atlantic and Mediterranean corridors of the road network of Spain, France, Germany and Portugal.

Likewise, the company's Sustainable Mobility Plan includes a range of initiatives aimed at its professionals and its fleet of vehicles, which promote the use of vehicular natural gas and optimize travel, thus reducing environmental impact. These include the replacement of vehicles for operation and maintenance by vehicles powered by CNG, if there are equivalent vehicles; the delivery of CNG vehicles to managers and the promotion of the purchase of this type of vehicle by their employees in advantageous conditions.

Additionally, the company is promoting the use of natural gas as an alternative fuel to oil in vehicle fleets through the creation of start-ups (Gas2Move and ScaleGas).

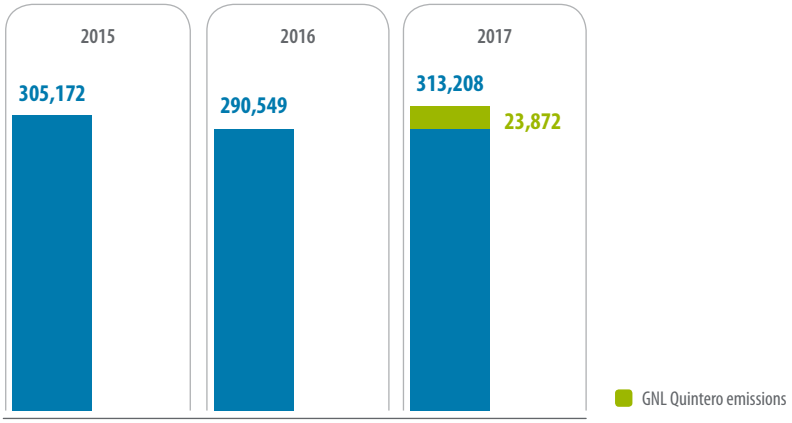
For the promotion and enhancement of CNG and LNG for use as land transport fuel, Enagás is also participating as a partner in Gasnam, NGVA and Sedigas, supporting the measures agreed in the sector.

Evolution of Scope 1 and 2 emissions

The Enagás carbon footprint (Scopes 1 and 2) has decreased by 0.4% compared to the previous year, excluding emissions from the LNG Quintero regasification plant.

Evolution of Scope 1 and 2 emissions (tCO_2e)

[GRI 305-1, GRI 305-2]



This slight decrease in emissions becomes relevant in a scenario of greater national demand and change of the balance sheet code that has caused an increase in the activity of facilities that have inevitably had to improve their efficiency.

Specifically, the emissions of regasification plants in Spain have been reduced by 29%, due to:

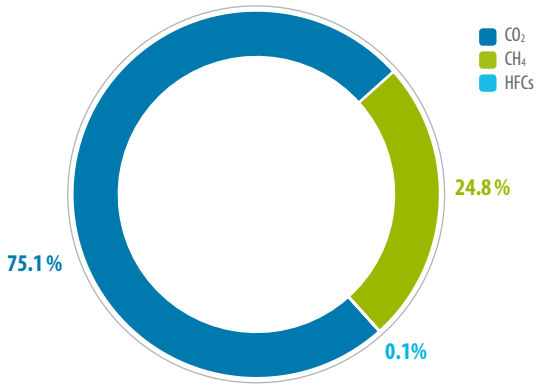
- The increase of in-house power generation (+ 14%) from the Barcelona turboexpander, a clean source of electricity generation that can be used to shift consumption from the grid.
- A significant reduction (-74%) in fugitive emissions due to the repair of detected leaks.
- The 81% reduction in venting compared to 2016 due to best practices in operations.

However, emissions at regasification plants have increased by 63.9% due to the inclusion of Scope 2 emissions from the GNL Quintero plant (Chile).

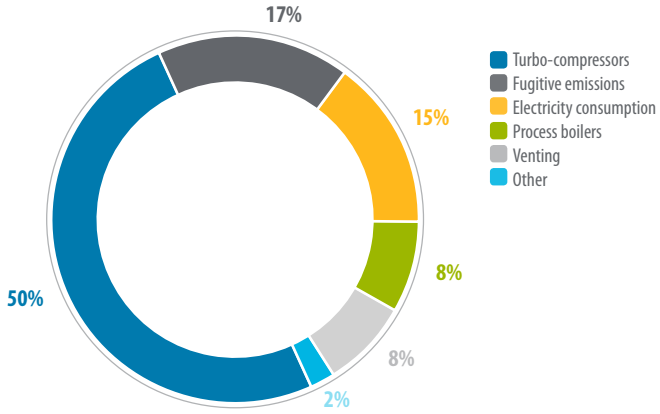
On the other hand, emissions generated in gas pipelines and in regulation and measurement stations have reduced by 5.9% and 4.6% respectively over the previous year. This is due to the reduction in power consumption and the repair of detected leaks.

Finally, emissions from compression stations have increased by 7.2% with respect to 2016, mainly due to the increase in natural gas consumption in turbocompressors (+ 11%) due to the entry into force in October 2016 of the new gas sector balancing code that eliminated the flexibility mechanisms that previously enabled optimization of the operation of the facilities.

Scope 1 and 2 emissions by gas type
[GRI 305-6]



Scope 1 and 2 emissions by source
[GRI 305-1, GRI 305-2]



75.1% of the Enagás carbon footprint corresponds to emissions of CO_2, mainly produced during the combustion of natural gas in stationary sources, i.e. turbocompressors, boilers, flares, etc.

Emissions of CH_4, which account for 24.8% of this footprint, are mainly due to fugitive emissions (17%) and natural gas venting (8%). Venting may occur as a result of operation and maintenance, operating safety, pneumatic valves and analysis equipment (for example, chromatographs, etc.).

50% of total footprint emissions are generated by the self-consumption of natural gas in turbocompressors in compression stations and underground storage facilities.

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

	2015	2016	2017
Intensity of emissions by turnover (tCO_2e/M€)	739	697	638
Intensity of emissions by employee (tCO_2e/employee)	228	217	220
Intensity of emissions by gas outputs (tCO_2e/Gwh outputs)	0.82	0.79	0.74

Emission rights trading strategy

51% 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 155,000 rights until 2020. [GRI 201-2]

Scope 3 emissions [GRI 305-3]

Scope 3 emissions

1. Acquisition of goods and services	Emissions derived from the extraction, fabrication and transport of acquired goods and services.	2,069 tCO_2e
	Emissions arising from the use of paper and office materials.	2 tCO_2e
2. Capital goods	Emissions derived from the extraction, fabrication and transport of equipment acquired for production.	7,896 tCO_2e
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.	16 tCO_2e
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).	2,010 tCO_2e
	Emissions generated by the consumption of fuels derived from the contracting of surveillance services and air, maritime and land maintenance.	
5. Waste generated during operation	Emissions derived from the transport, management and treatment of waste generated at Enagás facilities.	57 tCO_2e
6. Work-related journeys	Emissions derived from work-related journeys by Enagás employees (aeroplane, train and taxi).	3,156 tCO_2e
7. Journeys to and from work by employees	Emissions derived from journeys to and from work by Enagás employees.	1,209 tCO_2e
15. Investments	Emissions, excluded Scopes 1 and 2, from those companies in which Enagás has a stake but not operational control: Bahía de Bizkaia Gas, S.L, Compañía Operadora de Gas del Amazonas, S.A.C. (COGA), Sagunto S.A. Regasification Plant (Saggas), Terminal de LNG de Altamira, S. de R.L. de C.V.	160,941 tCO_2e
Scope 3 total		**177,356 tCO_2e**

4.8 Supply chain [GRI 103-1, GRI 103-2, GRI 103-3]

Supply chain management is an increasingly critical point in the company's management. Appropriate supply chain management allows us to identify and manage the risks (regulatory, operational, reputational, etc.) associated with it, and to make good use of opportunities for collaboration and value creation shared with our suppliers.

A key focal point in the management of our supply chain is greater knowledge of our suppliers, which allows us to take advantage of opportunities for collaboration and share value creation with them. Likewise, greater information on our supply chain enables us to identify and manage the associated risks more efficiently.

Milestones 2017

- Incorporation of the criteria of work-life balance, disability and ethical compliance in the review of supplier approval procedures.
- Identification and dialogue with suppliers for the development of collaborative actions within the framework of the corporate entrepreneurship programme.
- Auditing critical suppliers through participation in the Achilles working group.
- Extension of reliability analysis to new product and service categories and implementation of an electronic assessment module for this purpose.
- Implementation of control tools to identify and evaluate the reputational risks associated with our suppliers and to minimise their impact on the company.

Targets 2018

- Definition of a supplier information integration form, which includes:
  - Definition of the level of environmental, social and ethical (ESE) risks for product and service families and for their suppliers.
  - Definition and implementation of approval requirements in accordance with the level of risk shown by suppliers.
  - Monitoring and updating of supplier information.
  - Integration of all supplier information (approval, reliability, ESG assessments, etc.) into a single and visible database for all users of this information.
- Hosting new, open innovation encounters with suppliers.

1,356
approved suppliers

55
suppliers audited
in financial, ethical, environmental
and social fields

10.1%
of orders assessed
in reliability analysis

69.5%
of approved
suppliers are critical

50.8%
of approved suppliers assessed in
accordance with CSR criteria

Our supply chain [GRI 102-9]

In order to work with Enagás, suppliers must undergo a strict approval process. The company currently works with 1,356 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 2017, 676 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.

Product and service families are classified into levels according to the impact on the safety of the company's operations resulting from poor functioning or poor service. Product and service suppliers whose failure or service implies a greater impact on the company's operations are classified as major or critical (levels 1 and 2).

Enagás has 943 approved major suppliers. In 2017, we began working with 16 new suppliers and stopped working with 10 suppliers because they discontinued their activity, merged with third parties or for breach of contract. [GRI 102-10]

In order to work with Enagás, suppliers must undergo a strict approval process

(*) The amount corresponding to orders by the GNL Quintero plant in Chile account for 0.007% of the Enagás total, therefore this chapter does not include the information relative to the GNL Quintero supply chain. Supply chain management in Chile follows similar approval and environmental, social and ethical assessment processes to those described in this chapter.

Volume of supplier management [GRI 204-1]

	Works and services	Supplies
Number of orders	3,524 (97% of which were local)	5,360 (99% of which were local)
Order value (€Mn)	95.7 (88% of which were local)	24.9 (79% of which was local)

In 2018 Enagás has been working on a new system for classifying product and service families that takes into account their level of economic, social and environmental risk.

Supply chain risk management

Enagás has identified areas in supply chain management where there may be risks for the business and our stakeholders. These areas, which cover both economic and ESE aspects, form the basis for the assessments we perform on our suppliers in the different procurement processes. The areas analysed are: [GRI 308-2, GRI 414-2]

- Product and/or service quality.
- Financial situation, civil liability, economic dependence on Enagás.
- Health and safety
- Ethics and compliance: penal risks, ethical compliance, legal compliance, responsible tax practice.
- Human rights: labour rights (diversity, work-life balance, gender equality), respect for the principles of the United Nations Global Compact and the Universal Declaration of Human Rights, human rights compliance in the actual supply chain.
- Environment: emission intensity, environmental impact (resource consumption, waste generation, noise emissions, gas emissions, etc.), environmental safety (discharges, spills, pollution, etc.).

The following requirements are set out in the supplier approval process:

- 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 52% of critical suppliers), environment (required from 27% of critical suppliers) and occupational risk prevention (required from 23% of Enagás' critical suppliers).

During contract execution, Enagás evaluates critical suppliers in the previously mentioned areas using different assessment methods. The results obtained allow suppliers to be identified where they pose a high risk to sustainability, and to define action plans in order to mitigate this risk.

Evaluation methodology [GRI 102-21]		Number of suppliers assessed in the last two years (*) [GRI 308-1, GRI 414-1]	Definition of high risk	Number of suppliers identified as high risk
Internal evaluation	Questionnaire to assess reliability	320	Suppliers with a score less than 50/100	15
	Electronic questionnaire on ESE aspects	145	Suppliers with a score less than 30/100	6
	Consultation on ethics and compliance on reputational analysis platforms	364	Suppliers involved in legal non-compliance	16
	Electronic questionnaire on climate change management	107	Suppliers that do no measure or report their emissions	32
	Environmental audits on construction sites	16	Suppliers with major non-conformities	13
	Documentary safety audits on suppliers performing work on installations	63	Suppliers with unfavourable audits	21
External evaluation	Electronic questionnaire on financial and ESE aspects	1,198	Suppliers with a score less than 50/100	370
	Audits on financial and ESE aspects	55	Suppliers with non-conformities	34

(*) The result of the evaluations are considered to have a validity of 2 years.

Collaboration with suppliers

The goal of Enagás' Suppliers Circle initiative is to identify and develop collaboration projects with our 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 (see the chapter on 'Financial and Operational Excellence').

Enagás works with its suppliers to develop collaboration initiatives directed towards innovation and entrepreneurship

Acknowledgement in the Purchasing Diamond prizes

In 2017, Enagás was acknowledged, for the four year in a row, in the 'Purchasing Diamond' prize event in its eighth edition, organised by the Spanish Association of Purchasing, Contracting and Procurement Professionals (AERCE), with a consolation prize in the strategy category and a special mention in the innovation category.

4.9 Local communities [GRI 103-1, GRI 103-2, GRI 103-3]

Relations with local communities are of concern to the company, since our activities impact the communities in which we operate. They encourage competitiveness in the industry, enhance energy supply security and create direct and indirect employment. We carry out our activity guaranteeing the safety of infrastructure, minimising impacts on ecosystems and the population.

The most relevant aspects of managing relations with local communities are the identification of local stakeholders, the information and consultation processes we carry out in infrastructure development activities and action plans (social investment).

Milestones 2017

- Updating of the Enagás Stakeholder Map.
- Implementation of volunteering initiatives aligned with the company's values in the social environmental, cultural, sporting, leisure fields.
- Donation of €100,000 to Cáritas to help cover the basic needs of the most disadvantaged groups.
- Participation in the sixth edition of the Give and Gain Day of the corporate volunteering initiative.
- Participation in the Company Solidarity Day, an initiative promoted by the NGO Cooperación Internacional.

Targets 2018

- Implementation of volunteering initiatives aligned with the company's values in the social environmental, cultural, sporting, leisure fields.
- Launch of the 'Cent for Solidarity' campaign (presentation of projects and publicity campaign to employees to encourage participation).
- Implementation of volunteering initiatives with the participation of members of Enagás employees' families.
- Maintaining our presence in initiatives such as Give and Gain Day (Forética) and company Solidarity Day.
- Implementation of audits to verify communication processes between affiliates and local communities.

0.4%
social action investment with respect to profit

2,675
hours of corporate volunteering

387
employees took part in corporate volunteering initiatives

19
corporate volunteering initiatives

Local community management model

Identification of local stakeholders

In local communities where Enagás develops and operates infrastructure, the company's priority is to contribute to the their social and economic development and to minimise environmental impact while guaranteeing safety.

For this purpose, the first stages of building, operation and maintenance projects involve analysis of the area in terms of social, economic and environmental aspects, from which local stakeholders are identified.

This enables stakeholder maps to be created for the management of crises and emergencies affecting infrastructure, in which key collectives, communication channels and relevant issues are identified (see the chapter on 'Health and Safety').

In addition, from the analysis conducted on the needs of the area, identification is made of key collectives and associations (NGOs, local councils, etc.) which are an important source of information in order to understand the local context and which alliances can be established (see the section on 'Social Investment' in this chapter).

Information and consultation processes

Enagás conducts environmental impact studies for construction projects and assessment of environmental aspects for infrastructure operation and maintenance projects. Environmental impact studies are open to public information and are also subject to processes of consultation in which stakeholders may voice their opinion and even propose modifications to a project. EMAS-certified facilities publish an annual report (Barcelona and Cartagena regasification plants and Yela and Serrablo underground storage facilities).

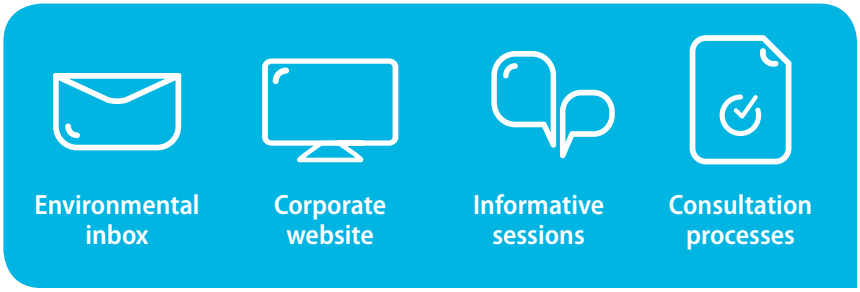
In the case of gas pipeline construction projects, the route design already takes into account criteria for minimising the impact on local plant and animal wildlife, and for avoiding the occupation of private property. Where the latter is concerned, a regulated procedure is applicable in Spain which includes public information and consultation with the entities affected, which guarantees transparency in the construction of infrastructure and equal treatment before the law. [GRI 413-2, GRI OG10]

In matters pertaining to infrastructure safety, Enagás creates internal emergency plans, which include information on stored chemical substances, human and material resources, scenarios, emergency plans, liability, etc. These plans are registered with the local government authorities, which are responsible for communicating them to the community and creating an associated action plan.

Enagás also holds information sessions in local areas for the purpose of explaining details of projects that are being executed locally, and safety and environment-related issues, among others.

In 2018, Enagás affiliates will be carrying out specific audits in relation to local communities, for the purpose of verifying that the communication processes of the concerned affiliates with their corresponding communities take place in a setting with adequate control (identification of the integrity of communities, complaint management, notification of relevant information, communication channel, etc.). Verification is also made of the degree to which the governance programme of the concerned affiliates reflects and suitably includes the most relevant aspects of the relations with the affected local communities.

Communication channels with local communities



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.

Strategic social investment priorities

Priority 1: Investment in communities

Enagás promotes the development of long-term collaboration initiatives, which contribute to the social and economic development of local communities, giving priority to those areas in which the company operates. For this purpose, it contributes economically and with time to social welfare, economic development, education and youth, health, art and culture, and the environment.

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

The initiatives implemented in this field cover the following aspects targeted by Sustainable Development Goal 8. Decent work and economic growth (SDG 8):

- Employment
- Economic inclusion
- Non-discrimination
- Development of abilities

For the second year in a row, Enagás collaborated with the Randstad Foundation to hold five training workshops in which the company's volunteers took part, for the purpose of raising employability and the social integration of women in situations of vulnerability.

Priority 2: Commercial contributions to the community

Within the scope of its social actions, Enagás includes initiatives aimed at supporting research and the development of the gas sector, since natural gas is of great importance for improving competitiveness of industry, and therefore aids the creation of direct and indirect employment. For this purpose, economic contributions are made in the fields of economic development, education and youth, art and culture, and the environment.

Access to affordable, safe and sustainable energy

Building resilient structures, promoting inclusive, sustainable industrialisation and innovation

The initiatives implemented in this field cover the following aspects targeted by Sustainable Development Goal 7. Access to affordable, safe and sustainable energy, and Goal 9. Building resilient infrastructure, promoting inclusive, sustainable industrialisation and innovation:

- Energy efficiency
- Investments in infrastructure
- Environmental investments

In 2017, Enagás sponsored the Alliance for Ibero-America Business Council (CEAPI), an organisation comprising business leaders committed to the Ibero-American Business Area and whose main objective is to foster economic and social development through an exchange of experience, investment stimulus and integration.

Priority 3: Donations to charity

Enagás engages in a number of specific collaborations as a reaction to emergencies taking place both in Spain and internationally. For this purpose, it makes contributions in cash and kind in the fields of social welfare, economic development, education and youth, health and the environment.

Partnerships for achieving the objectives
[GRI 102-12]

In the international context, the initiatives are implemented in collaboration with local partners. In Spain, these initiatives are carried out in collaboration with entities and associations, for the purpose of fulfilling Sustainable Development Goal, 17. Partnerships for achieving objectives (SDG 17).

In this way, and through partnerships with different stakeholders, Enagás contributes to achieving the other SDGs in the following areas:

- Poverty
- Hunger
- Health
- Education
- Gender equality
- Energy
- Infrastructure
- Reducing inequality
- Climate change
- Terrestrial ecosystems

Enagás made a contribution of €20,000, as part of the 'Fuerza México' campaign launched by the Mexican Federal Electricity Commission to the business community in the wake of the earthquake to help rebuild the country and to assist those affected. Moreover, the Gasoducto de Morelos Council (in which Enagás has a 50% stake) made a donation of USD 50,000.

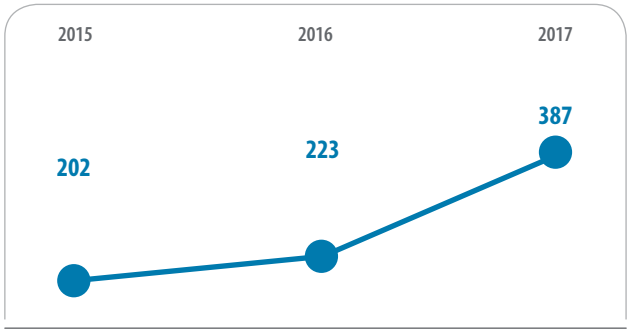
Corporate volunteering programme

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. There are two forms of cooperation:

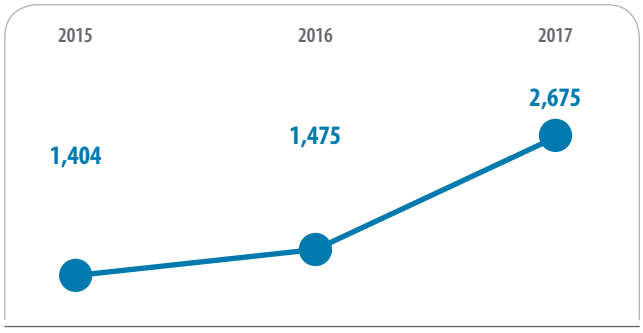
- Face-to-face corporate volunteering, for which activities carried out in collaboration with an association and overseen by the company. This type of initiative takes place during business hours. In line with corporate guidelines on diversity and equal opportunity, the company guarantees that participation in volunteering activities will not lead to work-related discrimination.
- Virtual volunteering, for which the company connects with volunteering opportunities through different associations by means of the corporate volunteering 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 2017, we carried out 19 initiatives, in which 387 employees dedicated a total of 2,675 working hours. This required an investment of € 226,234 by the company to cover programme management costs.

Employees who took part in corporate volunteering initiatives



Hours devoted to volunteering initiatives



In 2017, there were 19 initiatives in the fields of social welfare, art and culture, and health

[GRI 413-1]

Sponsorships, patronage and donations

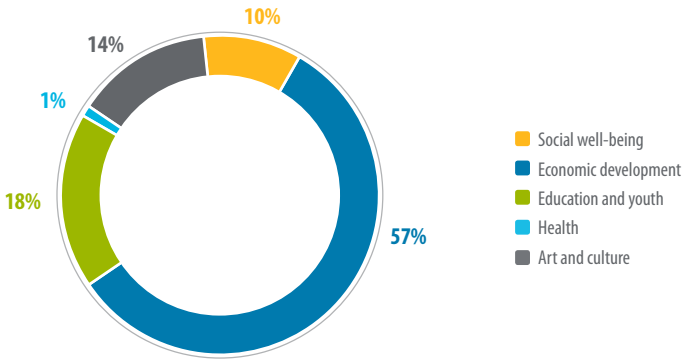
Enagás collaborates economically with social welfare projects through such activities as:

- Sponsorships: institutional and/or sporting activities.
- Patronage: social and cultural activities and initiatives.
- Donations, which may be of a corporate nature or voluntarily by employees, as is the case of the Cent for Solidarity campaigns that will be set up in 2018.

The procedure for managing sponsorships, patronage and donations establishes the criteria for the reception, approval and follow-up of collaboration requests (financial contributions).

In 2017 financial contributions amounting to €2M were distributed as follows:

Areas of contribution



Furthermore, we made in-kind donations of all IT equipment, mobile phones and discontinued promotional material estimated at a value of € 18,000.

[GRI 413-1]

5 Key indicators

Economic indicators _**103**
Social indicators_**125**
Environmental indicators_**107**

Economic indicators

Economic performance and cost efficiency [GRI 102-7]

	2007	2008	2009	2010	2011	2012	2013(1)	2014(2)	2015	2016	2017
EBITDA (€ Mn)	596.0	636.2	701.3	780.8	885.5	934.3	995.9	939.8	900.5	948.8(4)	**1,110.3**
EBIT (€ Mn)	408.3	433.1	484.7	530.9	585.9	618.4	649.8	589.6	602.0	651.7(4)	**732.1**
BDI (€ Mn)	238.3	258.9	298.0	333.5	364.6	379.5	403.2	406.5	412.7	417.2	**490.8**
Dividends (€ Mn)(3)	143.0	155.3	178.8	200.1	237.0	265.7	302.4	310.4	315.1	331.4	**348.1**
Investments (€ Mn)	508.6	776.9	901.6	796.3	781.4	761.4	531.4	625.0	530.2	912.2	**328.5**
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	**5,007.7**
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	**2,585.6**
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	**9,649.6**
Net Debt / EBITDA(*)	3.3x	3.7x	4.1x	4.1x	3.9x	3.8x	3.7x	4.2x	4.5x	5.2x	**4.4x**
Coverage ratio (EBITDA/ Interest)	9.8x	7.9x	9.6x	9.9x	9.0x	8.4x	8.0x	7.4x	8.0x	8.3x	**6.7x**
Net Debt / Total Assets	48.9%	49.8%	50.2%	46.5%	44.6%	44.5%	51.9%	52.6%	54.7%	55.0%	**51.9%**
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%	**65.9%**
Average cost of debt	4.3%	4.7%	3.3%	2.7%	2.8%	2.5%	3.0%	3.2%	2.7%	2.4%	**2.7%**
ROE after tax (**)	18.5%	18.5%	19.5%	20.0%	20.2%	19.6%	19.5%	18.7%	18.2%	17.7%	**19.6%**
ROCE after tax (***)	8.8%	8.5%	8.7%	7.9%	8.0%	7.9%	8.1%	6.8%	6.8%	6.5%	**6.5%(5)**
Headcount (31 December)	985	1,008	1,046	1,047	1,126	1,178	1,149	1,206	1,337	1,337	**1,426**

(*) Net debt/EBITDA adjusted for affiliates' 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).

(4) Adjusted figure for comparative purposes as a result of changes to reporting practice made in 2017 in which the yearly result for consolidated companies through the equity method is now fully integrated into the group's operating result. [GRI 102-48]

(5) For the purpose of comparison with 2016; without taking into account integration of the debt held by GNL Quintero after the change in consolidation method used for this affiliate.

Stock market performance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Share price (31 Dec)	19.99	15.56	15.43	14.92	14.29	16.14	19.00	26.19	26.00	24.12	23.87
Dividend	0.60	0.65	0.75	0.84	0.99	1.11	1.27	1.30	1.32	1.39	1.46(*)
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	5,698.6
Number of shares (million)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7

(*) Distribution of the 2017 gross dividend of €1.46 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	2017
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	1,384.6
Economic value distributed (EVD)	565.7	617.5	727.6	769.2	845.4	801.5	862	894.0	942.7
Suppliers	137.2	147.3	193.1	168.1	184.6	198.3	193.4	203.9	209.6
Society (tax and social action investment)	127.7	144.3	164.9	179.8	172.2	102.6	166.3	136.3	144.8
• Investment in social action	0.8	1.3	2.2	1.6	1.6	1.6	1.9	2.2	2.0
• Tax	126.9	143	162.6	178.2	170.6	101.0	164.4	134.1	142.8
Employees (personnel expenses)	60.7	67.2	67	79	82.3	84.7	96.3	108.8	128.9
Capital providers (dividends paid to shareholders and financial result)	240	258.7	302.6	342.4	406.3	415.9	406	445.1	459.5
• Dividends paid to shareholders	178.8	200.1	237	265.7	302.4	310.4	315.1	331.7	348.6
• Financial result	61.2	58.6	65.6	76.7	103.9	105.5	90.9	113.4	110.9
Economic value retained (EVR)	335.9	383.3	427.2	430.1	416.5	425.7	359.6	324.3	441.9

Financial and non-financial ratings

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Standard & Poor's	AA-	AA-	AA-	AA-	AA-	BBB	BBB	BBB	A-	A-	A-
Fitch	A2	A2	A2	A2	A2	A-	A-	A-	A-	A-	A-
Dow Jones Sustainability Index(1)	67	77	75	78	88	83	85	84	85	91	86
CDP (transparency / performance)	-	-	-	70/B	83/B	85/B	83/B	91/B	99/B	A List	A-

(1) Enagás has been a member of the DJSI since 2008, and went to the top of its sector in 2017: *Oil & Gas Storage & Transportation*.

Social indicators

Corporate Governance

	2011	2012	2013	2014	2015	2016	2017
Number of Directors	15	13	15	15	13	13	13
Independent Directors	53.3%	61.5%	60%	60%	62%	62%	54%
Board gender diversity	13.4%	15.4%	20%	20%	23%	23%	23%
Non-Audit Fees	27%	14%	3%	3%	4%	53%	18%
General Shareholders' Meeting quorum	57%	55.8%	53.1%	52.9%	54.8%	50.8%	45.6%

Supply chain

	2011	2012	2013	2014	2015	2016	2017
Approved suppliers (nº)	1,989	2,010	1,875	1,745	1,781	1,800	1,356
Critical/approved suppliers	52.1%	51.8%	54.4%	59.1%	59%	59%	69.5%
Orders assessed in reliability analysis (%)	-	11.6%	18.9%	24.4%	11.5%	10.3%	10.1%
Suppliers audited on financial and ethical, social and environmental aspects (nº)	-	31	51	61	33	39	55
Percentage of approved suppliers assessed in accordance with CSR criteria (%)	-	-	25.05%	27.05%	26.6%	27.1%	52.4%

Ethical compliance and Human Rights

	2011	2012	2013	2014	2015	2016	2017
Reports received via ethics channel (no.)	-	2	2	4	4	3	2
People trained in issues related to ethical compliance (cumulative figure) (no.)			128	200	1,217	1,214	1,206

Human capital [GRI 102-7]

	2011	2012	2013	2014	2015	2016	2017
Employees (no.)	1,126	1,118	1,149	1,206	1,337	1,337	1,426
Voluntary employee turnover (%)	0.8%	0.46%	0.45%	0.69%	0.49%	0.63%	1.86%
Absenteeism (%)	3.65%	2.33%	2.46%	2.50%	2.51%	2.89%	2.94%
Workforce gender diversity (%)	22.47%	22.45%	22.8%	23.88%	26.78%	27.45%	26.23%
Senior management gender diversity (%)	14.1%	15.9%	18.8%	20.0%	25.4%	24.8%	26.1%
Investment in training per employee (€)	956	898	1,192	1,041	894	920	1,081
Training per employee (hrs)	48.9	45.8	52.0	59.6	49.8	61.8	65.1

Customer satisfaction

	2011	2012	2013	2014	2015	2016	2017
Rate of shippers satisfaction with transmission	80%	82.5%	83%	82.2%	82.7%	84.3%	85.7%
Rate of satisfaction of transmission companies and distributors with transmission	76.7%	78.3%	79%	77.1%	89.2%	84.7%	85.0%
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%	83.9%
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%	82.3%

Occupational health and safety [GRI 403-2]

	2011	2012	2013	2014	2015	2016	2017
Lost time injury frequency rate (own staff)	7.51	9.01	5.31	4.69	3.86	1.80	7.01(*)
Lost time injury frequency rate (contractor staff)	7.08	6.36	9.32	3.04	2.25	10.43	0.53(*)(**)
Lost time injury severity rate (own staff)	0.07	0.37	0.25	0.53	0.14	0.08	0.35(*)
Lost time injury severity rate (contractor staff)	0.2	0.28	0.36	0.11	0.07	0.11	0.02(*)
Work-related fatalities of own staff (no.)	0	0	0	0	0	0	0
Work-related fatalities of contractor staff (no.)	0	0	0	0	0	0	0

(*) There were no accidents in Chile in 2017.
(**) 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 2017 there were eight accidents leading to sick leave, while there were nine in 2016. There were seven accidents in 2015).

Impact on local communities

	2011	2012	2013	2014	2015	2016	2017
Social action investment / net profit (%)	0.6%	0.4%	0.4%	0.4%	0.5%	0.5%	0.4%
Participation of employees in corporate volunteering initiatives (% of workforce)		5%	8.5%	9%	15.1%	16.7%	27.1%
Time spent on volunteer work (hrs)		400	640	866	1,404	1,475	2,675

Environmental indicators

Environmental management and fighting climate change

	2011	2012	2013	2014	2015	2016	2017
Scope 1 CO_2 emissions (t eq CO_2) [GRI 305-1]	264,679	387,651	479,175	537,092	272,728	263,540	266,357
Scope 2 CO_2 emissions (t eq CO_2) [GRI 305-2]	52,752	61,377	36,079	33,941	32,444	27,010	46,851
Own consumption of natural gas (GWh)	1,025	1,672	1,932.1	2,338.1	963.0	919.3	1,030.4
Electricity consumption (GWh)(*)	201.5	186.7	150.0	143.1	148.3	160.5	252.1
Electricity generation / electricity consumption (%)(**)	1.9%	5.4%	6.8%	4.7%	8.0%	12.5%	11.0%
Waste generated (t)	3,722	3,913	3,455	2,189	3,823	3,981	3,036
Waste recycled (%)	59%	48%	63%	15%	40%	61%	68%
Area occupied in protected areas (km^2)			3.7	4	4	4	4

(*) Electricity consumption includes electricity from the grid and from its own generation sources..
(**) The scope of this indicator is Spain.

6 Appendices

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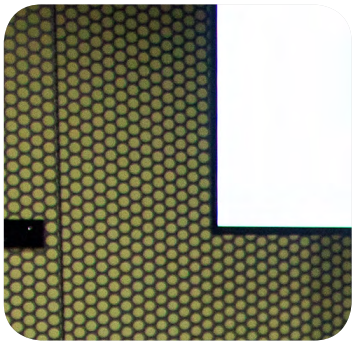

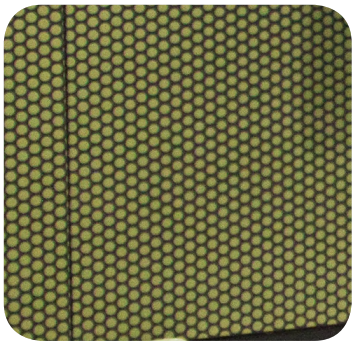

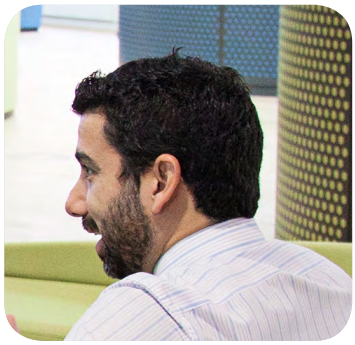

About our Annual Report [GRI 102-1, GRI 102-5, GRI 102-50]

Scope of the financial and non-financial information

The information in the sections 'Our business model', 'Our future project', 'Our culture: doing things properly', 'Creation of value for our stakeholders' and 'Key indicators' are part of the Consolidated Management Report included in the Annual Accounts.

The scope of this report includes the information on FY 2017 of the Enagás Group (hereinafter 'Enagás'). 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 over which Enagás maintains control (companies consolidated in the Consolidated Financial Statements in accordance with the full integration method). Accordingly, in 2017 information concerning GNL Quintero (Chile) was consolidated. [GRI 102-10, GRI 102-45, GRI 102-48, GRI 102-49]

For further details on the scope of the financial information, refer to the Annual Accounts, section 1.3 'Basis of consolidation'.

Standards and principles used

The following standards and principles were used in preparing this 2017 Annual Report:

- This report was prepared according to the GRI Sustainability Reporting Guidelines, 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.
- 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]

Our contribution to the SDG

SDG	Goals to which we contribute	References (chapters)	GRI Standard indicators
SDG 5 Achieve gender equality and empower all women and girls	**Goal 5.1** End all forms of discrimination against all women and girls everywhere	Sustainable Management Model of affiliates People Ethics and integrity Supply chain Key indicators	GRI 102-8, 102-41, 205-3, 401-1, 401-3, 404-1, 404-3, 405-1, 405-2, 414-1, 414-2
	Goal 5.2 Eliminate all forms of violence against all women and girls in public and private spheres, including trafficking and sexual and other types of exploitation	Sustainable Management Model of affiliates People Ethics and integrity Supply chain	GRI 102-41, 205-3, 414-1, 414-2
	Goal 5.4 Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate	People Ethics and integrity	GRI 401-2, 401-3
	Goal 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	Good Governance People Key indicators	GRI 102-8, 102-22, 102-24, 405-1
SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all	**Goal 7.1** By 2030, ensure universal access to affordable, reliable and modern energy services	Activities Geographies Our strategy Long-term vision Local communities Creation of value for our affiliates	
	Goal 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	Local communities Climate change and energy efficiency Key indicators Sustainable Management Model of affiliates	GRI 302-1, 302-2, 302-3, OG2, OG3
	Goal 7.3 By 2030, double the global rate of improvement in energy efficiency	Our strategy Financial and operational excellence Local communities Climate change and energy efficiency Supply chain Key indicators Sustainable Management Model of affiliates	GRI 201-2, 302-1, 302-2, 302-3, 302-4, 302-5, 308-1, 308-2, OG6

SDG	Goals to which we contribute	References (chapters)	GRI Standard indicators
SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	**Goal 8.1** Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7% gross domestic product growth per annum in the least developed countries	Our strategy Long-term vision Risk management Financial and operational excellence Ethics and integrity Local communities Key indicators Creation of value for our affiliates	GRI 201-1
	Goal 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	Financial and operational excellence People Supply chain Key indicators	GRI 201-1, 404-1, 404-2
	Goal 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services	Long-term vision People Supply chain Key indicators	GRI 204-1
	Goal 8.4 Improve progressively, by 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead	Sustainable Management Model of affiliates Environmental management Climate change and energy efficiency Key indicators	GRI 201-2, 301-1, 301-2, 302-1, 302-2, 302-3, 302-4, 302-5, 303-1, 303-3, OG6
	Goal 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	Our strategy People Ethics and integrity Local communities Supply chain Key indicators	GRI 102-8, 401-1, 401-2, 401-3, 404-1, 404-2, 404-3, 405-1, 405-2, 414-1, 414-2
	Goal 8.6 By 2020, substantially reduce the proportion of young people not in employment, education or training	People Local communities	GRI 401-1
	Goal 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including the recruitment and use of child soldiers, and by 2025 end child labour in all its forms	Our strategy People Ethics and integrity Supply chain	GRI 102-41, 205-3
	Goal 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular migrants women, and those in precarious employment	Our strategy People Ethics and integrity Health and safety Supply chain Key indicators	GRI 102-41, 205-3, 403-1, 403-2, 403-3, 403-4, 414-1, 414-2
	Goal 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all	People	

SDG	Goals to which we contribute	References (chapters)	GRI Standard indicators
 SDG 9 Build resilient infrastructure, promote sustainable industrialization and foster innovation	**Goal 9.1** Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	Our strategy Long-term vision Financial and operational excellence Health and safety Supply chain Key indicators Creation of value for our affiliates	GRI 201-1
	Goal 9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries	Geographies Our strategy Long-term vision Key indicators Local communities	GRI 201-1
	Goal 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	Supply chain	GRI 204-1
	Goal 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	Financial and operational excellence Health and safety Environmental management Climate change and energy efficiency Key indicators Long-term vision	GRI 201-1, 201-2, 302-1, 302-2, 302-3, 302-4, OG2, OG3
	Goal 9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per one million people and public and private research and development spending	Financial and operational excellence Key indicators	GRI 201-1
 SDG 13 Take urgent action to combat climate change and its impacts	**Goal 13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	Our strategy Risk management Climate change and energy efficiency Supply chain Key indicators Sustainable Management Model of affiliates	GRI 201-2, 302-1, 302-2, 302-3, 302-4, 302-5, 305-1, 305-2, 305-3, 305-4, 305-5, OG2, OG3, 308-1, 308-2, OG6
	Goal 13.2 Integrate climate change measures into national policies, strategies and planning	Our strategy Long-term vision Climate change and energy efficiency	
	Goal 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	Our strategy Long-term vision Climate change and energy efficiency Supply chain	

SDG	Goals to which we contribute	References (chapters)	GRI Standard indicators
SDG 15 Protect, restore and promote the sustainable use of terrestrial ecosystems, manage forests sustainably, combat desertification and halt and reverse land degradation and halt biodiversity loss	**Goal 15.1** By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements	Our strategy Long-term vision Environmental management	GRI 304-1, 304-2, 304-3, 304-4, OG4, 306-3, 306-5
	Goal 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species	Environmental management	GRI 304-1, 304-2, 304-3, 304-4, OG4, 306-5
	Goal 15.9 By 2020, integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts	Our strategy Long-term vision Environmental management	
SDG 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development	**Finance**		
	Goal 17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection	Ethics and integrity Key indicators	GRI 201-1
	Goal 17.3 Mobilize additional financial resources for developing countries from multiple sources	Geographies Our strategy	
	Systemic issues		
	• **Multi-stakeholder partnerships**		
	Goal 17.16 Enhance the Global Partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries	Our contribution to the SDG Positioning in indices and certifications People Local communities Supply chain	
	Goal 17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships	Our contribution to the SDG Local communities	
	• **Data, monitoring and accountability**		
	Goal 17.19 By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries	Local communities Climate change and energy efficiency About our Annual Report	

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. Up to and including 2017, Enagás was 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 2017, 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 the positioning of Enagás in a low-carbon economy and the context of operation, which includes the outlook for the natural gas sector and the impact they will have on business, based on those established by the company's growth drivers.

Furthermore, it includes our long-term vision of positioning the company as a benchmark sustainable business, based on areas such as digitalisation and corporate entrepreneurship.

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 long-term vision, the context of operation and the business model, from which the company's perceived risks, opportunities, pillars of growth 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 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'). This section is also linked with our contribution to the Sustainable Development Goals (SDG), in which we identify those SDG to which we contribute through our activity, management models, polices and corporate guidelines and performance.
- 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 2017 targets its main stakeholders. In 2017, the Enagás stakeholders map was updated, in line with the corporate strategy through a process of internal discussion involving all areas of the company.

Enagás has identified its stakeholders classified according to the different areas of relationship, identified by the material issues. In 2018, a stakeholder management procedure will be developed, to ensure that Enagás' stakeholders are annually updated and a corporate framework for developing stakeholders relations is established.

As in previous years, the 2017 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 needed to respond to the main stakeholders with information of relevance to them.

In 2017, Enagás updated its stakeholder map and the material issues, in line with the company strategy (see the chapter on 'Stakeholder management and materiality'). The outcome of this analysis was that Enagás identified those material issues that bring together the main interests and concerns of stakeholders. This Report provides detailed information concerning each material issue in the respective chapters of the section 'Creation of value for our stakeholders'.

Furthermore, the critical management standards that Enagás evaluates in its affiliates are identified. These are based on the material issues of the company (see the chapter on 'Management model of affiliates').

Finally, following Enagás' takeover of GNL Quintero Chile in 2017, information about this affiliate has been consolidated in this report.

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 2017 was audited and verified, respectively, by the same auditor: 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 2017 Annual Report takes account of the content and indicators recommended in the GRI Sustainability Reporting Standards 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 2017 Annual Report are defined so as to facilitate comparison with reports for prior year and other companies in the sector, using studies, CSR indices 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
Overview of the organisation and its external environment	Activities and material issues	Activities Stakeholder management and materiality
	Mission, vision and values	Activities
	Supply chain description	Our supply chain
	Operating context	Geographies Operating context The positioning of Enagás in a low-carbon economy
	Shareholder composition	Enagás in 2017
Governance	Corporate Governance structure	Board structure: independence and diversity Functioning of the Board
	Board selection and self-assessment	Performance of the Governing Bodies
	Good Corporate Governance practices implemented	Good Governance
	Remuneration for the Board linked to value creation in the short, medium and long term	Remuneration of the Board of Directors
Opportunities and risks	Management of opportunities arising from future outlook	Operating context Long-term vision The positioning of Enagás in a low-carbon economy
	Management of risks associated with future outlook	Risk management Long-term vision The positioning of Enagás in a low-carbon economy
	Management of opportunities and risks in the supply chain	Supply chain risk management Collaboration with suppliers
Strategy and resource allocation	Growth strategy	Our project for the future
	Strategy	
Business model	How Enagás creates value from its resources and business processes	Our contribution to the SDG Creation of value for our stakeholders
Performance	Sustainable management model	Sustainable management model
	Key company performance indicators	Enagás in 2017 Key indicators
	Performance in material issues measured by indicators	Good Governance Financial and operational excellence Ethics and integrity People Health and safety Local communities Environmental management Climate change and energy efficiency Supply chain
Outlook	The opportunities, challenges and uncertainties the organisation may encounter in pursuing its strategy	Operating context Long-term vision The positioning of Enagás in a low-carbon economy
	Risks associated with the business and implementation of the strategy	Risk management

GRI Standards content index [GRI 102-55]

General content

GRI Standard	Content	Pages or URL	Omissions
GRI 102: General content 2016	**Organisation profile**		
	102-1 Name of the organisation	109, 128	
	102-2 Activities, brands, products and services	11	
	102-3 Location of the organisation's headquarters	14-15, 128	
	102-4 Location of operations	14-15	
	102-5 Nature of ownership and legal form	109	
	102-6 Markets served	14-15	
	102-7 Scale of the organisation	103, 106	
	102-8 Information on employees and other workers	61-62, 66, 93	
	102-9 Supply chain	93	
	102-10 Significant changes in the organisation and its supply chain	13-15, 61, 93, 109	
	102-11 Precautionary principle and approach	24-27	
	102-12 External initiatives	34, 99, 109	
	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, ENTSOG, GIE, EASEE Gas, GIIGNL 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	17-18, 24-27	
	Ethics and integrity		
	102-16 Values, principles, standards and rules of the organisation	51	
	102-17 Mechanisms for advice and reporting ethical issues	51	

GRI Standard	Content	Pages or URL	Omissions
	Governance		
GRI 102: General content 2016	102-18 Governance structure	29, 43-45	
	102-19 Delegation of authority	29	
	102-20 Executive-level responsibility for economic, environmental and social topics	29	
	102-21 Processes for consulting stakeholders on economic, environmental and social topics	29, 31-33, 46, 69, 94	
	102-22 Composition of the highest governance body and its committees	43-45	
	102-23 Chair of the highest governance body	43	
	102-24 Appointment and selection of the highest governance body	Article 8 of 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. 9-19) Article 25 of Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás	
	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	46	
	102-28 Evaluating the highest governance body's performance	46	
	102-29 Identification and management of economic, environmental and social impacts	24-25, 29, 84	
	102-30 Effectiveness of risk management processes	24-25	
	102-31 Analysis of economic, environmental and social aspects	24-25, 29, 84	
	102-32 Function of the highest governance body in the preparation of the Annual Report	7, 29	
	102-33 Communicating critical concerns	46	
	102-34 Nature and total number of critical issues	46	
	102-35 Remuneration policy	20, 48-49	
	102-36 Process for determining remuneration	48	
	102-37 Involvement of stakeholders in defining remuneration policies	48	

[GRI 102-55]

GRI Standard	Content	Pages or URL	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	In 2017, ratio between the highest remuneration and the average total remuneration of employees by country was 30.3:1 in Spain and 13.2:1 in Chile.	
	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	In 2017, the percentage change in the ratio between the highest remuneration and the average total remuneration of employees by country was -132.8% in Spain and -71.2% in Chile.	
	Stakeholder engagement		
	102-40 Stakeholder list	30	
	102-41 Collective bargaining agreement	69	
	102-42 Identification and selection of stakeholders	30-33	
	102-43 Stakeholder engagement	30-33	
	102-44 Identified concerns and matters of interest	29, 31-33, 115	
GRI 102: General content 2016	**Reporting practice**		
	102-45 Entities included in financial consolidation	109	
	102-46 Definition of the content of the report and its scope	30, 32-33, 114-115	
	102-47 List of material issues	32-33, 41	
	102-48 Restatements of information	79, 103, 109	
	102-49 Reporting changes	109	
	102-50 Reporting period	109	
	102-51 Date of most recent report	2016	
	102-52 Reporting cycle	Yearly	
	102-53 Point of contact	128	
	102-54 Statement of reporting according to GRI Standards	This report has been prepared in accordance with the GRI Standards: Comprehensive option	
	102-55 Table indicating the location of GRI Contents	117-124	
	102-56 External verification	125-126	

[GRI 102-55]

Key issues

GRI Standard	Content	Pages or URL	Omissions
Good Governance			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	42	
	103-2 Management approach and its components	42	
	103-3 Evaluation of management approach	42	
GRI 419: 2016 Socio-economic compliance	419-1 Non-compliance with laws and regulations in the social and economic area	In 2017, no significant sanctions or fines were received in the social and economic area	
Ethics and integrity			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	50	
	103-2 Management approach and its components	50	
	103-3 Evaluation of management approach	50	
GRI 205: Anti-corruption 2016	205-1 Business units assessed for risks related to corruption	53	
	205-2 Communication and training in anticorruption matters	50, 55	
	205-3 Measures taken in response to incidents of corruption	51	
	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 410: Security practices 2016	410-1 Security personnel trained in politics and Human Rights related procedures	34	
GRI 412: Human Rights assessment 2016	412-1 Operational sites that have been subject to Human Rights reviews or impact assessments	34	
	412-2 Employee training on relevant Human Rights policies or procedures	95.7% of employees received training in Human Rights (17,490.8 hours). Training in Human Rights is considered to involve attendance of at least one of the following types of courses: Equality and Anticorruption, Human Rights (general) and Prevention, and the Environment.	
	412-3 Significant investment agreements and contracts that include Human Rights clauses or that underwent Human Rights screening	100% of the significant agreements with suppliers include clauses containing concerns regarding Human Rights	
GRI 415: Political contributions 2016	415-1 Political contributions	Financing of political parties is explicitly prohibited, and this is one of the risks that is identified by Enagás in its Crime Prevention Model.	

[GRI 102-55]

GRI Standard	Content	Pages or URL	Omissions
Financial and operational excellence			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	56	
	103-2 Management approach and its components	56	
	103-3 Evaluation of management approach	56	
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	104	
	201-2 Financial implications and other risks and opportunities for the organisation due to climate change	17-18, 22, 24-25, 84-85, 90	
	201-3 Obligations of the organisation for employee benefit programmes and other pension plans	67-68	
	201-4 Financial assistance received from governments	In 2017, the Group has not benefited from significant governmental financial assistance	
People			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	60	
	103-2 Management approach and its components	60	
	103-3 Evaluation of management approach	60	
GRI 202: Presence in the market 2016	202-1 Ratio of standard initial category salary by sex to the local minimum wage	In 2017, the minimum salary of an Enagás employee was double the minimum inter-professional salary of the country in both Spain and Chile.	
	202-2 Proportion of senior executives recruited from the local community.	100% of executives ¡n Spain are local and 72% are in Chile. Local employees are defined as holding the nationality of the country in which they work.	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	61-63	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	67-68	
	401-3 Parental leave	69	
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	60, 65	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	65	
	404-3 Percentage of employees receiving regular performance and career development reviews	60, 64	
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	42, 44-45, 61, 66	
	405-2 Ratio of basic salary and remuneration of women to men	67	

[GRI 102-55]

GRI Standard	Content	Pages or URL	Omissions
Safety and health			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	70	
	103-2 Management approach and its components	70	
	103-3 Evaluation of management approach	70	
GRI 403: Occupational health and safety 2016	403-1 Workforce represented in health and safety committees	71	
	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	71	
Environmental management			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	76	
	103-2 Management approach and its components	76	
	103-3 Evaluation of management approach	76	
GRI 303: Water 2016	303-1 Water withdrawal by source	76, 79	
	303-2 Water sources significantly affected by withdrawal of water	78	
	303-3 Water recycled and reused	Enagás does not reuse water in its processes	
GRI 304: Biodiversity 2016	304-1 Sites adjacent to or located within protected areas and areas of high biodiversity value outside protected areas	77 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	78	
	304-3 Habitats protected or restored	78 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	78	

[GRI 102-55]

GRI Standard	Content	Pages or URL	Omissions
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	79	
	306-2 Waste by type and disposal method	80	
	306-3 Significant spills	79	
	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 waste water 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	Natural gas is the main flared and/or vented hydrocarbon. In 2017, the volume of natural gas flared and/or vented amounted to 1,837,946 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 'Our business model' 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 307: Environmental compliance 2016	307-1 Non-compliance with environmental laws and regulations	In 2017, 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	82	
	103-2 Management approach and its components	82	
	103-3 Evaluation of management approach	82	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	85	
	302-2 Electricity consumption outside the organisation	9	
	302-3 Energy intensity	86	
	302-4 Reduction of energy consumption	86	
	302-5 Reductions in energy requirements of products and services	86	
	OG2 Total amount invested in renewable energy	In 2017, no significant investment was made in renewable energy.	
	OG3 Total amount of renewable energy generated by source	85	

[GRI 102-55]

GRI Standard	Content	Pages or URL	Omissions
GRI 305: Emissions 2016	305-1 Direct emissions (scope 1)	82, 89-90, 107	
	305-2 Indirect emissions (scope 2)	82, 89-90, 107	
	305-3 Indirect emissions (scope 3)	91	
	305-4 Emission intensity ratio	90	
	305-5 Reduction of greenhouse gas emissions	86-87	
	305-6 Emissions of ozone-depleting substances	90	
	305-7 NO_x, SO_x and other significant air emissions	81	
Supply chain			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	92	
	103-2 Management approach and its components	92	
	103-3 Evaluation of management approach	92	
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	93	
GRI 308: Environmental assessment of suppliers 2016	308-1 New suppliers that were assessed using environmental criteria	94	
	308-2 Negative environmental impacts in the supply chain and actions taken	94	
GRI 414: Social assessment of suppliers 2016	414-1 New suppliers that were assessed using social criteria	94	
	414-2 Negative social impacts in the supply chain and actions taken	94	
Local Communities			
GRI 103: Management approach 2016	103-1 Description of the relevant issue and its scope	96	
	103-2 Management approach and its components	96	
	103-3 Evaluation of management approach	96	
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 2017	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	98-101	
	413-2 Operations with significant actual or potential negative impacts on local communities	97	
	OG10 Number and description of significant disputes with local communities and indigenous peoples	97	
	OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned	No decommissionings took place in 2017	

[GRI 102-55]

External verification report [GRI 102-56]

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Building a better working world

INDEPENDENT REVIEW REPORT OF THE SUSTAINABILITY INFORMATION INCLUDED IN THE ENAGÁS GROUP'S 2017 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 2017 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.
- 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.

A member firm of Ernst & Young Global Limited.

[GRI 102-56]

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Independence

We have complied with the requirements of independence and the other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA, for its acronym in English).

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and maintains, as a result, a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards and legal and regulatory provisions.

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**: Enagás has updated its stakeholder map for the selection of the most relevant issues, in line with its strategy. In addition, in the international stage, among the critical management standards, the company includes the stakeholder management model. We recommend continuing to make progress in the diagnosis and definition of action plans in the area of management of stakeholders in the investee companies.
- **Materiality:** Enagás has carried out a process of identification and assessment of material matters that are relevant to its stakeholders, which are part of the company's priorities and make up the structure of the attached Report. We recommend that stakeholders continue to be consulted periodically to reinforce the inclusion of the relevant aspects in their sustainability strategy.
- **Responsiveness**: Enagás has different communication channels for each stakeholder. Our recommendation is to take advantage of periodic consultations with stakeholders to evaluate the effectiveness of these channels and their influence on the company's response capacity in order to improve corporate communication.

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.

AA1000 Licensed Assurance Provider 000-59

(Free translation from the Original Report on Independent Review in Spanish dated 19th February 2017. In case of any discrepancy, the Spanish version always prevails.)

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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	34, 94, 120, 124
2	Companies must ensure they are not a party to Human Rights infringements	GRI 410-1, 412-3	34, 120
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	69
4	Companies must support all steps to eradicate forced or coerced labour	GRI 412-1, 412-2, 412-3	120
5	Companies must support the eradication of child labour	GRI 412-1, 412-3	120
6	Companies must support the abolition of discriminatory practices in employment and occupation	GRI 401-1, 405-1, 405-2	42, 44-45, 61-63, 66-67
Environment			
7	Companies must uphold a preventive approach that helps protect the environment	GRI 305-5, Environmental management approach	76, 86-87
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	78-80, 86-87, 123
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	78-80, 86-87, 123
Anticorruption			
10	Entities must work against corruption in all its forms including extortion and bribery	GRI 205-1, 205-3	51, 53

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:

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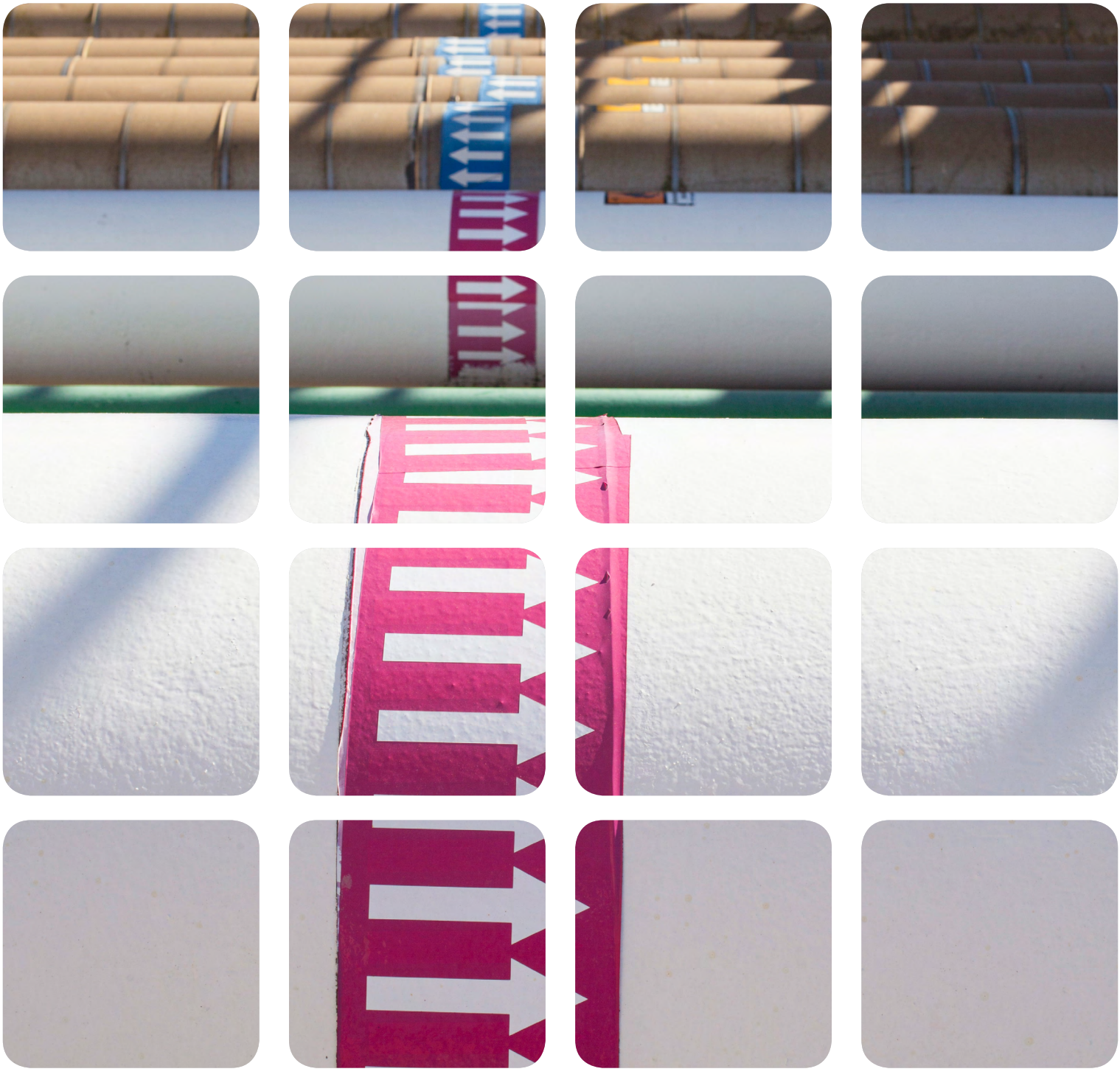
7 Annual Corporate Governance Report



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%
BLACKROCK INC	0	7,652,401	3.21%
LAZARD ASSET MANAGEMENT	0	12,112,916	5.07%
STATE STREET CORPORATION	0	7,180,575	3.01%
FIDELITY INTERNATIONAL LIMITED	0	4,550,822	1.91%

Name or corporate name of indirect shareholder	Through: name or corporate name of the direct owner of the sreholding	Number of voting rights
RETAIL OEICS AGGREGATE	RETAIL OEICS AGGREGATE	2,410,274
BANK OF AMERICA CORPORATION	BANK OF AMERICA CORPORATION	8,627,588
BLACKROCK INC	BLACKROCK INC	7,652,401
LAZARD ASSET MANAGEMENT	LAZARD ASSET MANAGEMENT	12,112,916
STATE STREET CORPORATION	STATE STREET CORPORATION	7,180,575
FIDELITY INTERNATIONAL LIMITED	FIDELITY INTERNATIONAL LIMITED	4,550,822

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

Name or corporate name of indirect shareholder	Date of the operation	Description of the operation
BLACKROCK INC	10/10/2017	Surpassed 3% of share capital
LAZARD ASSET MANAGEMENT	21/12/2017	Surpassed 5% of share capital
STATE STREET CORPORATION	16/06/2017	Surpassed 3% of share capital

A.3 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:

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	0	0.00%
MR MARCELINO OREJA ARBURÚA	3,875	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%
% 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 MARCELINO OREJA ARBURÚA	27,744	0	27,744	0.01%
MR ANTONIO LLARDÉN CARRATALÁ	69,711	0	69,711	0.03%

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: 12,234 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: 16,926 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: 3,418 thousands of euros

Related party name or corporate name
BLACKROCK INC
ENAGÁS, S.A.

Type of relationship: Corporate
Brief description: Dividends and other benefits paid: 4,718 thousands of euros

Related party name or corporate name
FIDELITY INTERNATIONAL LIMITED
ENAGÁS, S.A.

Type of relationship: Corporate
Brief description: Dividends and other benefits paid: 6,877 thousands of euros

Related party name or corporate name
STATE STREET CORPORATION
ENAGÁS, S.A.

Type of relationship: Corporate
Brief description: Dividends and other benefits paid: 10,182 thousands of euros

Related party name or corporate name
LAZARD ASSET MANAGEMENT
ENAGÁS, S.A.

Type of relationship: Corporate
Brief description: Dividends and other benefits paid: 4,269 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 s hares 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

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 [X] **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** [X]

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** [X]

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				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
18/03/2016	0.15%	42.89%	0.00%	7.74%	50.78%
31/03/2017	0.15%	39.01%	0.00%	6.49%	45.65%

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 E nglish:

  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	Representation	Director category	Position on the board	Date of first appoint.	Date of last appoint.	Election procedure
MR LUIS VALERO ARTOLA		Independent	DIRECTOR	28/04/2014	28/04/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ANA PALACIO VALLELERSUNDI		Independent	BOARD MEMBER COORDINATOR INDEPENDENT	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR GONZALO SOLANA GONZALEZ		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 EXECTUVIE OFFICER	17/09/2012	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR JESÚS MÁXIMO PEDROSA ORTEGA		Proprietary	DIRECTOR	24/04/2013	31/03/2017	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 CARRATALÀ		Executive	CHAIRMAN	22/04/2006	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR MARTÍ PARELLADA SABATA		Other external	DIRECTOR	17/03/2005	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ROSA RODRÍGUEZ DÍAZ		Independent	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR LUIS JAVIER NAVARRO VIGIL		Other external	DIRECTOR	09/07/2002	27/03/2015	VOTE AT GENERAL SHAREHOLDERS'MEETING
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MR BARTOLOMÉ LORA TORO	Dominical	DIRECTOR	25/04/2008	18/03/2016	VOTE AT GENERAL SHAREHOLDERS'MEETING
MRN LUIS GARCÍA DEL RÍO		Independent	DIRECTOR	31/03/2017	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING

Total number of Directors	13

Indicate any board members who left during this period.

Name or corporate name of director	Status of director upon resignation	Date of departure
MR RAMÓN PÉREZ SIMARRO	Independent	31/03/2017

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
DON 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 Executive 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.
- Independent member of the Board of Directors of Banco Cetelem of Grupo BNP
- 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 the Executive Board of the Atlantic Council of the United States Member of the External Advisor Council of Energy Future Initiative and of the Advisor Council of the Sandra Day O'Connor Justice Prize and Member of the Patronage of Human Science Institute.
- 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).

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 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
MS ISABEL TOCINO BISCAROLASAGA

Profile:
- President of Banco Pastor.
- Vice President of Santander Spain.
- Elective Councilor of the State Council of the Kingdom of Spain.
- 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
MS ROSA RODRÍGUEZ DÍAZ

Profile:
- Doctorate in Economics and Business Administration.
- In her capacity as Tenured Professor of the Department of Financial Economics and Accounting of the University of Las Palmas de Gran Canaria, has financial and accounting knowledge.
- Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands.
- Former Vice-President of Gran Canaria's Cabildo Council.
- Former member of the Board of Directors of the collecting company of the City of Las Palmas of Gran Canaria, ERELPA, S.A., (1999-2003).
- Former member of the Board of Directors of EMALSA, S.A. (1999-2003).
- Former President of the autonomous collection agency dependent on the Cabildo de Gran Canaria VALORA GESTIÓN TRIBUTARIA (2003-2007 and 2011-2012).
- Former member of the Board of Administration of INSULAR SERVICE OF MILK SUPPLY, S.A. (SIALSA), (2003-2007).
- Former member of the Board of Directors of the SOCIETY OF ECONOMIC PROMOTION OF GRAN CANARIA (SPEGC), exercising mainly the functions of economic and financial control (2003-2007) and vice president (2011-2012).
- Former member of the Board of Directors of the Sociedad de Avales de Canarias S.G.R.-SOGAPYME (2003-2007).
- Former Vice President of the Board of Directors of INSULAR CAJA DE AHORROS DE CANARIAS (2004-2007).
- Former member of the Governing Council of the University of Las Palmas de Gran Canaria and member, among others, from the Economic Commission, (2003-2007).
- Former member of the Commission for the Plenary of Budgets, Economy and Finance of the Parliament of the Canary Islands in its VII Legislature (2007-2010).

Name or corporate name of Director
MR LUIS GARCIA DEL RÍO

Profile:
- Former Public prosecutor.
- Former Director of internal law assistance of Repsol Butano SA and former secretary of its Board (2003-2005).
- Former Director of regulations regarding vice presidency of exploration and production and natural gas of Grupo Repsol (2005-2008)
- Fomer Director of YPF,SA (independent director)
- Legal arbitrator and lawyer in exercise (Partner of DRL Lawyers).

Total number of Independent Directorss	7
% of the Board	53.85%

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.

Name or corporate name of Director
MR MARTÍ PARELLADA SABATA

Company, executive or shareholder with whom the relationship is maintained
ENAGÁS, S.A.
Reasons:
For having been a Director of the Company for a continuous period of more than 12 years.
It is the practice of the Board of Directors of Enagás not to propose to the General Shareholders' Meeting the re-election of those Independent Directors who, because they were directors for a continuous period of more than 12

years, would lose with a new re-election the category of Independent Members pursuant to article 529 duodecies. 4 i) of the Consolidated Text of the Capital Companies Act. However, nothing prevents, in accordance with the Law, the Articles of Association and the Rules of Organization and Functioning of the Board of Directors of Enagás, SA, to which an Independent Director may be re-elected even if he or she has been a Director for a continuous period of 12 years, if any. reasons that justify it sufficiently and the structure of the Board as a whole continues to respond to the good governance policy assumed by the Company that the majority of the members of the Board of Directors belong to the category of Independents. In such case and in accordance with Article 529 duodecies of the Consolidated Text of the Capital Companies Act and Article 9 of the Regulations for the Organization and Functioning of the Board of Directors of Enagás, the Director may not be classified as Independent and will become part of the Board of Directors. to the category of "other external directors" in accordance with article 3.2 b3 of the Regulations for the Organization and Functioning of the Board of Directors.
In the specific case of the Director Mr. Martí Parellada Sabata, the Board, with the favorable report of the Appointments, Remuneration and Corporate Social Responsibility Committee, appreciated the concurrence of reasons that justify, in the interest of the Company, its permanence in the Board. of Administration of Enagás. In his capacity as Professor of Applied Economics, he brings to the Board of Directors a vision of the general environment in which the Company carries out its activities, thus completing the skills map of the Board of Directors as a whole and from a perspective that at the moment does not they are covered by other members of the same. His professional experience is coupled with his deep knowledge of the business and activities of the Company, to which he adds rigor in the exercise of the position of Director.

Total number of other external directors	2
% of the Board	15.38%

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

Name or corporate name of director	Date of the change	Former category	Actual category
MR MARTÍ PARELLADA SABATA	31/03/2017	Independent	Other external

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				% total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
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%	37.50%	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%**	**23.08%**	**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
The Policy for the Selection of Directors, approved by the Board of Directors on September 19, 2016, establishes that in the procedure for the selection of new Directors it should be ensured that the proposals for appointment or re-election promote diversity in the Council, so they should be oriented to a preferential incorporation of women into Council and of persons who, because of their nationality or experience, have an international professional projection, in accordance with the strategy of the Society. The proposals for the appointment or re-election of Directors will promote the objective that in the year 2020 the number of female directors represents at least 30% of the total number of members.

Currently, THREE (3) of the THIRTEEN (13) members of the Board of Directors of Enagás are women: DOÑA ROSA RODRÍGUEZ DÍAZ, DOÑA ANA PALACIO VALLELERSUNDI and DOÑA ISABEL TOCINO BISCAROLASAGA. Further, DOÑA ROSA RODRÍGUEZ DÍAZ is part of the Audit and Compliance Committee, DOÑA ISABEL TOCINO BISCAROLASAGA is president of the Audit and Compliance Committee and DOÑA ANA PALACIO VALLELERSUNDI is Independent Director Coordinator in addition to president of the Appointments, Remuneration and CSR Committee.

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 19 September 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 measures
The report of the Nominating, Compensation and CSR Committee dated February 19, 2018, justifying the Proposed appointment and re-election of directors for the JGA 2018 contains:

"The Commission considers that thirteen members is an adequate number for the proper functioning of the Council, therefore proposes that this number of Directors be maintained.

After the proposed appointment and re-election, the Council maintains a majority of independent members. From its thirteen members, seven will have the status of Independent Directors and the presence of three Directors will be maintained of women in the Board of Directors who, in addition, perform significant functions in the Council: Dª Ana Palacio Vallelersundi is an Independent Director Coordinator and President of the Appointments Committee, Remuneration and Corporate Social Responsibility Dª. Isabel Tocino Biscalorasaga, chairs the Appointments Committee, Remuneration and Corporate Social Responsibility; and Ms. Rosa Rodriguez Díaz, is a member of the Audit and Fulfillment.

Since 2012, the Company has separated the positions of Chairman of the Board of Directors and Chief Executive Officer and since 2010 he has an Independent Coordinating Director, since it keeps in the person of Dª. Ana Palacio Vallelersundi as an added guarantee for the proper functioning of the Council. The internal structure guarantees that all the functions (Internal Audit, Legal Advice and Regulatory Compliance ...) that favor the control that the Board of Management must exercise respect for executive and business functions in charge of the Chief Executive Officer. The necessary independence being assigned organically and functionally, through the Secretary of the Council, to the President of the Board of Directors and the Board itself. "

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. He was reappointed for said position for the statutory term of four years at the General Shareholder's Meeting held on 31 March 2017.

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

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

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 [X] **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:

a)) 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.

b)) 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 remunerations (*)	4,184
Cumulative amount of rights of current Directors in pension scheme (*)	2,701
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
DOÑA MARÍA SALVADORES SICILIA	Strategy Director

Total remuneration received by senior management (thousand of euros)	4,340

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 annual evaluation of the Board has paid special attention to those key aspects with respect to which the Directors expressed interest or some concern in the evaluation of previous years. The areas analyzed were the following:
Composition and structure of the Board and its Committees, functioning and debate within the Board, leadership, personal contribution, global assessment and an open question aimed at offering the Director the opportunity to provide more direct and subjective feedback.

The evaluation has resulted in a series of positive issues and certain areas for improvement. The Directors have considered very positively, among other issues, the open and effective communication between the Board and the Management of the company as well as the relevant and useful expertise and knowledge of the Directors who have recently joined the Board.
Likewise, the Directors value the efforts made in order to supervise the strategic plan, the supervision of risks and the internationalization of the company. Training plans in general and lunches / presentations with Personalities of the sector aimed at strengthening the skills of the Directors and their performance have also been valued positively by the Directors, as well as the training received on regulation.

The company takes into account every year the result of the evaluation of the Board in order to improve its internal functioning, deliberation and decision making. It should be noted that recently it has been restructured the agenda of the Board to ensure adequate discussion of the priority issues as well as the implementation of a annual training program aimed at reinforcing the skills of Directors

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	7
APPOINTMENTS, REMUNERATIONS AND CSR COMMITTEE	5

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	9
% of attendance of the total votes cast during the year	82.00%

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 in its report.

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:

a) 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.
b) Examining the information on activities and results of the Company which is prepared and published periodically in accordance with the prevailing regulations relating to the securities market, seeking to ensure transparency and exactness in the information.
c) 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.
d) Informing the Board of Directors on the annual financial statements prior to their preparation, as well as on financial information which the Company must periodically disclose publicly.
e) 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.
f) Assessing any proposals made by senior managers regarding changes in accounting practices.
g) 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.
h) 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:

a) Establish an appropriate relationship with the External Auditors in order to receive information on those questions which may represent a threat to their independence. Specifically, the discrepancies that may arise between the auditor of accounts and Company management, for their examination by the Committee, and any other discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit, and finally reaching a conclusion with respect to the system's reliability.
b) Receive those other communications provided for in audit legislation and audit standards.
c) Proceed with the authorization of services other than those prohibited, in accordance with prevailing regulations..
d) By ensuring that the company and External Accounts Auditor adhere to the current laws regarding auditor independence.
e) 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.
f) In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
g) 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.
h) Anually report, 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.

i) 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.

Last, 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** ☒

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

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** ☒

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	2	2
Number of years audited current audit firm/ Number of years the company's financial statements have been audited (%)	4.00%	4.00%

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 X 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** ☐

Name of the director:
MR ANTONIO LLARDÉN CARRATALÁ

Criminal Cause:
Subject Caixa Catalunya.

Observations:
Pending conclusion of oral trial.

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.

Yes ☒ **No** ☐

Decision taken / action taken:
That this situation does not jeopardize the interests of the Company or harm its credit or reputation, and that the Appointments, Remuneration and Corporate Responsibility Committee continue monitoring of this matter giving timely account of it to the Board in plenary session.

Reasoned explanation:
In accordance with the provisions of the Regulations for the Organization and Functioning of the Board of Administration of the Company, the Chairman of its Board of Directors has kept punctually informed the Nominating, Compensation and Corporate Social Responsibility Committee and Board of Directors of all the incidents of a judicial procedure that affects more than 40 people who, as is their case, were part of the day of the Caixa Board of Directors Catalunya, position in which it ceased in 2011, and that as of the date of this report is pending of holding oral trial.

After the monitoring and timely assessment of the situation, the Appointments, Remuneration Committee and Corporate Social Responsibility and the Board of Directors have concluded: i) that this situation does not jeopardize the interests of the Company or harm its credit or reputation, and ii) that the Commission of Appointments, Remuneration and Corporate Responsibility continue to follow up on this matter giving timely account of it to the Board in full.

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	11
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 NINE (9) 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 NINE (9) 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 authorizing 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
MS ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
MS ROSA RODRÍGUEZ DÍAZ	Member	Independent
MR LUIS VALERO ARTOLA	Member	Independent
MR MARTÍ PARELLADA SABATA	Member	Other external
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Member	Proprietary

% of Propietray Directors	20.00%
% of Independent Directors	60.00%
% of other External Directors	20.00%

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. Three (3) of the Committee's members are independent and we highlight that the President of the Committee, MS. DOÑA ISABEL TOCINO BISCAROLASAGA, is independent and only one (1) member, SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is a Proprietary Director.MR MARTÍ PARELLADA SABATA, an Independent Director, External Director was appointed 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 2017, the Audit and Compliance Committee met seven 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	0

APPOINTMENTS, REMUNERATION AND CSR COMMITTEE

Name	Position	Category
MS ANA PALACIO VALLELERSUNDI	Chairman	Independent
MR ANTONIO HERNÁNDEZ MANCHA	Member	Independent
MR GONZALO SOLANA GONZÁLEZ	Member	Independent
MR LUIS GARCÍA DEL RÍO	Member	Independent
MR LUIS JAVIER NAVARRO VIGIL	Member	Other External
MR JESÚS MÁXIMO PEDROSA ORTEGA	Member	Proprietary

% 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 2017, the Enagás Committee met four (5) 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							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	2	40.00%	1	20.00%	1	20.00%	1	20.00%
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	1	16.67%	2	33.33%	1	20.00%	1	16.67%

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 2017, 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.- 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	12,234
RETAIL OEICS AGGREGATE	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,418
BLACKROCK INC	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,718
FIDELITY INTERNATIONAL LIMITED	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	6,877
STATE STREET CORPORATION	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	10,182
LAZARD ASSET MANAGEMENT	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,269

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 andother benefits paid	16,926

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): 3,439
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): 2,640
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): 277
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): 4,234
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): 8,376
Brief description of the transaction: Guarantees and sureties extended.

Corporate name of the Group company:
SWEDEGAS, AB
Amount (in thousands of euros): 24,131
Brief description of the transaction: Guarantee commitment.

Corporate name of the Group company:
TRANS ADRIATIC PIPELINE AG
Amount (in thousands of euros): 68,800
Brief description of the transaction: Investment commitments acquired.

Corporate name of the Group company:
BAHÍA DE BISZKAIA GAS, S.L.
Amount (in thousands of euros 14
Brief description of the transaction: Profit from sales of assets

Corporate name of the Group company:
MIBGAS, S.A.
Amount (in thousands of euros 21,620
Brief description of the transaction: Purchase of operational gas

D.5 Indicate the amount from related party transactions.

139,134 (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:

a) 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

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. This model allows you to adapt to the complexity of your business activity in a competitive environment globalized, in a complex economic context, where the materialization of risks is faster and with a contagious effect evident.

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 approval 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.

- Ensure the proper functioning of risk control and management systems. Define the normative and methodological framework that allows identify, quantify and manage the important risks that affect 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 2017, similar to that of 2016, 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 2017 related to its heavy exposure to regulatory risk, as certain regulatory developments had a negative impact on the company. Likewise, certain risks materialised, such as in the case of incidents relating to infrastructure and systems involving small economic amounts, as a result of circumstances arising out of transactions carried out and business operations.

In relation to credit risk, certain specific credit events have materialized, whose net impact on the company has been substantially reduced by the guarantee schemes and contractual clauses that protect corporate interests.

E.6 Explain the response and monitoring plans for the main risks the company is ex- posed 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 risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- Credit and counterparty risks are mitigated via establishment of guarantee mechanisms, in accordance with specific regulatory requirements, such as continuous monitoring of the main counterparties' credit profiles.
- 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:

F1.1. 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 and People 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 it 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 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 2017 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 and Independence
- 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 and People 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.

During 2017, General Financial Management participated in various training activities together with the Internal Audit Department, amongst which the following were included: Updating the ICSFR, Internal Audit of Information Security, Key Issues in Cybersecurity, model for prevention of non-compliance offenses, Risk Assessment, Prevention and Investigation of Fraud, amongst 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. This process follows the COSO 2013 methodological framework (Comittee of Sponsoring Organizations of the Treadway Commission), one of its objectives being to contribute to the transactions carried out are recorded faithfully, in accordance with the corresponding accounting framework providing reasonable security in relation to the prevention or detection of errors that could have a significant impact on the information contained in the consolidated annual accounts.

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, and so 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 2017, 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 and People 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 30 cycles and 64 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 2017, there were 271 ICFR process controls, approximately 15% 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 2017 there were 814 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.

Accounting, Consolidation, and Accounting Policy Management, 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 if 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 2017 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 are 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

During 2017, Internal Control over Financial Reporting System was extended through related entity GNL Quintero, S.A. participated by Enagás Group, being 2017 first year in wich this entity consolidate globally its financial satements.

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 2017 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.
b) 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 than 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 ☒ Partially compliant ☐ Explain ☐

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 [X] **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 [X] **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 [X] **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 [X] **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** [X]

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** [X]

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 [X] **Partially compliant** [ ] **Explain** [ ]

46. That under the direct supervision of the audit committee or, as the case may be, of a specialized committee of the board of directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

a) Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the company are identified, managed and quantified adequately.
b) Actively participate in the preparation of the risk strategy and in important decisions about its management.
c) Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the board of directors.

Compliant [X] **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 [X] **Partially compliant** [ ] **Explain** [ ]

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

The modification of the Articles of Association that the Board of Directors proposed to the AGM 2015 included the modification of its article 45 in the sense of allowing the division of the Appointments, Remuneration and CSR Committee into two separate committees.

The Board of Directors will study the opportunity to separate the current Appointments, Remuneration and CSR Committee into two separate commissions.

Compliant [ ] **Explain** [X] **Not applicable** [ ]

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

And that any director can request from the appointments committee to take into consideration In case you find them suitable to your judgment, potential candidates to fill vacancies of counselor.

Compliant [X] **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 ☒ **Partially 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, 2017.

   APPENDIX III.- Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2017.

   APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2017.

   This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 19 February 2018.

   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 2017 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.

In accordance with the notification that Lazard Asset Management had sent to the Official Registry of the CNMV on December 29, 2017, Lazard Asset Management had reported that it held a 5.074% stake in Enagas SA as a custodian and not as a direct owner.

Also, with date after December 31, 2017, Lazard Asset Management informed the CNMV and Enagás, SA that on February 8, 2018, they reduced their participation in the capital of the company, holding 4.63% in the shareholding of Enagas. SA.

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 2017, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2016 of 7,195 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 5,039 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 12,234 thousands of euros.

On 5 July 2017, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2016 of 9,955 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 6,971 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 16,926 thousands of euros.

On 5 July 2017, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2016 of 2,010 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 1,408 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 3,418 thousands of euros.

Enagás paid **FIDELITY INTERNATIONAL LTD** 4,219 thousand euros on July 5, 2017, corresponding to the 2016 complementary dividend approved at the General Shareholders Meeting. In addition, in December 2017, an interim dividend corresponding to 2017 was paid, totaling 2,658 thousand euros. Thus, total dividends paid amounted to 6,877 thousand euros.

In December 2017, Enagás paid **BLACKROCK INC** an interim dividend for 2017, amounting to 4,718 thousand euros.

In December 2017, Enagás paid **LAZARD ASSET MANAGEMENT** an interim dividend for 2017, amounting to 4,269 thousand euros.

Enagás also paid **STATE STREET CORPORATION** an amount of 5,989 thousand euros on July 5, 2017, corresponding to a complementary dividend for the year 2016, as approved at the Shareholders General Meeting. In addition, in 2017, an interim dividend for 2017 was paid, in the amount of 4,193 thousand euros. Thus, total dividends paid amounted to 10,182 thousand 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.8.

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

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:

- Vice-president and member of the AREVA Executive Committee (2008-2009)
- Senior vice-president and General Director of the World Bank Group (2006-2008)
- Secretary General of the International Center for Settlement of Investment Disputes (2006-2008)
- Member of Parliament, President of the Mixed Parliamentary and Senate Committee for the EU (2004-2006)
- 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) Jointlyandseverally.

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 receiversand 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, jointly with another 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. The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS Derivatives, S.A., a company that is not part of the Enagás Group and in which Enagás SA, S.A.U. holds a 19.4% 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.1.16.

For the purpose of calculating the total remuneration of senior management, with respect to Ms. María Sicilia, only the part of her salary corresponding to the fourth quarter of 2017 has been taken into consideration, date from which she began to be part of senior management.

Explanatory note on section C.1.17.

Mr Bartolomé Lora Toro, individual representing the Director SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), is the Vice President of SEPI.

Explanatory note on section C.1.19.

DURATION IN CHARGE AND CO-OPTATION:

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.

RE-ELECTION OF DIRECTORS:

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 Regulationsofthe Board).

Explanatory note on section C.1.37.

As disclosed in note 4.6 c) to the financial statements, 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 of accounts (Ernst & Young, S.L.) amounts to 18% of the audit service fees invoiced during 2017 (17% 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 presentrecommendations 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 and Vice 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 bestpractices – 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 atcreating value.

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 environmentand 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 Conducton matters relating to the securities markets on the partof 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, 2017, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2016 of 7,195 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 5,039 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 12,234 thousands of euros.

On 5 July 2017, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2016 of 2,010 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 1,408 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 3,418 thousands of euros.

Enagás paid **FIDELITY INTERNATIONAL LTD** .an amount of 4,219 thousand euros on July 5, 2017, corresponding to a complementary dividend for 2016, as approved at the General Shareholders Meeting. In addition, in December 2017, an interim dividend corresponding to 2017 was paid, totaling 2,658 thousand euros. Thus, total dividends paid amounted to 6,877 thousand euros.

In December 2017, Enagás paid **BLACKROCK INC** an interim dividend for 2017, amounting to 4,718 thousand euros.

In December 2017, Enagás paid **LAZARD ASSET MANAGEMENT** an interim dividend for 2017, amounting to 4,269 thousand euros.

Enagás also paid **STATE STREET CORPORATION** an amount of 5,989 thousand euros on July 5, 2017, corresponding to a complementary dividend for 2016, as approved at the General Shareholders Meeting. In addition, in 2017, an interim dividend for 2017 was paid, in the amount of 4,193 thousand euros. Thus, total dividends paid amounted to 10,182 thousand 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 2017, Enagás paid S**OCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2016 of 9,955 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 6,971 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 16,926 thousands of euros.

The remuneration received by the Board of Directors in 2017 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 2018 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 consolidationprocess.

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 48,604 thousands of euros, and for the item Services rendered, the company invoiced for 7,563 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	3,654
Enagás Internacional S.L.U.	Banco Santander, S.A.	Finance cost	4,605
Enagás Financiaciones, S.A.U.	Banco Santander, S.A.	Finance cost	456
Total finance cost, other related parties			**8,715**
Enagás, S.A.	Banco Santander, S.A.	Agent Services	15
Enagás Transporte S.A.U.	Banco Santander, S.A.	Vehicleleasing	120
Enagás Internacional S.L.U.	Newcomer 2000, S.L.U.	Services received	72
Total services received, other related parties			**207**
Enagás S.A.	Banco Santander, S.A.	Sureties	130,212
Guarantees and sureties received, other related parties			**130,212**
Total transactions with other related parties			**139,134**

Transactions with BANCO SANTANDER, S.A.

Finance costs: In 2017, finance costs payable to Santander, S.A. amounted to **8,715 thousands of euros,** of which 3,654 thousands of euros is payable by Enagás S.A., 4,605 thousands of euros is payable by Enagás Internacional, S.L.U. and 456 thousands of euros is payable by Enagás Financiaciones, S.A.U.

Guarantees and sureties: Guarantees extended by Banco Santander, S.A. in 2017 amounted to **130,212 thousands of euros,** all of which were granted to Enagás, S.A.

Receipt of services: Enagás, S.A. incurred expenses of **15 thousands of euros**, as follows:

Recepción de servicios de Banco Santander				
Item	**Amount**	**Price policy**	**Payment terms**	**Guarantees**
Agency commission	15	-	-	-

Receipt of services:
Enagás Transporte, S.A.U. incurred expenses of **120 thousands of euros,** broken down as follows:

Services received from Banco Santander				
Item	**Amount**	**Price policy**	**Payment terms**	**Guarantees**
Vehicle hire	120	-	-	-

Transactions with Newcomer 2000, S.L.U.-

Receipt of services: Enagás Internacional, S.L.U. incurred expenses of **72 thousands of euros,** broken down as follows:

Services received from Newcomer 2000				
Item	**Amount**	**Price policy**	**Payment terms**	**Guarantees**
Advisory services	72	-	-	-

Appendix II. Report on the Activities of the Audit and Compliance Committee, 2017

The purpose of this report is to summarize the activities of the Audit and Compliance Committee of Enagás S.A. during 2017.

1. Composition during 2017

At December 2017 the 31st, the composition of the Audit and Compliance Committee is as follows:

President

- Dª Isabel Tocino Biscarolasaga, Independent Director

Members

- State Company of Industrial Participations (SEPI), represented by its Vice President Mr. Bartolomé Lora Toro, Dominical Director.
- Mrs. Rosa Rodriguez Díaz, Independent Director
- Mr. Luis Valero Artola, Independent Director
- Mr. Martí Parellada Sabata, Independent Director.

Secretary

- Mr. Rafael Piqueras Bautista.

The main changes made in the composition of the Audit and Compliance Committee during 2017 are:

- In the last General Shareholder´s Meeting on March 31, 2017, the reelection of Mr Martí Parellada as External Director was approved, having reached the maximum period of 12 years, established in article 9 of the Regulations of the Board of Directors, as Director Independent. Therefore, the recomposition of the Audit and Compliance Committee is necessary, and it is essential to appoint an Independent Director as its Chairman.

- At the meeting on April 24, 2017, when the position of Chairman of the Audit and Compliance Committee was vacant, in accordance with corporate texts for the Board of Directors (article 38), the session was chaired by the Director, Mr. Luis Valero Artola.

- The Board of Directors, dated June 19, 2017, in accordance with the best practices of Corporate Governance and on the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, agreed:

  - Appoint Mrs. Isabel Tocino Biscarolasaga, President of the Audit and Compliance Committee, in her capacity as Independent Director.
  - At the same time, the Board agrees that Mr. Martí Parellada continue to perform his duties in the Committee as External Director.
  - Finally, it is agreed that Mr Gonzalo Solana González becomes a member of the Appointments, Remuneration and Corporate Social Responsibility Committee.

- On October 16, 2017, Mr. Bartolomé Lora Toro replaced Mr. Federico Ferrer Delso as a natural person representative of the legal entity SEPI.

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

All the information of the Directors, including their work experience and seniority in the Board of Directors of the Company is detailed in the Enagás Corporate Website:

www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion.

In accordance with the provisions of the corporate texts, the Audit and Compliance Committee was assisted by the Internal Audit Director Mr. Isidro del Valle Santín and the Internal Audit Manager Mrs. Rosa Sánchez Bravo, in her duties as adviser to the Commission

Similarly, during 2017, upon the invitation of the Chairman of the Commission, the Committee requested the presence of Managers, related to matters of its competence in accordance with the order established: the Chief Executive Officer Mr. Marcelino Oreja Arburúa, the Chief Financial Officer of Enagás Mr. Borja García- Alarcón Altamirano, They have also attended the meetings of the Committee when it has dealt with matters related to its functions, the Director of Risks and the Director of Execution.

However, the representatives of the External Auditor, Ernst & Young, S.L., have attended the ordinary meetings of the Committee.

2. Regulation of the Audit and Compliance Committe

The Audit and Compliance Committee is governed by the provisions of applicable laws and regulations, the provisions of the Articles of Association, the Regulations for the organization and operation of the Board of Directors of Enagás, SA, as well as its own Regulations for organization and operation, dated December 21, 2015.

3. Competencies of the Audit and Compliance Committee

The functions and competencies entrusted to the Audit and Compliance Committee in the Bylaws and in article 44 of the Regulations for the organization and operation of the Audit and Compliance Committee are

- Report at the General Shareholders' Meeting on the issues that arise in relation to those matters that fall within the competence of the Commission and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial information and the function that the Commission has played in this process.

- Oversee the effectiveness of the internal control of the Company and its Group, internal audit, and risk management systems and discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit, all it without breaking its independence. For such purposes, and where appropriate, may submit recommendations or proposals to the Board of Directors and the corresponding deadline for follow-up.

- Oversee the preparation and presentation of mandatory financial information and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.

- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of their recruitment and regularly collecting information on them the audit plan and its execution, in addition to preserving its independence in the exercise of its functions.

- Establish the opportune relations with the external auditor to receive information on those issues that may pose a threat to their independence, for their consideration by the Commission, and any other related to the process of developing the audit of accounts and, where appropriate, the authorization of services other than those prohibited, in the terms contemplated in the applicable regulations, as well as those other communications provided for in the regulations governing the activity of auditing accounts and audit standards. In any case, they must receive annually from the account auditors the declaration of their independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind provided and the corresponding fees. received from these entities by the external auditor, or by the persons or entities linked to it in accordance with the provisions of the regulations governing the activity of auditing accounts

- Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditors or audit companies is compromised. This report must contain, in any case, the motivated assessment of the provision of each and every one of the additional services referred to in the previous section individually considered and as a whole, other than the legal audit and in relation to the regime of independence or with the regulations governing account auditing

- Reporting, in advance, to the Board of Directors on all the matters set forth in the Law, the Bylaws and the Regulations of the Board and, in particular, on:

  - the financial information that the Company must periodically publish,
  - the creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and
  - transactions with related parties.

4. Activities of the Audit and Compliance Committee during 2017

The Committee has met seven times during 2017. The President of the Audit and Compliance Committee has reported on the matters discussed in each of the meetings of the Committee to the Board at its next meeting.

The most important aspects regarding the activity of the Audit and Compliance Committee in 2017 are summarized below.

4.1. In relation to Financial Information

Committee activities relating to the formulation and approval of the Enagás Financial Statements for 2016, the supervision of the Quarterly accounting reviews and the Internal Control over Financial Resporting System.

Formulation and approval of the Enagás Financial Statements for 2016

The Audit and Compliance Committee met on February 6, 2017 with the purpose of moving forward the closing of the Financial Statements for the year 2016, both with the Chief Financial Officer, the Director of Internal Audit and the external auditors (Ernst & Young SL, hereinafter EY). The external auditors and the Chief Financial Officer presented the preliminary results of the 2016 accounting close.

Subsequently, at its session of February 13, 2017, as on previous occasions, it analyzed and discussed the annual accounts prior to their formulation by the Board of Directors. For this, the members of the Committee met with the external auditors EY of the Company for the year 2016, as well as with the General Financial Director and the Director of Internal Auditing of Enagás.

The external auditors and financial officers of the Company submitted to the members of the Committee their opinions regarding the financial statements. The discrepancies that could arise, in any case reached a threshold of materiality that could affect the opinion of EY on the financial statements. EY indicated to the Audit and Compliance Committee that its report would not contain exceptions or reservations.

The study of the Audit and Compliance Committee on the 2016 accounts ended with the following conclusions:

- *"That the annual accounts of Enagás and its consolidated group for 2016, as presented to it, faithfully and adequately reflected the Company's equity and results.*
- *That they held the necessary information for their adequate understanding, as well as a sufficient description of the risks of the Company.*
- *That the accounts respected the accounting principles and rules of general acceptance, in the same terms as those of previous years.*
- *That the principle of equal treatment of Shareholders and transparency in the information provided to the markets had been respected.*

Therefore, the Commission agreed to recommend to the Board of Directors of Enagás the formulation of the accounts. The Board of Directors, in its session of February 13, 2017, following the recommendation of the Commission, formulated the accounts in the same terms that had been pointed out by the Commission.

Finally, as in previous years, Mr. Parellada, Chairman of the Audit and Compliance Committee on that date, took part in the Ordinary General Meeting of the company, held on March 31, 2017, to explain to the Shareholders the most important aspects of the annual accounts and ensure that the Shareholders had all the necessary information to be able to vote on the Annual Accounts that were approved according to the proposal of the Board of Directors.

Supervision of the Quarterly Financial reviews as of March 31, June 30 and September 30, 2017

Throughout 2017, the Commission has continued its work of reviewing the interim financial statements on the occasion of quarterly and half-yearly closing, analyzing the Company's intermediate economic-financial information, based on the Reports and the analysis provided by the Financial Director, with the support of the Internal Audit Director who analyzes the information with the independence approach required by the Commission.

Additionally, E&Y presented a report with its conclusions of the limited reviews carried out corresponding to the first, second and third quarter.

With this activity developed by the Committee, the impact of any accounting aspect that manifests itself throughout the year is minimized, and allows the members of the Committee and the Board to keep informed of the opinion of the external auditors and the Management of the Company in relation to the annual evolution of the balance sheet and the profit and loss account.

As a result of its work, the Commission raised in its sessions in April, July and October 2017, reports to the Board regarding the Economic-Financial Information of Enagás.

The Audit and Compliance Committee considers that both the quarterly reports made by the External Auditor and the analysis carried out by the Committee itself are an important instrument when carrying out strict accounting control. And facilitate the issuance, at the end of the year, of a report without qualifications

In addition, the Commission knows and approves, in accordance with the recommendations of good corporate governance that it has assumed, the financial information that the Company makes public every quarter.

In particular, the Commission reported favorably on the financial statements corresponding to the first half of the year and which were approved by the Board of Directors, following the recommendation of the Committee, at its meeting of July 13, 2017.

Internal Control over Financial Reporting System (ICFR).

The Commission has supervised the Internal Control over Financial Reporting System (ICFR) that the Company applies under the COSO 2013 guidelines. This system is reviewed by the auditor of accounts EY issuing a reasonable Assurance Report.

The auditor informed the Audit and Compliance Committee on February 13, 2017, that in his opinion, the Group maintained an Internal Control System on Financial Information held in the 2016 Consolidated Annual Accounts, in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework Report (2013).

Likewise, the Company reports the SCIIF and its application in the year in the Annual Corporate Governance Report, which includes as an Annex the favorable Report of the External Auditor on the same

In this regard, the external auditor EY reported that the breakdowns held in the information relating to the SCIIF, are in note F of the Annual Corporate Governance Report (hereinafter IAGC) of the Group as of December 31, 2016, they agree, in all significant aspects, with the requirements established in the Capital Companies Law, Order ECC / 461/2013 of March 20, and Circular 7/2015, of December 22, by which Circular 5 is modified / 2013 of June 12 of the National Securities Market Commission

Finally, mention that the Commission informed the Board of Directors, on February 13, 2017, on such Certification and the IACG's execution, as well as the absence of relevant recommendations as a result of the Certification.

It should be emphasided that during 2017, Enagás proceeded to extend the Internal Control over Financial Reporting System of the subsidiary GNL Quintero, SA, a subsidiary of the Enagás Group, as the year 2017 was the first

year in which the subsidiary consolidates globally in the financial statements. During December, the GNL Quintero accounts auditor has submitted an internal report to the group's auditor, positively concluding the internal control of the subsidiary and no significant event has been detected. The report shall be integrated into the Certification presented by the auditor of the Group's accounts to the Audit and Compliance Committee at its meeting on February 19, 2018.

4.2. External Auditor

Competencies related to the relationship with the external auditor regarding its participation in the Board of Directors and Audit and Compliance Committee, the authorization

Participation in the Commission and Board of Directors.

The external auditor participated, in accordance with the established schedule, in the 7 meetings of the Committee held in 2017, which has allowed the latter to adequately perform its function, provided for in the Regulations of the Board, to serve as a communication channel between the Board of Directors and the external auditor. In addition, the external auditor has informed the Board of Directors in plenary on two occasions during the past year: February 13, 2017 and July 13, 2017.

In the meetings of the Commission held during 2017, the external auditor has provided detailed information on the planning and progress of their work. The Commission has analyzed, assisted by the auditor, the audit reports corresponding to the annual, individual and consolidated annual accounts, as well as the limited reviews carried out on a quarterly basis.

Date	Auditor´s Imput
February 6, 2017	Advance closing of 2016 consolidated annual accounts of Enagás S.A. and Dependent Companies
February 13, 2017	Approval of the Audit Report of the Enagás Consolidated Annual Accounts S.A. and subsidiaries as of December 31, 2016, for subsequent formulation by the Board of Directors.
April 24, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies as of March 31, 2017.
July 13, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to June 30, 2017.
October 11, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to September 30, 2017.
October 16, 2017	Report of the Limited Review of the Consolidated Interim Consolidated Financial Statements of Enagás S.A. and Dependent Companies corresponding to September 30, 2017.
December 18, 2017	Advance conclusions of the preliminary work of the Audit of the Consolidated Annual Accounts of Enagás S.A. and subsidiaries as of December 31, 2017

Authorization of non-audit services.

As established in the Regulations, during 2017 the Audit and Compliance Committee approved the audit services hired by the auditor, as well as the services other than those of auditing considered as not prohibited by the applicable regulations, after having adequately evaluated the possible threats to independence and the safeguard measures in case they were necessary.

In accordance with the provisions of the "Independence Report 2016 of the Enagás accounts auditor. S.A. and its subsidiaries ", issued on February 13, 2017, the Audit and Compliance Committee is informed on a quarterly basis of the percentage that is assumed by any service other than the audit carried out by EY, with respect to the Audit fees, in order to comply with the 70% limit established by Law 22/2015 on Auditing Accounts.

Reception of the letter of Independence of the Auditor EY

At the meeting of the Commission on February 13, 2017, the External Auditors delivered to the Audit and Compliance Committee the Declaration of Independence of the Auditor in which the auditor states that:

"In relation to the audit of individual and consolidated annual accounts of Enagás, S.A. (the Company) corresponding to the fiscal year ended December 31, 2016 ... we communicate the following:

a) The team in charge of the Audit assignment and the Audit Company, with the extensions that are applicable to them, have completed with the independence requirements established in the regulations governing the audit activity of accounts in Spain that result from application "

The letter below includes the total amount of E&Y fees for the year 2017, classified by type of service.

Finally, in section c) the auditor makes reference to the internal procedures that EY has implemented in order to identify and evaluate threats that may arise from circumstances related to audited entities, including those that may suppose causes of incompatibility and, in its case, to the application of the necessary safeguard measures.

They conclude by stating "... that no circumstances have been identified that, individually or as a whole, could pose a significant threat to our independence and that, therefore, require the application of safeguard measures or that could suppose causes of incompatibility "

Analysis of the Independence of the Account Auditor by the Audit and Compliance Committee

The Commission in accordance with what is described in the "Independence Report of the Statutory Auditor of Enagás. S.A. and its subsidiaries ", issued on February 13, 2017, carried out an analysis of the independence of the auditor of accounts prior to the issuance of the Accounts Audit Report corresponding to the closing date of December 31, 2016, in accordance with what is established in section 4.f) of article 529 quaterdecies of the Capital Companies Law and article 7.d) of the Regulations of the Board.

Therefore, in the Independence Report, the Commission details the fees for audit services, as well as the details of the services other than those of Audit provided by the Auditor in 2016, which represented 53.32% of the total fees for audit services. audit services provided to the Enagás Group in 2016.

The Committee unanimously approved the "Report of the Audit and Compliance Committee on the independence of the external auditor" that was made available to the shareholders at the time of the call of the General Shareholders' Meeting on March 31, 2017 and that approved the accounts for 2016.

This report concludes that:

"At sight of the information it has provided, the Audit and Compliance Committee of Enagás has not identified aspects that call into question execution with the regulations in force in Spain for the audit of accounts in terms of the auditor's independence and In particular, the Commission confirms that it has not identified aspects of this nature related to the provision of additional services to those of auditing, considered individually and as a whole, of any kind ".

4.3. Related-party transactions.

Activities of the Commission in relation to the approval of transactions with related parties, as well as the verification that they are carried out at market prices

The Regulations for the Organization and Functioning of the Board of Directors establish in article 14, that the Board of Directors will be responsible for the knowledge and approval, following a report from the Audit and Compliance Committee, of the operations carried out by the Company or Group companies. with Directors or with shareholders holding a significant stake. The affected Directors must refrain from participating in the deliberation and voting of the agreement in question.

The indicated transactions are valued from the point of view of equal treatment and market conditions, and are included in the Annual Corporate Governance Report and in the periodic public information in the terms provided in the applicable regulations.

On February 13, 2017, in accordance with the recommendations of the Code of Good Governance of listed companies, the Audit and Compliance Committee prepared a Report on related-party transactions that was made available to shareholders at the time of the call of the Board. General Meeting of Shareholders held on March 31, 2017.

In this Report, the Commission confirmed the company's execution with the securities market regulations on transactions with related parties, while verifying that all transactions with related parties made during 2016 belonged to the ordinary business were carried out under normal market conditions and where approved by the board of director of the company.

During 2017, information on certain transactions with related parties was submitted on February 6, 2017 and July 13, and reports were submitted on transactions with parties related to the Board of Directors on February 6, 2017 and 17 of July 2017 respectively.

4.4. Internal auditor

Competencies related to the relationship with the internal auditor, approval of the Internal Audit Plan and Budget and supervisión of internal audit services.

In accordance with Article 7 objectives and functions of the Audit and Compliance Committee, the Committee oversees the Company's Internal Audit services, receiving periodic information on its activities and verifying that senior management takes into account the conclusions and recommendations of its functions.

Thus, at its meeting held on February 6, 2017, the Committee approved the Annual Internal Audit Plan for 2017 and the Internal Audit Budget for that year.

The Director of Internal Audit has informed the Commission quarterly of the follow- up of the Audit Plan, of the reports issued, as well as the degree of implementation of the recommendations detected prior to the date of the Commission.

It should be noted that during the year 2017, in execution with good practices, the Internal Audit Department has renewed the Quality Certificate of the Institute of Internal Auditors. In the Certification Report, the Institute of Internal Auditors recognizes the continuous improvement of performance, quality, professionalism and use of best practices in this area

Lastly, it should be noted that during 2017 the Audit and Compliance Committee carried out an evaluation of the performance of the functions and responsibilities assumed by both the Internal Audit Director and the Internal Audit function as a whole. In the completed evaluation questionnaire, aspects such as the strategic positioning of the function, the good governance and independence of the auditor, as well as their performance in the execution of the defined Audit Plan are evaluated.

4.5. In relation to risk management and control

Competencies related to the supervisión of the effectiveness of the risk management and control model, the anual monitoring of risks and the quarterly monitoring of the evolution thereof.
The Audit and Compliance Committee considers the risk control work of special relevance. On a quarterly basis, the Chief Executive Officer and the Director of Risks have informed the Commission of the state of control and risk management of the Company.

On February 6, 2017, July 13 and October 16, 2017, the Audit and Compliance Committee was informed of the Annual Report and the quarterly evolution of the risks.

4.6. In relation to Execution

Competencies related to the execution function, Periodic report of execution with the Internal Code of Conduct,

Execution Model.

Regarding the defined Execution Model, in accordance with the provisions of the Regulations, the Audit and Compliance Committee approved on July 13, 2017 the Execution Policy that includes Enagás' execution commitments. Likewise, on October 16, 2017, the Commission approved the General Execution Standard.

Periodic report of execution with the Internal Code of Conduct in matters of Securities Market (RIC).

In accordance with article 20.2 of the Internal Code of Conduct, the person in charge of Regulatory Execution (...) informed the Audit and Compliance Committee about the degree of execution and the incidents in relation to the application of these Internal Code of Conduct for its evaluation for that Commission.

Ethical channel

The Committee has been informed about the actions of the Ethics Committee and approved its report for 2017. The Commission has been informed in a timely manner and in detail of the incidents arising in relation to the "Ethical Channel", without any of appreciable relevance.

5. Information to the General meeting

At the Ordinary General Shareholders' Meeting on March 31, 2017, Mr. Martí Parellada Sabata, Chairman of the Audit and Compliance Committee on that date, reported on matters pertaining to the Committee's competence, making reference to the Annual Activity Report of the Audit and Compliance Committee that had been approved by the Commission at its meeting of February 13, 2017.

6. Evaluation of the performance of the Audit and Compliance Committee

In accordance with the provisions of the Regulations of the Board of Directors, the Board of Directors and the Audit and Compliance Committee have been subject to an evaluation of the quality and efficiency in the performance of their functions and competences during 2017, by an external consultant, taking as a frame of reference for its evaluation the applicable regulations and best practices in matters of corporate governance.

As a result of this evaluation, were approved by the the Board of Directors and the Audit and Compliance Committee carry out their duties in accordance with the best corporate governance practices, and have not resulted in changes in their internal organization.

The results of this evaluation were approved by the Audit and Compliance Committee and the Board of Directors, on February 19, 2018.

7. Activities subsequent to year-end

In the first months of fiscal year 2018, the Commission continued with its ordinary activity, participating in the formulation of accounts by the Board of Directors. As in the previous year, the accounts for 2017, which will be submitted to the Ordinary General Meeting to be held in March of 2018, have been previously and favorably reported by the Audit and Compliance Committee at a meeting of February 19, 2018

In accordance with the provisions of the "Independence Report 2016 of the Enagás accounts auditor. S.A. and its subsidiaries ", issued on February 13, 2018, the Audit and Compliance Committee is informed on a quarterly basis of the percentage that is involved in any service other than the audit carried out by EY, with respect to Audit fees, in order to comply with the 70% limit established by Law 22/2015 on Auditing Accounts. As of December 31, 2017, the percentage of non-audit services on the percentage of the audit services on the amount of audit fees was 18%.

Similarly, the Commission at its meeting on February 19, 2018, has issued a report expressing a favorable opinion on the independence of the External Auditor, prior to the issuance of the Audit Report corresponding to the closing date of december 31, 2017

For legal purposes, it is stated that this report was approved by the Audit and Compliance Committee at its meeting on February 19, 2018.

Secretary of the Board of Directors
Rafael Piqueras Bautista
Enagás, S.A.

APPENDIX III.
Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2017

Ernst & Young, S.L.
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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. and subsidiaries (the "Group") contained in Section F of the Annual Corporate Governance Report for the year ended December 31, 2017.

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.

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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, 2017, 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.

Conclusion

In our opinion, at December 31, 2017, 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, 2017 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).

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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 19, 2018

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APPENDIX IV.
Audit opinion on the Annual Corporate Governance Report, 2017

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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 2017 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, adaptating, 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.

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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, 2017 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 19, 2018

A member firm of Ernst & Young Global Limited

8 Annual Accounts

Consolidated Annual Accounts 2017

Translation of financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain. In the event of a discrepancy, the Spanish-language version prevails."

Auditor's Report

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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 (See Note 5)

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of Enagás, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Enagás, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of total changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Domicilio Social: C/Raimundo Fernández Villaverde, 65, 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Recovery of financial assets related to the investment in Gasoducto del Sur Peruano, S.A.

Description

On January 24, 2017, the Directorate General for Hydrocarbons of the Ministry for Energy and Mines terminated the "Improvements to the National Energy Security and Development of the South Peruvian Pipeline" concession agreement and on December 4, 2017, the National Institute for the Defense of Competition and Intellectual Property (INDECOPI) published in the Official Gazette, El Peruano, that Gasoducto del Sur Peruano, S.A. had filed for bankruptcy, as explained in Note 1.6 to the accompanying consolidated financial statements.

The Group maintains a financial asset amounting to 275.3 million American dollars related to the investment in Gasoducto del Sur Peruano, S.A. and receivable accounts totaling 227.6 million, and 6.8 million American dollars, respectively, resulting from executing the guarantee for full compliance with the concession agreement as well as the guarantee granted to finance the project, and from credits for professional services rendered, which represent assets registered as of December 31, 2017 amounting to 388 million euros (note 3.3.a to the accompanying consolidated financial statements).

In addition, as described in Note 1.6 to the accompanying consolidated financial statements, there is an ongoing controversy between the Group and the Peruvian Government regarding the investment in Gasoducto del Sur Peruano that was communicated through the Ministry of Energy and Mining and the Ministry of Economics and Finance, on December 20, 2017, under the terms of article 9.1 of the Reciprocal Promotion and Protection of Investments (APRI) between Peru and Spain.

We determined this to be a key audit matter due to the significance of the amounts related and the uncertainty surrounding the final outcome in this type of issue, which are often drawn out and complex from a legal, technical, and economic standpoint for all parties involved and interested in.

Our response

In this regard, our audit procedures included the following:

- Review of the contracts and shareholder agreements of Gasoducto Sur Peruano, S.A. to evaluate compliance.
- Reading of the correspondence between official Peruvian government bodies and the investee Gasoducto del Sur Peruano, S.A.
- Meetings with external independent experts in both Peruvian and international law engaged by the Company.
- Review of the analysis reports prepared by various Peruvian and international law experts (bankruptcy, criminal and administrative law, inter alia) and Group's internal legal consultants.

- Review of the Group's accounting estimate processes used to analyze the recovery of financial assets and the report prepared by an external accounting expert, in addition to the report prepared by an independent expert to determine the net carrying amount that will be applied in resolving the controversy.
- Review of the financial asset recovery analysis prepared by Group Management based on various scenarios (sensitivity analysis).
- Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

GNL Quintero, S.A. business combinations

Description As explained in Note 1.7 to the accompanying consolidated financial statements, on January 1, 2017, Enagás Chile, Spa acquired control of GNL Quintero, S.A. a company in which it already owned an interest, leading to a business combination carried out in stages.

The process of determining and allocating the fair value of the acquired assets and liabilities, in which an independent expert participated has been considered as a key audit matter due to the significance of the amounts and the high degree of judgment applied by Group Management.

Our response In this regard, our audit procedures included the following:

- Review of the shareholder agreements documenting acquisition of control of GNL Quintero, S.A. on January 1, 2017.
- Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management and the independent expert on which they relied for preparation of the discounted cash flow statements of GNL Quintero, S.A. focusing particularly on the discount rate and long-term growth rate applied.
- Review of projected financial information shown in the business plan by analyzing historical financial and budgetary information, current market conditions, and the projections of potential changes, as well as public information provided by other companies in the industry.
- Verification of accounting records in connection with the business combination.
- Confirmation from the independent expert on which Group Management relied.
- Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

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Regulatory framework including recognition of income and amounts receivables from the gas system

Description

The Group's principal revenue arising from regasification, storage, and transport of natural gas are regulated in a remuneration framework agreement (explained in Note 2.1 of the accompanying consolidated financial statements). Consequently, the Group's activities are notably affected by local, regional, national, and supranational regulation. Any change introduced in such regulation could therefore affect the results and the value of the assets used in the Group's regulated business activities.

Moreover, new development of infrastructures are heavily contingent upon obtaining government licenses, permits, and authorizations, as well as compliance with varying types of regulation, the most salient of which are environmental regulation. The related procedures are drawn out and complex and can lead to delays or modifications of original designs, due mainly to the process of obtaining required authorizations; the steps involved in conducting environmental impact studies; public opposition in communities affected by the projects, as well as changes in the political environments of the countries where the Group operates. All such risks can lead to increase costs and/or delay budgeted revenue.

As explained in Note 2.2 to the accompanying consolidated financial statements, in December 1, 2017 the Company Enagás Transporte, S.A.U. (Group company) has assigned the credit rights recognized by sectoral legislation on the amount of the deficit accumulated in the gas system that it owned at December 31, 2014, amounting to 354,751 thousand euros. By virtue of the agreement signed is determined that all risks and benefits have been substantially transferred to the system, as well as the control of the aforementioned financial asset.

The factors above mentioned have led us to consider these aspects as a key audit matter.

Our response

In this regard, our audit procedures included the following:

- Review of prevailing regulation and evaluation of the degree of compliance therewith.
- Tests of revenue recognition, verifying its reasonableness in terms of each year's regulatory developments.
- Verification of the gas system's accounts payable and receivable by examining provisional and definitive settlements with the CNMC during the year.
- Analysis of the recoverability of non-current accounts receivable generated from operating the gas system in recent years (commonly referred to as "deficit accounts") in compliance with prevailing regulation.
- Review and analysis, in collaboration with our internal financial instrument specialists, of the securitization agreement for the so-called "deficit accounts" for the year 2014, leading to the transfer of said debt to the banks with the corresponding derecognition of the financial asset.
- Analysis of litigation in progress from gas infrastructure projects associated with the remuneration framework agreement together with internal and external legal advisors, where necessary, and follow-up of their current status and possible accounting effects.
- Review of the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

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Significant estimates

Description

The Group includes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability of explicit and implicit goodwill from investments accounted for by the equity method, as well as intangible assets and the fair value of financial instruments. In this regard, the Group uses financial derivatives to hedge against credit, interest rate, and exchange risks to which its activities, operations, and projected cash flows are exposed

The Group's net assets include investments for significant amounts. Main criteria and assumptions used in the related valuation are described in Note 1.7 and 3.6 to the accompanying consolidated financial statements.

In addition, the Group uses financial derivatives to hedge against credit, interest rate, and exchange risks to which its activities, operations, and projected cash flows are exposed. The principal hypotheses used in the related valuation are described in Note 3.6 to the accompanying consolidated financial statements.

We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, small changes in the hypotheses could have a material impact on the Group's consolidated financial statements.

Our response

Our audit procedures primarily included:

- Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each associate, focusing particularly on the discount rate and long-term growth rate applied.
- Review of projected financial information shown in the business plan, for each investee and each cash-generating unit, by analyzing historical financial and budgetary information, current market conditions, and our own projections of potential changes, as well as public information provided by other companies in the industry.
- Review of the valuation of financial instruments, in collaboration with our internal specialists, taking into account the reasonableness of the methodology, sources and data used by management, performing contrast testing.
- Review the documentation supporting efficiency tests carried out for derivative financial instruments considered to be hedges with the collaboration of our internal financial instrument specialists.
- In addition, we checked the adequacy of the information disclosed by the Group related to the estimates in Notes 2.6 (impairment of non financial assets) and 3.6 (derivatives financial instruments), respectively of the accompanying consolidated financial statements in accordance with current regulation.

Other information: consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

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Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, or where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulations, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee 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 equity, financial position and results of the Group, in accordance with IFRS-EU, 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.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 19, 2018.

Term of engagement

The ordinary general shareholders' meeting held on March 18, 2016 appointed us as auditors for three years, commencing on December 31, 2016.

ERNST & YOUNG, S.L.

David Ruiz-Roso Moyano

February 19, 2018

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Enagás, S.A. and Subsidiaries

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2017

(In thousands of euros)

Assets	Notes	12.31.2017	12.31.2016 (*)
NON-CURRENT ASSETS		**8,428,869**	**7,895,300**
Intangible assets	2.5	929,889	76,419
Goodwill		181,704	25,812
Other intangible assets		748,185	50,607
Investment property	4.1.a	19,610	24,900
Property, plant, and equipment	2.4	5,501,351	5,002,887
Investments accounted for using the equity method	1.6	1,022,058	1,870,973
Other non-current financial assets	3.3.a	936,049	916,225
Deferred tax assets	4.2.f	19,912	3,896
CURRENT ASSETS		**1,143,767**	**1,286,973**
Inventories	4.8	23,772	18,217
Trade and other receivables	2.2	478,887	473,809
Current income tax assets	4.2.a	-	448
Other current financial assets	3.3.a	6,695	4,808
Accruals		6,549	4,237
Cash and cash equivalents	3.8.a	627,864	785,454
TOTAL GENERAL		**9,572,636**	**9,182,273**

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Balance Sheet at December 31, 2017

(*) For comparative purposes, the balances for deferred tax assets and liabilities are offset with one and the same tax authority as described in Note 1.2.b to the accompanying consolidated financial statements

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2017

(In thousands of euros)

Liabilities	Notes	12.31.2017	12.31.2016 (*)
EQUITY		**2,941,284**	**2,462,936**
CAPITAL AND RESERVES		**2,585,639**	**2,373,681**
Share capital	3.1.a	358,101	358,101
Reserves	3.1.c	1,879,996	1,737,183
Treasury shares	3.1.b	(8,219)	(8,219)
Profit for the year		490,837	417,222
Interim dividend	1.9.a	(139,241)	(132,565)
Other equity instruments	4.4	4,165	1,959
UNREALIZED GAINS (LOSSES) RESERVE	3.1.d	**(13,327)**	**74,559**
MINORITY INTERESTS (EXTERNAL PARTNERS)	3.2	**368,972**	**14,696**
NON-CURRENT LIABILITIES		**6,174,709**	**5,351,101**
Non-Current provisions	2.8.a	178,404	184,367
Financial debt and non-current derivatives	3.3.b	5,468,810	4,888,749
Deferred tax liabilities	4.2.f	485,156	231,777
Other non-current liabilities	2.7	42,339	46,208
CURRENT LIABILITIES		**456,643**	**1,368,236**
Financial debt and current derivatives	3.3.b	230,003	1,194,239
Trade and other payables	2.3	206,904	163,879
Current income tax liabilities	4.2.a	19,736	10,118
TOTAL		**9,572,636**	**9,182,273**

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Balance Sheet at December 31, 2017

(*) For comparative purposes, the balances for deferred tax assets and liabilities are offset with one and the same tax authority as described in Note 1.2.b to the accompanying consolidated financial statements

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016 (*)
Revenue	2.1.a	1,360,170	1,187,994
Income from regulated activities		1,152,015	1,146,977
Income from non-regulated activities		208,155	41,017
Other operating income	2.1.a	24,404	29,522
Employee benefits expense	2.1.b	(128,939)	(108,754)
Other operating expenses	2.1.c	(242,519)	(226,271)
Amortization/depreciation allowances	2.4 and 2.5	(319,093)	(271,516)
Impairment and gains (losses) on disposal of assets	2.4 and 4.1	(34,810)	(458)
Profit (loss) from investments accounted for using the equity method	1.6	72,859	41,205
OPERATING PROFIT (LOSS)		**732,072**	**651,722**
Finance income and similar	3.5	102,376	14,257
Finance and similar expenses	3.5	(186,172)	(121,143)
Translation differences (net)	3.5	1,013	(867)
Change in fair value of financial instruments	3.5	(18,123)	(5,644)
NET FINANCIAL PROFIT (LOSS)		**(100,906)**	**(113,397)**
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**631,166**	**538,325**
Income tax expense	4.2.c	(126,090)	(120,157)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**505,076**	**418,168**
Profit attributable to minority interest	3.2	(14,239)	(946)
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT		**490,837**	**417,222**
Attributable to:			
Parent		**490,837**	**417,222**
BASIC AND DILUTED EARNINGS PER SHARE (euros)	**1.8**	**2.06**	**1.75**

Notes 1 to 5 to the accompanying Consolidated . Financial Statements constitute an integral part of the Consolidated Income Statement at December 31, 2017

(*) The Consolidated Income Statement at 12.31.2016 has been restated, in accordance with the change in presentation described in Note 1.2.b to the accompanying Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016 (*)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR		**505,076**	**418,168**
Attributed to the parent		490,837	417,224
Attributed to minority interest		14,239	946
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**(133,633)**	**(2,422)**
Items that may be reclassified to profit or loss			
From companies accounted for using the full consolidation method		(13,466)	(46,121)
From cash flow hedges	3.1.d	(8,546)	2,604
From currency translation differences	3.1.d	(7,520)	(48,074)
Tax effect	3.1.d	2,600	(651)
From companies accounted for using the equity method		(120,167)	43,699
From cash flow hedges	3.1.d	(462)	(12,103)
From currency translation differences	3.1.d	(119,828)	53,003
Tax effect	3.1.d	123	2,799
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		**5,690**	**18,755**
From companies accounted for using the full consolidation method		(6,183)	14,267
From cash flow hedges	3.1.d	16,212	19,023
From currency translation differences	1.7 and 3.1.d	(18,575)	-
Tax effect	3.1.d	(3,820)	(4,756)
From companies accounted for using the equity method		11,873	4,488
From cash flow hedges	3.1.d	4,524	8,710
From currency translation differences	1.5 and 3.1.d	8,248	(2,063)
Tax effect	3.1.d	(899)	(2,159)
TOTAL RECOGNIZED INCOME (EXPENSES)		**377,133**	**434,501**
Attributed to minority interest		(25,818)	946
From currency translation differences	3.2	(40,057)	-
From attributable to results	3.2	14,239	-
Attributable to the parent		402,951	433,555

Notes 1 to 5 to the accompanying Consolidated. Financial Statements constitute an integral part of the Consolidated Statement of Recognized Income and Expenses at December 31, 2017

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY AT DEC 31, 2017

(In thousands of euros)

	Share capital (Note 3.1.a)	Share premium and reserves (Note 3.1.c)	Other equity instruments (Note 4.4)	Treasury shares (Note 3.1.b)	Profit for the year	Interim dividend (Note 1.9.a)	Unrealized gains (losses) reserve (Note 3.1.d)	Minority interest (Note 3.2)	Total equit
BALANCE AT DECEMBER 31, 2015	**358,101**	**1,674,200**	**-**	**-**	**412,662**	**(126,052)**	**58,226**	**14,435**	**2,391,572**
Total recognized income and expense	-	-	-		417,222	-	16,333	946	434,501
Transactions with shareholders	-	-	-	-	(188,834)	(132,565)	-	(765)	(322,164)
Distribution of dividends	-	-	-		(188,834)	(132,565)	-	(765)	(322,164)
Transactions with treasury shares	-	-	-	(8,219)	-	-	-	-	(8,219)
Other changes in equity	-	62,983	1,959	-	(223,828)	126,052	-	80	(32,754)
Payments settled with equity instruments	-	-	1,959	-	-	-	-	-	1,959
Transfers between equity accounts	-	97,776	-	-	(223,828)	126,052	-	-	-
Other changes	-	(34,793)	-	-	-		-	80	(34,713)
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**
Total recognized income and expense					490,837		(87,886)	(25,818)	377,133
Transactions with shareholders	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
Distribution of dividends	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
Other changes in equity	-	142,813	2,206	-	(218,374)	132,565	-	396,147	455,357
Payments settled with equity instruments	-	-	2,206	-	-	-	-	-	2,206
Transfers between equity accounts	-	85,809	-	-	(218,374)	132,565	-	-	-
Differences due to changes in consolidation scope	-	39,661	-	-	-	-	-	396,147	435,808
Other changes	-	17,343	-	-	-	-			17,343
BALANCE AT DECEMBER 31, 2017	**358,101**	**1,879,996**	**4,165**	**(8,219)**	**490,837**	**(139,241)**	**(13,327)**	**368,972**	**2,941,284**

Notes 1 to 5 to the accompanying Consolidated Financial Statements constitute an integral part of the Consolidated Statement of Total Changes in Equity at December 31, 2017

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 2017

(In thousands of euros)

	Notes	12.31.2017	12.31.2016
CONSOLIDATED PROFIT (LOSS) BEFORE TAX		**631,166**	**538,325**
Adjustments to consolidated profit		385,543	329,221
Amortization/depreciation of fixed assets	2.4 and 2.5	319,093	271,516
Other adjustments to profit		66,450	57,705
Change in operating working capital		321,159	(128,927)
Inventories		2,703	(1,336)
Trade and other receivables		298,755	(100,448)
Other current assets and liabilities		(4,566)	(89)
Other non-current assets and liabilities		(1,075)	949
Trade and other payables		25,342	(28,003)
Other cash flows from operating activities		(258,341)	(196,229)
Interest paid		(165,180)	(96,241)
Interest received		18,588	14,396
Income tax receipts (payments)	4.2.c	(110,963)	(116,442)
Other proceeds (payments)		(786)	2,058
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,079,527**	**542,390**
Payments for investments		(472,304)	(912,130)
Group companies and associates	1.6	(184,420)	(820,086)
PP&E and property investments	2.4 and 2.5	(54,079)	(92,033)
Other financial assets		(233,805)	(11)
Proceeds from sale of investments		143,834	12,170
Group companies and associates		143,834	12,170
Other cash flows from investing activities		112,867	86,262
Other receipts (payments) from investing activities	1.6	112,867	86,262
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(215,603)**	**(813,698)**
Proceeds from and payments on equity instruments		-	(8,219)
Acquisition of equity instruments	3.1.b	-	(8,219)
Proceeds from and payments on financial liabilities	3.8.c	(885,972)	1,163,354
Issues		9,257,139	4,178,904
Repayment and redemption		(10,143,111)	(3,015,550)
Dividends paid	1.9.a	(354,142)	(322,164)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(1,240,114)**	**832,971**
EFFECT OF CHANGES IN CONSOLIDATION METHOD		**243,092**	**-**
Effect of exchange rate fluctuations		(24,492)	(837)
TOTAL NET CASH FLOWS		**(157,590)**	**560,826**
Cash and cash equivalents at beginning of period		785,454	224,628
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3.8.a**	**627,864**	**785,454**

Notes 1 to 5 to the accompanying Consolidated Financial Statements constitute an integral part of the Consolidated Cash Flow Statement at December 31, 2017

1. Group activities and basis of presentation

Significant matters

Results

- Net profits attributed to the Parent increased by 17.6% with respect to 2016, amounting to 490,837 thousand euros. (Note 1.7).
- Net earnings per share increased to 2.06 euros per share as compared to 1.75 euros per share in 2016 (Note 1.8).
- The proposed dividend payment per share for 2017 amounts to 1.46 euros per share (1.39 euros per share in 2016) (Note 1.9).
- The Board of Directors proposed the following appropriation of profit corresponding to 2017 for the Parent, Enagás, S.A. (Note 1.9):

Reclassification of results from investments accounted for using the equity method

- At December 31, 2017, the Group reclassified profits for the period generated by the companies consolidated under the equity method, amounting to 72,859 thousand euros (2016: 41,205 thousand euros) and recognized under "Profit (loss) from investments accounted for using the equity method," as part of the Group's operating profit, with a view to reflecting the financial information included in the Group's consolidated financial statements more faithfully (Note 1.2.b).

Full consolidation of GNL Quintero, S.A. ("Quintero")

- During 2016, within the framework of acquiring additional interest in GNL Quintero, S.A. ("GNL Quintero"), the shareholders of GNL Quintero unanimously agreed to modify the existing shareholder agreement, effective from January 1, 2017. The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This resulted in a change in the consolidation method from the the equity method to the full consolidation method, effective from January 1, 2017 (Note 1.7).

Gasoducto Sur Peruano, S.A. ("GSP")

- With respect to the situation arising in connection with the investment in GSP as a consequence of the termination of the concession agreement on January 24, 2017, there is currently a disagreement between the Peruvian authorities and Enagás with respect to applying the investment recovery mechanism established in the GSP concession contract. This resulted in the initiation of direct contact on December 19, 2017 as a step prior to international arbitration by virtue of the Agreement for the Reciprocal Promotion and Protection of Investments ("APPRI" in Spanish) signed by the Republic of Peru and the Kingdom of Spain, as disclosed in Note 1.6.
- Likewise, as a consequence of the information published on December 4, 2017 on the bankruptcy situation of GSP, significant influence is lost, resulting in the exclusion of the said entity from the consolidation scope (Note 1.5).
- The total amount to recover at December 31, 2017 by GSP amounts to 388,561 thousand euros corresponding both to the recovery of the financial investment in this company and the recovery of the Enagás Group executed guarantees as a result of the termination of the concession contract in GSP by amounts of 215,303 thousand euros (Note 1.5) and 173,258 thousand euros respectively (Note 3.3).

Working Capital

- At December 31, 2017 consolidated balance sheet presents a positive working capital of 687,124 thousand euros.

Other information:

- Enagás dedicated 329 million euros to net investments during 2017, the most noteworthy transactions of which were the following:
  - Capital contributions to the Trans Adriatic Pipeline ("TAP") in the amount of 51,559 thousand euros (Note 1.6) and credit granted in the amount of 123,200 thousand euros.
  - Acquisition of an additional 21% of the Compañia Operadora de Gas del Amazonas, S.A.C. ("COGA") in the amount of 8,166 thousand euros, increasing the total stake held from 30% to 51% (Note 1.5).
  - Investments amounting to 54,079 thousand euros made in connection with regasification, transportation, and storage installations with a view to expanding and improving them in anticipation of future demand (Notes 2.4 and 2.5).
  - Sale of a 15% stake in GNL Quintero to Empresa Nacional del Petróleo, S.A. ("ENAP") amounting to 140,613 thousand euros (Note 1.5).
  - An outflow of 212,970 thousand euros in payment of the GSP guarantees granted (Note 1.6).

1.1 Group activity

Enagás, S.A. ("Company" or "Parent"), incorporated in Spain on July 13, 1972 in accordance with the Spanish Corporate Enterprises Act, leads a group of entities (Appendix I and II) which make up the Enagás Group ("Group" or "Enagás Group") and dedicate themselves to the transport, storage, and regasification of natural gas, as well as the performance of all functions relating to technical management of the gas system.

a) Corporate purpose

i. Regasification, basic and secondary transport as well as storage of natural gas, via the corresponding gas infrastructure or installations, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.
ii. Design, construction, start up, exploitation, operation, and maintenance of all types of complementary gas infrastructure and installations, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties.
iii. Development of all functions relating to technical management of the gas system.
iv. Transport and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding installations, of its own or of third parties, as well as the design, construction, start up, exploitation, operation, and maintenance of all types of complementary infrastructure and installations necessary for said activities
v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them.
vi. Rendering of services of a diverse nature, amongst them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas market management activities to the extent they are compatible with the activities permitted for the Company by law.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transport and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Consequently, the corporate purpose includes:

vii. Management of the corporate group comprised of the interest held in share capital of companies belonging to the group
viii. Rendering of assistance or support services to the investee companies, including the provision of appropriate guarantees and reinforcement for them

b) Other information

Its registered address is located at Paseo de los Olmos, 19, 28005, Madrid. Its by-laws and other public information on the Company and its Group can be consulted on its website, www.enagas.es, and at its registered address.

1.2 Basis of presentation

The annual consolidated financial statements of the Enagás Group for 2017 were prepared based on the accounting records of the Parent and remaining entities comprising the Group, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, in conformity with Regulation (EC) 1606/2002 of the European Parliament and Council.

The consolidated financial statements have been prepared applying all mandatory accounting principles, standards, and measurement criteria in order to give a true and fair view of the equity and financial position of the Group at December 31, 2017, as well as of the results of its operations, changes in equity, cash flows, and changes in recognized income and expenses for the year then ended.

The consolidated financial statements of the Enagás Group for 2017 were authorized for issue by the Board of Directors at their meeting held on February, 19, 2018. The 2016 consolidated financial statements were approved at the Enagás, S.A. Shareholders' General Meeting held on March 31, 2017 and duly filed at the Madrid Mercantile Registry. The Group's consolidated financial statements and the financial statements of each entity belonging to the Group, corresponding to the year 2017, are pending approval at their respective ordinary general shareholders meetings. The Group considers they will all be approved without any modifications.

These consolidated financial statements are presented in thousands of euros (unless otherwise stated).

a) Materiality criteria

The accompanying consolidated financial statements do not include the information or disclosures which the Group did not consider of material significance or important relative to the concept of materiality as defined in the conceptual framework of IFRS, taking into account the consolidated financial statements as a whole.

b) Comparative information

The information included in these consolidated notes relating to 2016 is presented solely and exclusively for purposes of comparison with the information relating to 2017.

During 2017 the Group offset the balances for deferred tax assets and liabilities in the consolidated balance sheet at December 31, 2017 and 2016, with one and the same tax authority. This meant offsetting "Deferred tax assets" against "Deferred tax liabilities" in the amount of 76,998 thousand euros in 2017 (2016: 67,059 thousand euros).

At December 31, 2017, the Group reclassified profits for the period generated by the companies consolidated under the equity method, amounting to 72,859 thousand euros (2016: 41,205 thousand euros) and recognized under "Results of investments accounted for under the equity method," as part of the Group's operating profit.

The directors of the Company consider the fact that the investees carry out the same activity as the Enagás Group, the corporate purpose of which is described in Note 1.1, together with their increasing contribution in the Group's consolidated income statement, justify the need for this change in the presentation of the consolidated financial statements, with a view to reflecting more faithfully the financial information contained in the Group's annual consolidated financial statements, in accordance with Decision EECS/0114-06 – "Change of Presentation of the Share in the Profit or Loss of Associates and Joint Ventures Accounted for Using the Equity Method" of the European Securities and Markets Authority (ESMA).

The Group applied this Decision in the presentation of its consolidated financial statements retroactively, thus modifying the figures relating to the period ended December 31, 2016 in the accompanying consolidated financial statements.

The effect of applying the above to the consolidated income statement is shown below. The effect on the consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognized income and expenses or consolidated statement of total changes in equity at December 31, 2016 is not included as they were not affected.

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2016

(In thousands of euros)

	Consolidated financial statements restated at 12.31.2016	Consolidated financial statements at 12.31.2016
Revenue	1,187,994	1,187,994
Income from regulated activities	1,146,977	1,146,977
Income from non-regulated activities	41,017	41,017
Other operating income	29,522	29,522
Employee benefits expense	(108,754)	(108,754)
Other operating expenses	(226,271)	(226,271)
Amortization/depreciation allowances	(271,516)	(271,516)
Impairment and gains (losses) on disposal of assets	(458)	(458)
Profit (loss) from investments accounted for using the equity method	41,205	-
OPERATING PROFIT (LOSS)	**651,722**	**610,517**
Finance income and similar	14,257	14,257
Finance and similar expenses	(121,143)	(121,143)
Translation differences (net)	(867)	(867)
Change in fair value of financial instruments	(5,644)	(5,644)
NET FINANCIAL PROFIT (LOSS)	**(113,397)**	**(113,397)**
Profit (loss) from investments accounted for using the equity method	-	41,205
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**538,325**	**538,325**
Income tax expense	(120,157)	(120,157)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**418,168**	**418,168**
Profit attributable to minority interest	(946)	(946)
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**417,222**	**417,222**

1.3 Consolidation principles

The consolidated financial statements include the financial statements of the Parent, Enagás, S.A. and its subsidiaries, associates, joint ventures, and joint operations at December 31, 2017.

Subsidiaries are considered to be those entities with respect to which the Enagás Group fulfills the following criteria:

- The capacity to use its interest to influence the amount of revenue to be obtained from said subsidiary
- The Group has power over the investee, in so far as a company has rights which permit it to direct relevant activities, understood as those which significantly affect the revenue generated by the subsidiary
- It maintains exposure or the right to variable revenue arising from its involvement in the subsidiary

Subsidiaries are consolidated using the full consolidation method.

The share of minority interests in the equity and profit of consolidated subsidiaries of the Enagás Group is recognized in "Minority interests (External partners)" under "Equity" in the consolidated balance sheet and "Profit (loss) attributable to minority interests" in the consolidated income statement, respectively. Subsidiaries are consolidated from the date of acquisition, that is, the date the Group obtains control, and continue to be consolidated until the Group no longer retains control over them.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Parent. With respect to the joint agreements, that is, those by virtue of which the Enagás Group maintains joint control with one or more other partners, a distinction is made between joint operations and business combinations. Joint control is understood as control shared by virtue of a contractual agreement which requires unanimous consent from all involved parties for decision-making regarding relevant activities.

Thus, joint operations are considered to be those in which, based on a contractual arrangement, a company enjoys the rights to assets and assumes obligations with respect to liabilities. The interest held in joint operations is consolidated using the proportionate consolidation method.

In addition, business combinations are considered to be those in which, based on a contractual arrangement, a company exercises rights with respect to the net assets of the business combination. Participation in business combinations is consolidated using the equity method. In those cases in which the Enagás Group acquires control over companies previously considered as business combinations, a new estimate is made for the fair value of the interest held previously in equity at the acquisition date, recognizing income or losses in the consolidated income statement for the reporting period.

Further, associates are considered to be those entities over which the Enagás Group holds significant influence, that is, the power to intervene in decision-making regarding financial policies and operational matters of the investee, without attaining full control or joint control. The interest held in associates is consolidated using the equity method.

If appropriate, adjustments are made to the financial statements of subsidiaries, investees, business combinations, and joint operations in order to unify their accounting policies with those of the Enagás Group.

a) Consolidation methods

Consolidation method/Company	Functional currency
Full consolidation	
Enagás Transporte, S.A.U.	Euro
Enagás GTS, S.A.U.	Euro
Enagás Internacional, S.L.U.	US dollar
Enagás Financiaciones, S.A.U.	Euro
Enagás U.S.A., L.L.C.	US dollar
Enagás Perú, S.A.C.	US dollar
Enagás México, S.A. de C.V.	US dollar
Compañía Transportista de Gas Canarias, S.A.	Euro
Enagás Emprende, S.L.U.	Euro
Enagás Chile, Spa.	US dollar
Gas to Move Transport Solutions, S.L. (1)	Euro
Terminal de Valparaíso, S.A.	US dollar
Enagás Transporte del Norte, S.L. (1)	Euro
Infraestructuras del Gas, S.A. (1)	Euro
GNL Quintero, S.A. (1)	US dollar
Terminal Bahía de Quintero, SpA. (1)	US dollar
Efficiency for LNG Aplications, S.L. (1)	Euro
Scale Gas Solutions, S.L. (1)	Euro
Joint operations	
Gasoducto Al-Andalus, S.A.	Euro
Gasoducto Extremadura, S.A	Euro
Equity method	
Morelos EPC, S.A.P.I. de C.V.,	US dollar
Gasoducto de Morelos, S.A.P.I. de C.V.	US dollar
Morelos O&M, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.	US dollar
Compañía Operadora de Gas del Amazonas, S.A.C.	Peruvian nuevo sol
Bahía de Bizkaia Gas, S.L.	Euro
Trans Adriatic Pipeline AG	Euro
Terminal de LNG de Altamira, S. de R.L. de C.V.	US dollar
Transportadora de Gas del Perú, S.A.	US dollar
Planta de Regasificación de Sagunto, S.A.	Euro
Iniciativas del Gas, S.L.	Euro
MIBGAS	Euro
Vira Gas Imaging, S.L.	Euro
Tecgas, Inc.	US dollar
Grupo Swedegas (2)	Swedish krona
Mibgas Derivatives, S.A.	Euro

(1) For these companies the Enagás Group recognizes interest corresponding to minority interests under "Minority interests (External partners)" in the consolidated balance sheet at December 31, 2017.

(2) Knubbsäl Topholding AB is the parent of the sub-consolidated Swedegas group which includes the indirect interest held by Swedegas AB.

b) Consolidation process

Consolidation of the Enagás Group was carried out in accordance with the following process:

i. Transactions between companies included in the consolidation scope. All balances, transactions, and results between companies consolidated under the full consolidation method were eliminated upon consolidation. For joint operations, the balances, transactions, and results of operations with other Group companies were eliminated in the proportion at which they were consolidated. With respect to gains and losses generated through operations amongst Group companies and companies consolidated under the equity method, the percentage of interest held by the Group in the latter was eliminated.
ii. Harmonization of criteria: For investee companies which apply different accounting and measurement criteria to those of the Group, the consolidation process included the corresponding adjustments, provided the effect was significant, with a view to presenting the consolidated financial statements based on harmonized measurement standards.
iii. Translation of financial statements denominated in foreign currency.

The translation to euros of the financial statements of the aforementioned companies in the Enagás Group consolidation process was carried out in accordance with the following procedures:

- Assets and liabilities of each corresponding balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date.
- Income and expense items making up each income statement heading are translated at the average exchange rate for the year in which the related transactions are carried out.
- Translation differences arising as a result of net assets are recognized as a separate component of equity under "Net unrealized gains (losses) reserve" and in the income statement under "Translation differences."

When disposing of a company whose functional currency is not the euro; or when disposals are carried out as a result of losing control; or result from business combinations with respect to previously held interest, translation differences recognized as a component of equity relating to said company are recognized in the consolidated income statement as soon as the effect arising from said disposal is recognized.

The exchange rates with respect to the euro of the main currencies used by Group companies during 2017 and 2016 were as follows:

Currency	Average exchange rates applicable for income statement headings	Spot rates at the closing date applicable to balance sheet headings [1]
2017		
US dollars	1.12958	1.19395
Peruvian nuevo sol	3.78933	3.90000
Swedish krona	9.63618	9.84220
2016		
US dollars	1.10667	1.05668
Peruvian nuevo sol	3.86536	3.60100
Swedish krona	9.46999	9.58465

[1] Does not include equity.

The effect on the main headings of the Group's consolidated financial statements of applying the translation process to the net assets of companies consolidated using the full consolidation method and whose functional currency is the US dollar is as follows:

2017	Consolidated total	Contribution of companies using the euro as functional currency	Contribution of companies using the US dollar as functional currency	Amount in US dollars
PP&E and intangible assets	**6,450,850**	4,851,424	1,599,426	1,909,635
Other non-current financial assets	**887,377**	485,892	401,485	479,353
Trade and other receivables	**527,559**	507,380	20,179	24,093
Other current financial assets	**6,695**	12	6,683	7,979
Cash and cash equivalents	**627,864**	335,339	292,525	349,261
Financial debt and derivatives	**5,468,810**	4,244,730	1,224,080	1,461,490
Current receivables	**230,003**	200,206	29,797	35,576
Trade and other payables	**206,904**	194,065	12,839	15,330

iv. Elimination of dividends: Internal dividends are considered to be those a Group company recognizes as income for the year and that have been distributed by another Group company.

During the consolidation process, dividends received by subsidiaries and joint operations are eliminated by considering them to be reserves of the recipient company, which consequently recognizes them under "Reserves." In the case of minority interests in companies consolidated using the full consolidation method, the amount of the dividend corresponding to said minority interests is eliminated from the consolidated equity heading "Minority interests (External partners)."

v. Equity method: The investment is initially recognized at cost and subsequently adjusted by the share corresponding to the investor of the changes in net assets of the investee. In addition, dividends received are accounted for as a lower amount under "Investments accounted for using the equity method."

The consolidated results for the year include participation in the results of the investee under "Profit (loss) from investments accounted for using the equity method" in the accompanying consolidated income statement. If the participation in losses of an associate or business combination equals or exceeds participation in said entities, the loss will no longer be recognized under additional losses. Once interest in an entity is reduced to zero, the additional losses will be maintained and a liability will only be recognized to the extent the corresponding entity incurred legal or implicit obligations or made a payment on behalf of an associate or business combination. If the associate or business combination subsequently reports profits, the entity will once again recognize its interest only after its participation in said profits equals its participation in unrecognized losses.

In addition, the accompanying consolidated statement of recognized income and expense includes the participation in the financial statements of the investee.

1.4 Estimates and accounting judgments

In the Group's consolidated financial statements for 2017, estimates and judgments were occasionally made by the senior executives of the Group and of the consolidated companies, subsequently ratified by the directors, in order to quantify certain assets, liabilities, income, expenses, and commitments reported herein. These estimates and judgments basically relate to:

- The useful life of PP&E items (Note 2.4).
- Provisions for dismantling and abandonment costs (Note 2.8).
- The measurement of non-financial assets to determine the possible existence of impairment losses (Note 2.6).
- The recognition of investments accounted for using the equity method (Note 1.6).

- The fair values of financial instruments and financial assets (Notes 1.6, 3.3, and 3.6).
- The recognition of provisions and contingent liabilities (Note 2.8).
- The calculation of corporate income tax and deferred tax assets (Note 4.2).
- The fair value of equity instruments granted under the long-term incentive plan ("LTI") (Note 3.1.b).

Although these estimates were made based on the best information available at December 31, 2017 regarding the facts analyzed, future events could make it necessary to revise these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognizing the effects of the revised estimates in the related consolidated income statement as established in IAS 8.

1.5 Changes in consolidation scope

The following changes in the consolidation scope of the Enagás Group occurred during 2017:

Entity	Amount (thousands of euros)		Ownership (%)		Description/Type of control
	In local currency	In euros	Previous	At 12.31.2017	
GNL Quintero, S.A.	604,000	574,527	-	-	The modifications introduced in the shareholder agreements grant Enagás Chile, SpA. Control over GNL Quintero from January 1, 2017, which is consequently no longer consolidated under the equity method but rather under the full consolidation method (Note 1.7).
GNL Quintero, S.A.	(150,000)	(140,613)	60.40%	45.4%	On April 11, 2017 the Enagás Group reduced its stake in GNL Quintero by 15% (Note 1.7).
Terminal Bahía de Quintero, SpA.(1)	5	5	-	51.90%	Consolidation under the full consolidation method as the Group exercises control over the entity (Note 1.7).
Terminal de Valparaíso, S.A.	-	-	51%	100%	Consolidation under the full consolidation method as the Group maintains control over the entity
Compañía Operadora de Gas del Amazonas, S.A.C.	8,862	8,166	30%	51%	By virtue of the current shareholders agreements, the company is now jointly controlled and consolidation will continue under the equity method.
Scale Gas Solutions, S.L.	216	216	-	90%	Consolidation under the full consolidation method as the Group exercises control over the entity
Efficiency for LNG Applications, S.L.	300	300	-	92%	Consolidation under the full consolidation method as the Group exercises control over the entity
Mibgas Derivatives, S.A. (2)	142	142	-	28.34%	Given that, based on the shareholder agreements, 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.
Gas to Move Transport Solutions, S.L.	277	277	-	82%	Consolidation under the full consolidation method
Gasoducto Tuxpan, S.A.P.I. de C.V.	(3)	(3)	100%	-	Excluded from the consolidation scope as the company has been liquidated
Gasoducto Villa de Reyes, S.A.P.I. de C.V.	(3)	(3)	100%	-	Excluded from the consolidation scope as the company has been liquidated
Gasoducto Sur Peruano, S.A.	(257,060)	(215,303)	26.87%	26.87%	Excluded from consolidation scope. The Group reclassified the investment recognized under the equity method to an account receivable from GSP for recovery of the financial investment (Note 1.6).

(1) Enagás Chile SpA. contributes a 5.40% stake directly held in GNL Quintero, S.A. via Terminal Bahía de Quintero, SpA.
(2) Via Mibgas, S.A. Enagás GTS, S.A.U. contributes 8.94% of indirect interest in Mibgas Derivatives, S.A. while Enagás, S.A. contributes 19.4% of direct interest in said company.

GNL Quintero, S.A.

In 2016, in the context of acquiring an additional 40% of interest in GNL Quintero, S.A. ("GNL Quintero"), the Enagás Group increased its total interest in said company to 60.40%. In addition, and also in the context of this acquisition, a purchase and a sales option were granted to Empresa Nacional del Petróleo, S.A. (ENAP) and Sumhuram Energy Chile II Limitada (OOC) while the shareholders of GNL Quintero agreed to modify the shareholder agreement then prevailing, with the changes to become effective on January 1, 2017. The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This resulted in changing the consolidation method based on equity to the full consolidation method.

On April 11, 2017, the call and put options were exercised by ENAP (which cedes its rights to OMERS Infrastructure Holdings II SpA - "OMERS") and OCC, respectively. As a result of these transactions, the Enagás Group decreases its interest by 15% and acquires control over GNL Quintero with a stake of 45.40% via two companies (for more detail on the call and put options exercised, see Note 1.7 on "GNL Quintero S.A. business combinations and subsequent transactions"):

- Terminal de Valparaíso, S.A., of which Enagás Chile acquired 49% for 191 million US dollars (which indirectly represents 19.6% of GNL Quintero share capital) after OOC exercised its sales option, and which together with the 51% of interest held previously, reached 100% of interest. Thus, as Terminal de Valparaíso owns 40% of direct interest in GNL Quintero, Enagás Chile controls said interest.
- Terminal Bahía de Quintero, SpA., incorporated on April 7, 2017 by Enagás Chile and OMERS for an amount of 5.2 thousand US dollars and a 51.9% and 48.1% stake, respectively. Via this company, Enagás Chile SpA. together with OMERS, contribute 5.40% and 5%, respectively, of the direct interest both hold in GNL Quintero to Terminal Bahía de Quintero SpA. With the prevailing shareholders agreement, Enagás Chile controls this company, consolidating its assets and liabilities under the full consolidation method, with the recognition of the corresponding minority interest.

In this manner, the shareholder structure of GNL Quintero is comprised of ENAP 20%, Terminal de Valparaíso, S.A. 40% (100% of Enagás Chile), OMERS 29.6%, and Terminal Bahía de Quintero SpA 10.4% (51.9% Enagás Chile and 48.1% OMERS). As a result of the above transactions, Enagás Chile SpA holds a stake of 45.40% via two companies over which it exercises control, and by virtue of the current shareholders agreements, it also maintains control over GNL Quintero, which will thus continue to be consolidated under the full consolidation method, recognizing the 54.60% under "Minority interest" in the consolidated balance sheet (Note 3.2).

The accounting effects arising from the combination of transactions described above are detailed in Note 1.7 on "GNL Quintero S.A. Business combinations and subsequent transactions."

Compañía Operadora de Gas del Amazonas, S.A.C.

On April 24, 2017, the joint acquisition by Enagás Internacional, S.L.U. and Carmen Corporation (Canada Pension Plan Investment Board - "CPPIB") of the entire shareholding package which Graña y Montero S.A.A. held in Compañia Operadora de Gas del Amazonas, S.A.C. (COGA) became effective, with 21% of the acquisition corresponding to Enagás Internacional, S.L.U. for a total amount of 8,862 thousand US dollars (8,166 thousand euros). Taking into account that Enagás Internacional, S.L.U. already held a 30% stake in COGA, after the transaction this stake was increased to 51%, with the remaining 49% corresponding to CPPIB. As a consequence of the above, and based on the current shareholder agreements, a situation representing joint control has arisen and consolidation will therefore continue to be performed under the equity method.

Scale Gas Solutions, S.L.

On March 21, 2017, Scale Gas Solutions, S.L. was incorporated for 216 thousand euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through a 90% stake. Thus, it is fully consolidated together with recognition of the 10% stake corresponding to external partners under "Minority interest" in equity.

Efficiency for LNG Applications, S.L.

On March 21, 2017, Efficiency For LNG Applications, S.L. was incorporated for 300 thousand euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through a 92% stake. Thus, it is also fully consolidated together with recognition of the 8% stake corresponding to external partners under "Minority interest" in equity.

Mibgas Derivatives, S.A.

On July 26, 2017, Mibgas Derivatives, S.A. was incorporated for 500 thousand euros. This company, domiciled in Spain, was initially incorporated by Migbas, S.A., holding a 100% stake. Subsequently, on September 7, 2017, Mibgas, S.A. signed a share purchase-sale agreement with Redes Energéticas

Nacionais, SGPS, S.A. ("REN"), Reganosa, S.A., and Enagás, S.A. by virtue of which the shareholder structure of Mibgas Derivatives, S.A. was as follows: Mibgas, S.A. 67%, Enagás, S.A. 19.4%, REN 9.7%, and Reganosa, S.A. 3.9%. Given that Enagás GTS, S.A.U. holds a 13.34% stake in Mibgas, S.A. as a result of these transactions, the Enagás Group holds a total interest of 28.34% in Mibgas Derivatives, S.A. (8.94% of indirect interest via Enagás GTS, S.A.U. and 19.4% of direct interest via Enagás, S.A.). Given that, based on the shareholder agreements, 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.

Gasoducto Sur Peruano, S.A. ("GSP")

On December 4, 2017, the National Antitrust and Protection of Intellectual Property Institute of Peru ("INDECOPI" in Spanish) publicly disclosed the bankruptcy situation of GSP in the Official Daily "El Peruano." The following was established from this date: (a) suspension of the possibility to demand fulfillment of obligations; (b) the framework for protection of the assets; and (c) the determination of bankruptcy credits which must be recognized in the procedure (those accrued before the aforementioned publication).

The above means that GSP is restricted and limited in its capacity to take decisions, in accordance with Peruvian bankruptcy law. Together with the substantial delivery of the concession assets to the Peruvian authorities which finalized during the month of December, 2017; the above meant the loss of significant influence by Enagas in GSP as the former can no longer participate in relevant decision-making regarding operational or financial policies.

As a result, the investment initially recognized under "Investments accounted for under the equity method" by GSP in the consolidated balance sheet was reclassified to "Non-current financial assets" at its recoverable amount at that date, totaling 215.3 million euros, taking into account financial discounting as explained in Note 1.6.

Likewise, the loss of significant influence resulted in cancellation of the accumulated translation differences at that date against "Other financial expenses" in the consolidated income statement at December 31, 2017, recognizing an effect of 8,248 thousand euros in the 2017 consolidated income statement (Note 3.5).

1.6 Investments accounted for using the equity method

Accounting policies

- The Group assesses the existence of joint agreements as well as significant influence with respect to associates taking into account the shareholder agreements which require increased majorities for taking relevant decisions.
- In order to classify the joint agreements amongst business combinations and joint operations, the Group assesses the rights and obligations of the involved parties as well as the remaining circumstances stipulated in said agreements.

Significant estimates and judgments

- At each year end, or when there are indications of impairment, the Group analyzes the recoverable amounts of investments accounted for under the equity method to determine the possibility of impairment.
- As described in the previous note (Note 1.5), on April 24, 2017 the acquisition of an additional 21% of interest in Compañía de Gas del Amazonas, S.A.C became effective, with the Group's interest thus totaling 51%. As the corresponding 12-month deadline subsequent to acquisition has not elapsed yet, the accounting of this increased stake in the company and the assignation of an acquisition price will be reviewed, though the Group expects no significant changes.

Beginning balance	New acquisitions/ Increases (1)	Change in consolidation method (2)	Dividends	Profit for the year	Translation differences	Hedging transactions	Other adjustments	Balance at year end
2017								
1,870,973	60,382	(755,999)	(112,867)	72,859	(111,580)	3,286	(4,996)	**1,022,058**
2016								-
1,191,105	678,511	-	(86,262)	41,205	50,940	(2,753)	(1,773)	**1,870,973**

(1) "New acquisitions/Increases" includes capital contributions to TAP and Estación de Compresión Soto La Marina, S.A.P.I. de C.V. amounting to 51,559 thousand euros and 335 thousand euros respectively, the acquisition of an additional 21% of COGA amounting to 8,166 thousand euros, the acquisition of 28.34% of Mibgas Derivatives, S.A. amounting to 142 thousand euros, as well as the capitalization of acquisition costs amounting to 180 thousand euros.

(2) "Change in consolidation method" includes the effect of derecognizing GNL Quintero under "Investments accounted for under the equity method" amounting to 540,696 thousand euros as it is now consolidated using the full consolidation method (Note 1.7). In addition, the effect of the recognition of GSP under "Investments accounted for under the equity method" is also included in the amount of 215,303 thousand euros, given that significant influence was lost during the year (Note 1.5).

The following dividends were collected:

	2017	2016
TgP	74,926	42,355
Altamira Group	3,248	16,195
Swedegas	7,540	10,528
GNL Quintero	-	9,827
BBG	4,000	4,000
Saggas	19,575	-
Other entities	3,578	3,357
Total	**112,867**	**86,262**

Appendix II to these consolidated financial statements provides disclosure on data relating to business combinations, joint operations, and associates of the Enagás Group at December 31, 2017 and 2016.

The recoverable amount of investments in associates or business combinations is evaluated for each associate or business combination, unless the associate or business combination does not generate cash flows for continuous use which are largely independent of the cash flows arising from other Group assets.

With respect to the impairment analysis for investees, the discount rate applied (cost of equity) in 2017 ranged from 5%-9%, depending on the country (2016: 5%-10%). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2017 year end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

Gasoducto Sur Peruano ("GSP")

With respect to the investment in Gasoducto Sur Peruano, S.A., on January 24, 2017, the Peruvian Directorate General for Hydrocarbons of the Ministry for Energy and Mines ("the Peruvian State") served GSP notice informing the company that the concession agreement had been terminated for reasons attributable to the concessionaire, based on the provisions of clause 6.7 of the concession agreement "Improvements to the energy security of the country and development of the Gasoducto Sur Peruano," as the financial closing had not been accredited within the stipulated deadline (January 23, 2017), immediately executing the full guarantee for compliance granted by GSP (262.5 million US dollars) to ensure fulfillment of the obligations relating to the concession.

This situation generated the immediate execution of the counter-guarantees granted by the GSP shareholders, which in the case of Enagás, S.A. generated a payment of 65.6 million US dollars in connection with the guarantee for full compliance included in the concession agreement, as well as 162 million US dollars corresponding to the execution of the bank financing guarantees during the month of January 2017.

In addition, via Urgency Decree 001-2017 of February 1, 2017, the Peruvian State commissioned Osinergmin with the direct contracting of an administrator to take charge of managing and supervising the GSP concession assets until they are delivered to a new concessionaire. On May 26, 2017, Osinergmin arranged a contract with Estudios Técnicos SAS (ETSA) by virtue of which the latter would take over administration of the concession assets.

In the month of October 2017, the Peruvian State and GSP reached an agreement by virtue of which the concession assets would be delivered to the Peruvian State. During the month of December 2017, the process for delivering the concession assets held by GSP was substantially completed with the Peruvian State assuming control over them.

After termination of the concession contract, the Peruvian State should have initiated the procedure included in clause 20 of said contract, basically consisting in the designation of a consulting entity of international prestige to calculate the Net Carrying Amount (NCA) of the concession assets, as well as subsequent organization of three public tenders at a starting price corresponding to 100% of the NCA, and at any rate guaranteeing GSP payment of 72.25% of the NCA after the third auction.

With the amount that GSP would have received for the NCA of the concession assets, it would have been able to settle its obligations to third parties and, if possible, reimburse the capital contributions made by its shareholders, as explained in the consolidated financial statements of the Enagás Group for 2016.

At 2017 year end, apart from receiving and taking control of the concession assets, the Peruvian State had not carried out any other actions towards calculating the NCA and holding the public tenders to which clause 20 of the concession contract refers, so that GSP had not received any amounts of the indemnity corresponding to the NCA which in turn would have allowed Enagás to recover the financial investment made in GSP.

Instead, the Peruvian State declared that the Regulations for Transportation of Hydrocarbons via Pipelines approved by Supreme Decree 081-2007-EM would be applied to the termination of the Concession contract. However, at 2017 year end, the Peruvian State had not taken any steps in accordance with said Regulations which could somehow confirm the intention to pay GSP the amount corresponding to the value of the concession assets.

In light of the Peruvian State's inactivity, on December 19, 2017, Enagás notified the Peruvian State about the existence of a dispute relating to the investment in GSP with a view to reaching an amicable agreement on the terms of article 9.1 of the Agreement for the Reciprocal Promotion and Protection of Investments (APPRI in Spanish) signed by the Republic of Peru and the Kingdom of Spain. This notification represented the beginning of the six-month period for direct contact prior to initiating international arbitration in which the APPRI acts as the mechanism for recovering the investment in GSP.

The aforementioned notification regarding the dispute is based on the opinion of the external and internal legal advisors, who consider that the Peruvian State had the obligation to apply clause 20 of the concession contract, calculate the NCA of the concession assets, hold three public tenders to award the concession, and pay the NCA to GSP.

As this has not occurred, Enagas is attempting to receive an indemnity from the Peruvian State for its investment in GSP via arbitration proceedings. Enagas considers that, taking into account the NCA of the concession assets, if the Peruvian State had paid GSP as was its obligation, and also taking into account the payment schedule which would have been triggered by payment of the NCA, Enagas would have recovered its investment in GSP.

With respect to the NCA figure, a company of independent experts was contracted by Enagas to carry out a valuation while GSP contracted an audit firm as independent experts for reviewing the calculation of the NCA at December 31, 2016, determining a NCA of 2,602 million US dollars.

Taking into account the NCA, if the payment schedule foreseen in bankruptcy law is applied, as well as the subordination contracts and loan transfers granted between Enagas and GSP partners, Enagas would recover the entire amount of its investment. The application of these contracts is being questioned by some of the Enagás shareholders in GSP. Finally, on January 3, 2018, Enagás received notification of a request from Odebrecht for initiating arbitration proceedings against Enagás and Graña y Montero in connection with the agreements for subordinated rights and loan transfers signed by the GSP shareholders.

Based on the conclusions of the external and legal advisors, taking into consideration the arguments contained in the arbitration request, the possibility of Odebrecht succeeding in its intentions is considered remote as said agreements are considered fully valid and applicable.

With respect to the arbitration proceedings against the Peruvian State (still in the prior direct contact phase), based on the conclusions reached by the external and internal legal advisors, said proceedings are not affected by any other circumstance beyond the sound legal arguments being presented by Enagas (for example, an instance of corruption which could affect the awarding of the concession agreement), and it is probable that the entire investment made by Enagas in GSP will be recovered, consisting of the accounts receivable relating to the aforementioned guarantees executed in the amount of 227.6 million US dollars, various invoices for professional services rendered amounting to 6.8 million US dollars, and the share capital contributed to GSP amounting to 275.3 million US dollars.

Taking into account that direct contact was initiated last December 19, 2017, and also assessing the time required for resolving a dispute of this complexity via international arbitration, Enagas estimates that the maximum period for recovery of the investment in GSP is 4 years counting from the notification date of the dispute, in accordance with the conclusions of the internal and external legal advisors. The recognition of financial discounting in 2017 results represented a net effect in the income statement of an expense totaling 18.4 million euros.

Other related matters

In addition, on February 13, 2017, the Peruvian State published Urgency Decree 003 -2017 "Urgency Decree which ensures the continuity of investment projects for the rendering of public services and establishes the payment of civil liabilities in favor of the State in cases of corruption," as well as subsequent guidelines, establishing an exceptional regime as a consequence of corruption relating to public works or public-private associations in Peru, without any negative effect arising which may require modification of the aforementioned conclusions under the current reading of said stipulations. On February 13, 2018, the Peruvian State published Urgency Decree no. 003-2018 "Urgency decree which ensures the continuity of investment projects for the rendering of public services and establishes the payment of civil liabilities in favor of the State in cases of corruption, prolonging the applicability of Urgency Decree no. 003-2017" by virtue of which the validity of said Urgency Decree no. 003-2017 was extended for one more month.

With respect to the actions taken by the Attorney General of Peru in connection with the investigation of Odebrecht's activities in Peru and other investigations carried out by various bodies of the Peruvian Attorney General's office, for alleged offenses which may somehow be related to the awarding of the project for "Improvements to the energy security of the country and development of the Gasoducto Sur Peruano," two investigations are currently underway. The first one, identified by File 321-2014, for which a hearing has been scheduled for next March 19, relates to aggravated collusion between a former employee of Odebrecht and a civil servant. A decision is expected during this phase (expected to last 2 to 3 months) to schedule an oral hearing. Should court proceedings take place and result in a subsequent sentence, Enagás will have to evaluate how this would affect the arbitration proceedings (now in the direct contact stage) initiated by Enagás against the Peruvian State in order to recover the investment made in GSP. Based on the opinions of its external legal advisors of criminal code, the possibility of sentencing Odebrecht's former employee is considered to be remote.

In this same case, the preparatory investigative court has declared the incorporation of GSP as a liable third party as wrongful. The second investigation underway, identified by File 12-2017, is in its preliminary stage at the level of the Attorney General's office and involves investigation of an Enagás employee. Based on the opinions of our external legal advisors for the Peruvian criminal code, there are no indications that these investigations may conclude negatively for Enagás.

Based on all the above, the directors of Enagás, in accordance with the opinions of its external and internal legal advisors, as well as an independent expert and an independent expert accountant, consider that these circumstances will not have an impact on the estimated recoverable amount of the investment in GSP and the aforementioned receivable balances totaling 382 million euros (Note 3.3.a).

1.7 GNL Quintero S.A. business combinations and subsequent transactions

Accounting policies

Goodwill and business combinations

- The acquisition by the Parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.
- Goodwill or negative goodwill arising on the combination is calculated as the difference between the fair value of the assets acquired and liabilities assumed which meet the relevant recognition criteria and the cost of the business combination, all measured at the acquisition date.
- Goodwill that arises upon acquisition of companies whose functional currency is not the euro is recognized in the functional currency of the acquired company, translating to euros at the exchange rate prevailing at the balance sheet date.
- Goodwill is not amortized and is subsequently measured at cost less any impairment losses. Goodwill impairment losses are not reversed in subsequent periods.
- If the measurement procedures of a business combination necessary to apply the acquisition method explained above are incomplete by the end of the reporting period, the acquiring entity shall report the provisional amounts. The acquiring entity may adjust the provisional amounts recognized during the period necessary to obtain the required information. The measurement period shall not exceed one year. The effects of the adjustments made are accounted for retrospectively, with comparative information also adjusted retrospectively as necessary.
- In accordance with IFRS 3, this acquisition of control represents a business combination carried out in stages, which requires measuring the interest formerly held in the equity of the acquired company at its fair value at the date of acquiring control.

During 2016 the Enagás Group acquired a 40% stake in addition to the 20.4% it already held in GNL Quinero, which resulted in total interest of 60.40%. By virtue of the shareholder agreements in force at December 31, 2016, and the system of increased majorities for decision-making, joint control over GNL Quintero was maintained and thus, consolidation continued under the equity method. In the context of this additional acquisition of interest, and the granting of a purchase and a sales option to Empresa Nacional del Petróleo, S.A. (ENAP) and Sumhuram Energy Chile II Limitada (OOC), the shareholders of GNL Quintero agreed to modify the shareholder agreement then prevailing, with the changes to become effective on January 1, 2017.

The modifications introduced in said shareholder agreement grant Enagás Chile, SpA. control over GNL Quintero from January 1, 2017, given that it can unilaterally adopt relevant decisions for the latter. This results in a change in the consolidation method from the equity method to the full consolidation method with recognition of the corresponding minority interest.

In accordance with IFRS 3, this acquisition of control represents a business combination carried out in stages, which requires measuring the interest formerly held in the equity of the acquired company at its fair value at the date of acquiring control. On January 1, 2017, the fair value of assets and liabilities acquired in the business combination were determined by the Enagás Group using the acquisition price in 2016 (400 million US dollars for a 40% stake) as a reference value, resulting in 1,000 million US dollars for 100% of GNL Quintero. Revaluation of the previous interest (60.40%) resulted in a positive impact of 33,831 thousand euros, and cancellation of the translation differences accumulated in equity at the date of acquiring control amounted to 18,575 thousand euros of income, both effects recognized under "Finance income and similar" in the consolidated income statement.

The breakdown of the calculation for the gains generated by the revaluation and the cancellation of translation differences is as follows:

	Thousands of euros
Fair value of previous net assets (60.4%) [1]	574,527
Net carrying amount of interest held at 12.31.2016 (60.4%) [2]	540,696
Total revaluation of initial net carrying amount	**33,831**
Cancellation of translation differences accumulated in equity at 12.31.2016	18,575
Impact on profit and loss	**52,406**

(1) Taking 1,000 million US dollars for the full 100% stake as a reference value (951 million euros at the exchange rate of January 1, 2017) (Note 1.5)

(2) Investment accounted at December 31, 2016 under the equity method for 60.4% of GNL Quintero.

The full integration of the assets and liabilities of GNL Quintero in the financial statements of the Enagás Group, in accordance with the accounting standard relating to IFRS 3 "Business combinations," was carried out based on estimating the fair values of the assets acquired and liabilities assumed at the acquisition date through the purchase price allocation process. The revaluation of assets and liabilities as a consequence of this process affects:

- Intangible assets, specifically the "Terminal Use Agreement" (TUA), in the amount of 835,441 thousand euros and for which the corresponding cash flow projections were considered (Note 2.5).
- Non-current financial liabilities in the amount of 5,573 thousand euros, reflecting the quoted market price in the underlying bond.
- With the allocation of the purchase price, deferred tax liabilities in the amount of 227,074 thousand euros arise.

The allocation process for the purchase price was carried out with respect to 100% of the interest held in the assets and liabilities of GNL Quintero, and the recognition of minority interest (external partners) totaled 39.60% of the fair value, amounting to 255,418 thousand euros.

The Enagás Group contracted Duff & Phelps, an independent valuation company, for determining the fair value of the GNL Quintero assets and liabilities. Given that the company's conclusions are in line with those reached by the Enagás Group, the figures recognized at 2017 year end are considered as definitive.

The breakdown of net assets acquired and goodwill generated after acquiring control at January 1, 2017 is as follows:

Thousands of euros [4]	Fair value	Carrying amount at date of acquiring control [1]
Intangible assets	844,845	9,404
Property, plant, and equipment	874,014	874,014
Other non-current assets	76	76
Deferred tax assets	32,507	32,507
Other current assets	23,500	23,500
Cash and cash equivalents	244,337	244,337
Total assets	**2,019,279**	**1,183,838**
Non-current financial liabilities	(1,018,056)	(1,023,629)
Deferred tax liabilities [2]	(319,826)	(92,752)
Other non-current liabilities	(2,640)	(2,640)
Current financial liabilities	(20,203)	(20,203)
Other current liabilities	(13,561)	(13,561)
Total liabilities	**(1,374,286)**	**(1,152,785)**
Net accounting assets acquired [5]	389,577	31,054
Acquisition cost	574,527	-
Goodwill [3]	**184,950**	**-**
Goodwill	47,842	-
Tax effect of allocation	137,108	-
Minority interest	**(255,418)**	**(12,297)**

(1) Financial statements of GNL Quintero at December 31, 2016.

(2) Includes the tax effect relating to the asset revaluation applying a 27% rate.

(3) Goodwill at the percentage of ownership interest held by the Enagás Group in GNL Quintero, which was 60.4% at January 1, 2017.

(4) At the exchange rates on the date of acquiring control (January 1, 2017).

(5) Net accounting assets at the percentage of ownership interest (60.4%) which was held by the Enagás Group at the date of the business combination (January 1, 2017).

Goodwill (47,842 thousand euros) was measured as the difference between the acquisition price and the fair value of assets and liabilities recognized, and the consequent tax effect associated with the adjustments made to reflect the difference between fair value and tax value at the percentage of ownership interest in the company, amounting to 60.40% (137,108 thousand euros).

The resulting goodwill, before considering deferred taxes, is justified considering that the excess capacity not sold by TUA will be offered in the market at the end of said contract.

The result corresponding to the Parent company attributable to the business combination from the date of effective acquisition until December 31, 2017 amounted to a total of 15,822 thousand euros after taxes.

Subsequent changes in the consolidation of Quintero

In the context of the acquisition of 40% of GNL Quintero in addition to the 20.40% already held by the Enagás Group a purchase and a sales option were granted, over different percentages of interest held in said company.

- 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 Aprovisionadora Global de Energía S.A. ("AGESA"), in exchange for receiving a call option on 15% of GNL Quintero shares with an exercise price equal to the share price at which Enagás Chile Spa. carried out both transactions.
- Sales option ("put option") for Sumhuram Energy Chile II Limitada ("OCC"): Enagás Chile granted a put option on the totality of the interest held by the latter in Terminal de Valparaíso (49% held directly

and 19.6% indirectly in GNL Quintero). In this case, the exercise price was fixed taking the share price paid by Enagás Chile SpA in the acquisition of the additional 40% as a reference, albeit adjusted by the dividends distributed since the signature date. Said put 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.

Thus, on April 11, 2017 both options were exercised on the following terms:

- ENAP exercises its purchase right via cession to OMERS Infrastrutures Holdings II SpA ("OMERS") which acquires the 34.60% of share capital held directly by Enagás Chile SpA in GNL Quintero for 341 million US dollars.
- In addition, OOC exercises its sales right and for 191 million US dollars Enagás Chile SpA acquires 19.60% of the share capital of GNL Quintero that OOC held indirectly via Terminal de Valparaíso, S.A.
- Further, Enagás Chile SpA. together with OMERS contribute 5.40% and 5%, respectively, of the direct interest they held in GNL Quintero to Terminal de Bahía de Quintero SpA, a company incorporated on April 7, 2017 (Note 1.5). With respect to the 5% contributed by OMERS, Enagás Chile reached an agreement for a purchase option exercisable over a period of one year and whose valuation at June 30, 2017 represented 2,799 thousand euros of income recognized under "Finance income and similar" in the consolidated income statement, charged against equity.

In this manner, the shareholder structure of GNL Quintero is comprised of ENAP 20%, Terminal de Valparaíso, S.A. 40% (100% of Enagás Chile), OMERS 29.6%, and Terminal Bahía de Quintero SpA 10.4% (51.9% Enagás Chile and 48.1% OMERS). As a result of the above transactions, Enagás Chile SpA holds a stake of 45.40% via two companies over which it exercises control, and by virtue of the current shareholders agreements, it also maintains control over GNL Quintero, which will thus continue to be consolidated under the full consolidation method, recognizing the 54.60% under "Minority interest" in the consolidated balance sheet (Nota 3.2).

The effect of the purchase and sales transactions described above resulted in a net inflow of 150,000 thousand US dollars (140,613 thousand euros) for the Enagás Group, recognition of the financial liability and a net impact on reserves in consolidated companies amounting to 41,345 thousand US dollars (39,059 thousand euros) for cancellation of both the put and call options. In addition, the differences recognized between the net carrying amount of the stakes purchased and sold increased reserves in consolidated companies by 3,401 thousand euros.

1.8 Earnings per share

	2017	2016	Change
Profit for the year attributed to the parent company (thousands of euros)	490,837	417,222	17.6%
Weighted average number of shares outstanding (thousands of shares)	238,426	238,426	-
Basic and diluted earnings per share (in euros)	2.0587	1.7499	17.6%

As there were no dilutive potential ordinary shares at December 31, 2017 and 2016, basic and diluted earnings per share are equivalent.

1.9 Dividends distributed and proposed

a) Proposed distribution of profit attributable to the parent

The appropriation of 2017 profit corresponding to the parent Enagás, S.A. proposed by the Board of Directors and which will be submitted for approval by the shareholders in its general meeting is as follows (in thousands of euros):

	2017
Dividends	348,372
Voluntary reserves:	1,082

At a meeting held on November 20, 2017, the Board of Directors of Enagás, S.A. agreed to distribute an interim dividend charged against 2017 profit, based on the necessary liquidity statement, expressed in thousands of euros, amounting to 139,241 thousand euros (0.584 euros per share before tax), in accordance with article 277 of the Spanish Corporate Enterprises Act.

The payment of the aforementioned interim dividend was made on December 21, 2017.

The provisional accounting records prepared by the parent of the Group, in accordance with legal requirements and which presented balances sufficient for the distribution of the interim dividend in 2017, were as follows:

Provisional accounting records at October 31, 2017	
Net accounting result	(26,549)
10% legal reserve	-
Interim dividend received from Group companies	387,000
Profit "available" for distribution	**360,451**
Forecast payment on account	**(139,241)**
Forecast cash balance for the period from October 31 to December 31:	-
Cash balance	27,555
Projected collection for the period under consideration	183,470
Credit lines and loans available from financial entities	1,500,000
Payments projected for the period under consideration (including the payment on account)	(44,983)
Estimated available financing before dividend distribution	**1,666,042**

The gross complementary dividend proposed (0.876 euros per share) is subject to approval by the shareholders in ordinary general meeting and is not included as a liability in these consolidated financial statements. Thus, this gross complementary dividend will total up to a maximum amount of 209,131 thousand euros.

b) Total dividends paid

In addition to the aforementioned interim dividend for 2017, during 2017 Enagás, S.A. distributed the gross complementary dividend for 2016.

Said dividend amounted to 198,848 thousand euros (0.834 euros per share) and was paid on July 5, 2017.

1.10 Commitments assumed and guarantees granted

Accounting policies

- A financial guarantee contract is a contract which requires that the issuer makes specific payments to repay the holder for losses incurred when a specific debtor does not fulfill payment obligations at maturity, in accordance with the original or modified conditions of a debt instrument. The rights and obligations associated with a financial guarantee will be considered as financial assets and financial liabilities. For subsequent valuation, a contract will be recognized as the greater amount of a) the amount resulting from standards relating to provisions (IAS 37) or b) accumulated amortization of the initial measurement and possible accrued income.

- An investment commitment corresponds to that obligation contracted with a related party which can give rise to outflows of funds or other resources in the future. The following is included amongst these: commitments not recognized in connection with contributing funds or resources as a consequence of incorporation agreements, capital intensive projects carried out by a business combination, commitments not recognized in connection with providing loans or other financial support to the business combination, or commitments not recognized in connection with acquiring a stake, regardless of whether a specific future event occurs or not.

Commitments assumed and guarantees granted	Persons, Companies or Entities of the Group (Note 4.3)	Other related parties (Note 4.3)	Third parties	Total
2017				
Guarantees for related party debts	24,131	-	-	**24,131**
Guarantees granted - other	8,376	130,212	319,571	**458,159**
Investment commitments	68,800	-	30,559	**99,359**
2016				
Guarantees for related party debts	24,779	-		**24,779**
Guarantees granted - other	9,464	144,175	333,103	**486,742**
Investment commitments	218,289	-	25,708	**243,997**

a) Guarantees for related party debts

The line item heading "Guarantees for related party debts," amounting to 24,131 thousand euros at December 31, 2017 (2016: 24,779 thousand euros) includes the obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás Group commits to grant a corporate guarantee in favor of the financing entities if said contract has not been canceled or refinanced six months before it matures in July 2022. The maximum commitment relating to this possible guarantee amounts to 24,131 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.

b) Guarantees granted - other

This heading includes the following items:

Group employees, companies or entities

- Guarantees for full compliance granted to Group entities in connection with obligations acquired under concessions, counter-guaranteed by Enagás, S.A. in the amount of 8,376 thousand euros at December 31, 2017 (2016: 9,464 thousand euros).

Other related parties

- Financial guarantees granted by the related party Banco Santander to cover the loans granted by the European Investment Bank to Enagás, S.A. in the amount of 108,000 thousand euros (2016: 120,000 thousand euros).
- Technical guarantees granted by the related party Banco Santander to third parties in the amount of 6,411 thousand euros (2016: 6,321 thousand euros) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- Guarantees granted before the Federal Electricity Commission ("FEC") in connection with the service contracts relating to the Morelos gas pipeline and Soto La Marina compression station projects, amounting to 8,376 thousand and 7,425 thousand euros.

Third parties

This heading mainly includes the following items:

- Financial guarantees granted by financial entities to cover the loans granted by the European Investment Bank to Enagás, S.A. in the amount of 258,667 thousand euros (2016: 290,000 thousand euros).
- Technical guarantees granted by financial entities to third parties in the amount of 56,954 thousand euros (2016: 42,228 thousand euros) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- At December 31, 2017 no guarantees had been granted with respect to ongoing litigation (2016: 875 thousand euros).

c) Investment commitments

This heading includes the following items:

- The Enagás Group has investment commitments amounting to 68,800 thousand euros relating to the TAP project and corresponding to the capital contributions to be disbursed as shareholder up to the financial closing. At December 31, 2016 the Enagás Group had investment commitments amounting to 212,800 thousand euros in connection with the TAP project. In this manner, the shareholders fulfill their obligation to continue financing the project until obtaining bank financing, which is currently being negotiated. In the context of said negotiations, it is expected that the financial entities will demand guarantees from the shareholders.

  Once said financing has been arranged, and taking into account the repayment of funds to the shareholders by the banks in order to balance the debt to equity ratio, the investment made by Enagás will amount to approximately 277,000 thousand euros, and it is expected that guarantees will be granted in the amount of approximately 586,060 thousand euros in connection with the banking debt to the extent the subsidiary draws down the available facilities.

  The Enagás Group has firm investment commitments in connection with Economic Interest Groups (EIG) amounting to 30,559 thousand euros, which will be disbursed during 2018 and 2019 (2016: 25,708 thousand euros).

The directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognized in the accompanying balance sheet.

1.11 New financial standards

a) Prevailing standards for the present period

The accounting policies used to prepare the accompanying consolidated financial statements are the same as those used to prepare the consolidated financial statements for the year ended December 31, 2016, as none of the amendments to standards applicable for the first time this year has had an impact on the Group's accounting policies.

Amendments to IAS 7 Statement of Cash flows disclosure initiative: These amendments require entities to disclose changes in liabilities arising from financing activities, including both those corresponding to cash flows as well as those that do not generate cash flows (Note 3.8).

b) Standards not applicable for the current period

The Group intends to adopt the standards, interpretations, and amendments thereof issued by the IASB that are not mandatory in the European Union at the date these consolidated financial statements were prepared when they become effective, where applicable. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the consolidated financial statements, except for the following standards:

Approved for use in the European Union		
Standards	**Content**	**Mandatory application for periods beginning on or after:**
NIIF 15	Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018
NIIF 9	Financial Instruments	Annual periods beginning on or after January 1, 2018
NIIF 16	New standard for leases substituting IAS 17 The main novelty of the new standard involves a single lessee accounting model, which includes all leases (with certain exceptions) in the balance sheet with a similar effect to finance leases (there will be amortization of assets for right-of-use and a finance expense for the amortized cost of the liability).	Annual periods beginning on or after January 1, 2019

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 Appendix III, no significant differences resulting from application of IFRS 15 were identified as compared to the standards it replaces. Thus, there is no material impact on the recognition of revenue arising from this type of activity.
- Further, GNL Quintero revenue almost entirely corresponds to the Terminal Use Agreement (TUA) with GNL Chile. Once said contract had been

analyzed, the Group concluded that the related income was intrinsically linked to the leasing of the regasification terminal, thus not giving rise to changes in recognition criteria under IFRS 15.

- Income arising from non-regulated activities included under "Revenue" in the consolidated income statement 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 (Note 2.1.a).
  Given the type of contractual agreements which give rise to this type of revenue, the Company determined that they include a component of implicit financing, which in accordance with the new regulatory stipulations must be recognized as a liability in the consolidated balance sheet.
- 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 (Notes 2.1a).
  As in the case of executing infrastructure connections in the basic network, the Company determined that those types of contract include a component of implicit financing, which in accordance with the new regulatory stipulations must be recognized as a liability in the consolidated balance sheet.
- Finally, with respect to the companies accounted for using the equity method, and for purposes of harmonization, the Company carried out an analysis of potential impacts for each of the investee companies, not detecting any type of adjustment that may be required as a result of future implementation of said changes.

With respect to the transition method selected, the Company opted for a modified retroactive adoption, thus showing the accumulated effect of initial application. In this manner, the standard will be applied retroactively solely for the most recent period presented in the financial statements.

Based on all the above, at January 1, 2018 the Company will recognize the accumulated effect of initial adoption of IFRS 15 as an initially negative reserve, which will increase to an approximate amount of 27 million euros (net of tax effect), with a balancing entry of 37 million euros recognized as a liability, as indicated above. Said amount will subsequently be taken to the consolidated income statement during the life of the corresponding contracts, having separated their components amongst greater operational income (transaction price) and greater financial expenses (significant financial component).

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 expects to adopt the new standard at the stipulated application date and will not restate the comparative information. During 2017, the Group carried out a detailed evaluation of the impact of the three matters considered in IFRS 9. This assessment is based on information currently available and can be subject to changes arising from additional information which becomes available in 2018 when the Group adopts the new standard.

Classification and measurement

The new standard stipulates that financial assets be classified at the moment of their initial recognition at amortized cost or at fair value.

The classification depends on the business model of the entity and the existence or not of certain contractually agreed upon cash flows.

- If the objective of the business model is to maintain a financial asset with a view to collecting contractually agreed upon cash flows, which exclusively comprise payments of principal and interest on said principal, the financial asset will be measured at amortized cost.
- If the business model's objective is both to obtain contractually agreed upon cash flows and income from their sale, the financial assets will be measured at fair value through profit or loss (equity).

In contrast, at the initial recognition of a financial asset, an entity may opt to measure it at fair value through profit or loss if this allows the entity to eliminate or reduce an accounting asymmetry.

All other financial assets are measured at fair value, recognizing the profits or losses resulting from subsequent measurement in the consolidated income statement.

By virtue of the analyses carried out, and except for derivative financial instruments, which by category would require fair value through profit or loss (or application of hedge accounting criteria if applicable), the category of amortized cost is that which applies to practically all of the Group's financial assets. Said new category does not present significant differences with respect to measurement of the categories being adopted under IAS 39.

Expected loss

A new impairment model was introduced based on expected losses, in contrast to the current model under IAS 39 which is based on incurred losses.

For the calculation of said expected loss, the Enagás Group has developed its own financial model, based both on internal information (such as existing balances, guarantees received, and contractual commitments) and external figures (such as credit assessments of clients and organizations).

After carrying out the analysis, the amount of expected losses as per the information available at December 31, 2017 would be below 1 million euros.

Hedge accounting

The new model attempts to bring the accounting criteria in line with risk management. The three types of hedge accounting in use at present are maintained (cash flow hedges, fair value hedges, and net investment hedges).

Taking into account the portfolio for derivative financial instruments in the Enagás Group, the fundamental effect arises from the evaluation of efficacy as the current regulations are eliminated and evaluation criteria are established in line with risk management via the principle of "economic relationship," eliminating the requirement for retrospective evaluation.

Refinancing of financial liabilities

In application of the interpretation made by the IASB in 2017 regarding treatment of the refinancing of financial liabilities under IFRS 9, the contractual cash flows from refinanced debt must be discounted at the original effective interest rate, reviewed with the associated commissions, instead of the new rate resulting from the refinancing transaction.

The difference obtained will affect the consolidated income statement as an expense or income at the refinancing date, though, given the retroactive character of this interpretation, for those transactions carried out prior to January 1, 2018, the existing difference will be recognized against reserves.

The Enagás Group has recognized three transactions to which the aforementioned interpretation applies, two carried out by the subsidiary Enagás Financiaciones, S.A.U. during 2015, as well as one carried out by GNL Quintero, S.A. in 2014.

The effect on the Enagás Group of said interpretation is an initial reserve of approximately 19 million euros (net of tax effect) as well as a lower value of debt in the amount of approximately 24 million euros. This lower value of debt will be reclassified to the consolidated income statement as a greater finance expense with a view to recognizing the debt at the original effective rate in future periods.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leases; IFRIC 4 - Determining whether an Arrangement contains a Lease; SIC 15 - Operating leases - Incentives; and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes the principles for recognition, measurement, presentation, and disclose requirements regarding leases and requires that lessees account for all leases under one single balance sheet model similar to the current accounting of finance leases in accordance with IAS 17. The standard includes two exemptions for lessees recognizing leases: low value asset leases (such as personal computers) and short-term leases (that is, lease agreements with a leasing period of 12 months or less). At the date of initiating a lease, the lessee will recognize a liability for the payments to be made in connection with the lease (that is, the liability for the lease) and an asset which represents the right to use the underlying asset during the leasing period (that is, the asset to which the right to use applies). The lessees must recognize the expense for interest on the liability relating to the lease separately to the expense for amortizing the right to use.

The lessees will also be obliged to reevaluate the liability recognized for the lease when certain events occur (for example, a change in the duration, changes in future lease payments which result from changes in an index or rate used to determine the payments). In general the lessee will recognize the amount corresponding to the reevaluation of the liability relating to the lease as an adjustment to the asset for the right to use.

The lessor's accounting under IFRS 16 does not substantially differ from the current accounting under IAS 17. The lessees will continue to classify leases in accordance with the same classification principles as in IAS 17 and will recognize two types of lease: operating and finance leases.

IFRS 16 also requires that the lessees and lessors provide more disclosure than stipulated in IAS 17.

IFRS 16 is effective for those periods starting from January 1, 2019 or subsequently and allows for early application, though not before an entity applies IFRS 15. A lessee can opt to apply the standard retroactively or via a retroactive modified transition. The transitory provisions of the standard allow for certain exemptions.

The Enagás Group is currently in the process of analyzing and estimating this new standard and can thus not provide information on any quantitative impact at the date of authorizing these consolidated financial statements.

2. Operational performance of the Group

Significant matters

Operating (profit) loss

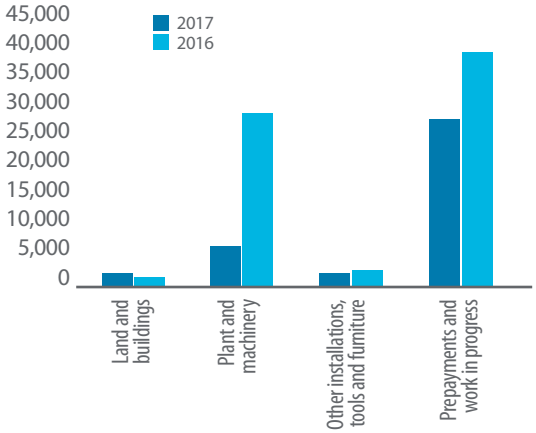
- Operating profit increased by 12.3% with respect to 2016, amounting to 732 million euros.
- The impact during 2017 of having reclassified profit for the year corresponding to companies consolidated under the equity method and recognized under "Profit (loss) from investments accounted for under the equity method" as part of operating profit, amounts to 72,859 thousand euros at December 31, 2017 (2016: 41,205 thousand euros).

Trade receivables

- On December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights recognized by sector legislation to the accumulated deficit of the gas system to which it held title at December 31, 2014. Said rights represented an amount of 354,751 thousand euros corresponding to both the nominal amount and accrued interest pending collection at said date, which was thus derecognized from the balance sheet at December 31, 2017 (Note 2.2).
- "Other receivables" under current assets includes the balance pending settlement in connection with remuneration for the regulated regasification, transport, and underground storage activities, amounting to 410,163 thousand euros for the year ended December 31, 2017 (2016: 368,557 thousand euros), as well as the pending balance relating to remuneration for Technical Manager activity, amounting to 6,650 thousand euros (2016: 6,915 thousand euros) (Note 2.2).

Property, plant, and equipment

- At December 31, 2017 this heading represents 57% of all assets (2016: 54% of all assets).
- During 2017 this amount increased by 498 million euros. The change is mainly due to the consolidation of GNL Quintero under the full consolidation method (874 million euros). This increase is offset by the effect of annual depreciation (277 million euros) as well as the impairment of certain assets considered obsolete and of those investments in ongoing projects which will more than likely not be executed (28 million euros); given that there were no significant additions during the period (Note 2.4).
- The distribution of acquisitions by category was the following:



Intangible assets – goodwill

- "Increases due to changes in consolidation scope" for 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company from January 1, 2017, as well as the goodwill that arose in the allocation process, amounting to 184,950 thousand euros (194,438 thousand US dollars) (Note 1.7).

2.1 Operating profit

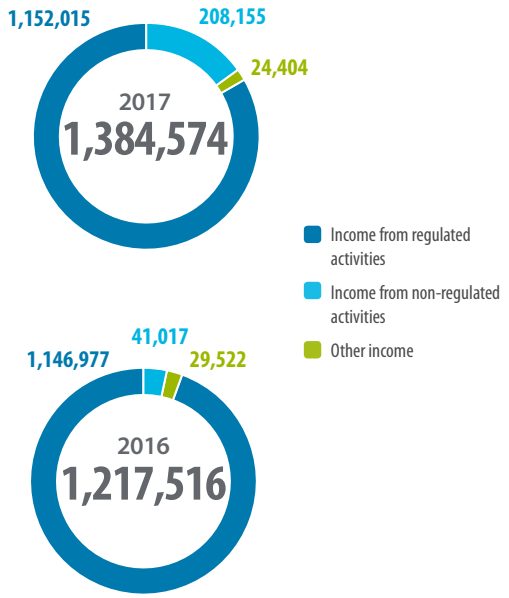
Accounting policies

Recognition of income

- The Enagás Group measures revenue at the fair value of the consideration received or receivable and represents balances receivable for goods delivered and services provided in the normal course of business, net of discounts and amounts received from third parties such as VAT reimbursements.
- Ordinary income for services rendered is recognized considering the degree of completion of these services at the balance sheet date, provided that the result of the transaction can be estimated reliably.
- Specifically, income relating to Technical Management of the System (TMS) is regulated by a public body (Appendix III). This income is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical System Manager, which includes coordinating the development, operation, and maintenance of the transport network, supervising the safety of natural gas supply, carrying out plans for future development of gas infrastructure, and controlling third-party access to the network. The monthly attribution of this income to the income statement is carried out on a straight line basis.
- Income arising from regasification, storage, and transportation activities in Spain is calculated based on a regulated remuneration system (Appendix III). Remuneration is comprised of a fixed portion for availability of the installation and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization/depreciation, and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.
  Inclusion of the variable portion with respect to remuneration for supply continuity allows for adjustment of system costs in light of varying demand, balancing the differences between income and costs of the system, as well as transferring a part of the risk relating to variable demand which until now has been assumed by the final consumer to the owner of the installations.
  This portion is based on the total changes in domestic consumption of natural gas excluding the supply through satellite plants in respect to prior year in the case of transport installations, of the change in demand for regasified gas in all the plants operating in the system in the case of regasification installations and the change in useful gas at November 1 of the corresponding year and including cushion gas mechanically extractable held at the storage facilities of the latter.
  Remuneration for supply continuity is divided amongst all the installations based on the weighting of their replacement value with respect to all installations relating to the activity, calculating said values by applying the unit investment values prevailing for each year.
  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.
- Recognition of GNL Quintero income is regulated by the Terminal Use Agreement ("TUA"), which is the contract by virtue of which the company makes 100% of its regasification and storage capacity available to GNL Chile.
- In addition, the Group's deferred income mainly corresponds to the advance amounts received for the natural gas transportation rights ceded to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and is taken to the income statement on a straight-line basis until 2020, the year in which the transport contract expires.
- Further, this heading includes the accrual of amounts received for connecting the basic network infrastructure of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. with networks of distribution companies, secondary transporters, gas marketing entities, and qualified clients. Said income is recognized based on the useful life of the assigned installations.

a) Revenue

The breakdown of revenue is as follows:



The distribution of revenue by Group company is as follows:

Revenue	2017	2016
Regulated activities:	**1,152,015**	**1,146,977**
Enagás Transporte, S.A.U.	1,099,391	1,095,013
Enagás Transporte del Norte, S.L.	28,657	28,006
Enagás GTS, S.A.U.	23,967	23,958
Non-regulated activities:	**208,155**	**41,017**
GNL Quintero	173,746	-
Enagás Transporte, S.A.U.	31,682	32,287
Enagás Internacional, S.L.U.	1,391	2,038
Enagás México	713	649
Enagás Transporte del Norte, S.L.	284	-
Enagás Emprende	134	
Enagás Perú	131	1,841
Enagás, S.A.	73	4,202
Efficiency for LNG Applications, S.L.	1	-
Total	**1,360,170**	**1,187,994**

b) Employee benefits expense

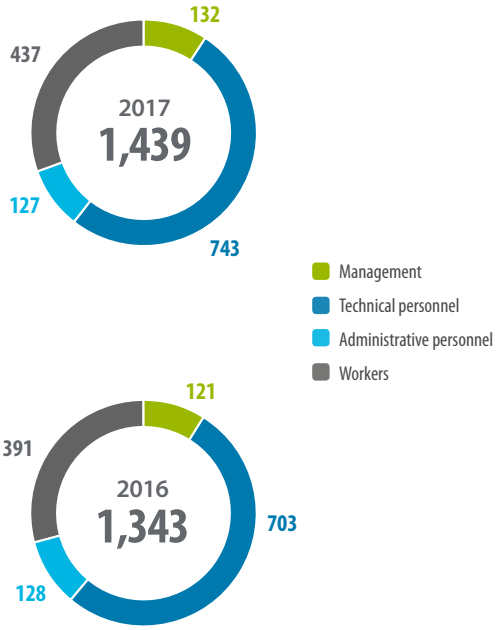
Employee benefits expense	2017	2016
Wages and salaries, et al.	95,916	84,579
Indemnities	7,153	2,116
Social security	18,519	18,091
Other employees benefit expenses	9,769	8,402
Contributions to external pension funds (defined contribution plan)	2,428	2,348
Work performed on assets (Note 2.4)	(4,846)	(6,782)
Total	**128,939**	**108,754**

In 2017, wages and salaries include the fair value of services received as consideration for equity instruments granted, in the amount of 2,206 thousand euros at December 31, 2017 (2016: 1,959 thousand euros), corresponding to the portion of the long-term incentive plan payable in Enagás, S.A. shares and approved on March 18, 2016 for the executive directors and senior management, thus representing a share-based transaction. Services rendered corresponding to the portion of the incentive plan payable in cash were also recognized with a credit to "Provisions" under non-current liabilities, in the amount of 877 thousand euros at December 31, 2017 (2016: 800 thousand euros) (Notes 2.8.a). In addition, the employee benefits expense arising from the bonus payable every three years for contribution to results and corresponding to the remaining staff of the Group was also included in the amount of 2,344 thousand euros.

In accordance with the pension plan contracted and adapted to the Law regulating Pension Plans and Funds, the Enagás Group makes contributions to the "Enagás Pension Fund," a defined contribution plan managed by Gestión de Previsión y Pensiones, S.A. The depositary of said plan, which covers commitments acquired by the Group with the affected part of its active personnel, is Banco Bilbao Vizcaya Argentaria, S.A. Said plan recognizes consolidated rights for past services and involves a commitment to make monthly contributions corresponding to an average percentage of 4.14% of the portion of salaries paid eligible for said calculation (2016: 4.30%). It is a mixed plan designed to cover both retirement commitments as well as risks relating to disabilities and death of the participants. The total number of plan participants at December 31, 2017 amounts to 1,190 (2016: 1,146 participants). The pension plan contributions made by the Group during each year are recognized under "Employee benefits expense" of the consolidated income statement. At 2017 year end there were no amounts pending payment with respect to this item.

In addition, 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 average number of Group employees, broken down by professional categories, was the following:



At December 31, 2017 the Group has 1,426 employees under contract (2016: 1,337 employees), broken down by professional category and gender as follows:

Categories	2017		2016	
	Women	Men	Women	Men
Management	35	99	31	94
Technical personnel	220	516	219	482
Administrative personnel	102	23	102	21
Workers	17	414	15	373
Total	**374**	**1,052**	**367**	**970**

"Management" includes senior executive management of the Group, comprising ten persons (eight men and two women).

The average number of staff during 2017 and 2016 employed by Group companies with disabilities greater than or equal to 33%, broken down by categories, is as follows:

Categories	2017	2016
Management	1	-
Technical personnel	4	4
Administrative personnel	2	2
Workers	4	4
Total	**11**	**10**

c) Other operating expenses

Otros gastos de explotación	2017	2016
External services:		
R&D expenses	1,133	780
Leases and royalties	45,740	44,361
Repairs and maintenance	50,052	52,760
Independent professional services	29,799	30,139
Transportation	32,159	26,196
Insurance premiums	9,825	6,302
Banking and similar services	347	267
Publicity, advertising, and public relations	4,832	4,706
Supplies	20,874	19,045
Other services	14,790	19,315
External services	**209,551**	**203,871**
Taxes	**16,669**	**13,929**
Other current operating expenses	**147**	**170**
Other external expenses	**16,116**	**9,063**
Variation in trade provisions	**36**	**(762)**
Total	**242,519**	**226,271**

2.2 Trade and other receivables - non-current and current

Accounting policies

- Financial assets are recognized in the balance sheet at the transaction date when the Company becomes party to the contractual terms of the instrument.

Loans and receivables

- This heading comprises financial assets arising from the sale of goods or the rendering of services in the course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.
- Said financial assets are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost and related interest accrued at the corresponding effective interest rate is recognized in the income statement.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.
- The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies transferring substantially all the risks and rewards inherent in ownership of the financial asset; this is the case in firm asset sales, trade receivable factoring transactions in which the Group retains neither credit risk nor interest rate risk, sales of financial assets with an agreement to repurchase them at their fair value, and securitizations in which the Group neither retains subordinated financing, grants any form of guarantee nor assumes any other type of risk.
- In contrast, the Group does not derecognize financial assets, but rather recognizes a financial liability at an amount equal to the consideration received, in the transfer of financial assets in which it retains substantially all the risks and rewards incidental to ownership, such as discounted bills, recourse factoring, disposals of financial assets under repurchase agreements at fixed prices or at the sales price plus interest, and securitizations of financial assets in which the Group retains subordinate liability or grants other types of guarantees which would substantially absorb all possible losses.

Significant estimates and judgments

- An impairment loss on financial assets measured at amortized cost arises when there is objective evidence that the Group will not be able to recover all the corresponding amounts in accordance with the original terms established. The impairment loss is recognized as an expense in the consolidated income statement and is determined as the difference between the carrying amount and the present value of future cash flows discounted at the effective interest rate.
- If, in subsequent periods, the value of the financial asset measured at amortized cost recovers, then the impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the carrying amount had the impairment not been recognized. The reversal is recognized in the consolidated income statement.

	31.12.2017	31.12.2016
Trade receivables	63,725	42,259
Group companies	9,090	16,321
Other receivables	390,364	391,069
Subtotal	**463,179**	**449,649**
Value added tax (VAT)	15,708	24,160
Trade and other receivables - Current assets	**478,887**	**473,809**
Trade and other receivables - Non-current assets (Notes 3.3.a)	**117,947**	**397,351**

"Trade and other receivables – Non - current assests", in accordance with Royal Decree Law 8/2014 of July 4 and Law 18/2014 of October 15, mainly includes the long-term accumulated deficit corresponding to regulated activities amounting to 90,485 thousand euros at December 31, 2017 (2016: 373,464 thousand euros).

At December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights recognized by sectoral legislation to the accumulated deficit of the gas system to which it held title at December 31, 2014. Said rights amounted to a total of 354,751 thousand euros, corresponding to the nominal amount plus accrued interest pending payment at the date of cession.

The transaction was carried out through an auction process in which different banking entities participated. The Santander Group was awarded with the total amount ceded. Having received the same nominal amount in the cession, as well as accrued interest pending payment, no finance expense arose in connection with the transaction. Likewise, via said transaction, Enagás Transporte, S.A.U. transferred the contractual obligations and rights inherent to ownership of the financial asset ceded, derecognizing the financial asset in its balance sheet as the directors of the Enagás Group considered that all risks and benefits incidental to ownership had been transferred together with control of the financial asset.

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 26,166 thousand euros (2016: 21,293 thousand euros).

"Other receivables" recognized under current assets includes the balance pending settlement in connection with remuneration for the regulated regasification, transport, and underground storage activities, amounting to 367,856 thousand euros for the year ended December 31, 2017 (2016: 368,557 thousand euros), as well as the pending balance relating to remuneration for Technical Manager activity, amounting to 6,650 thousand euros for the year ended December 31, 2017 (2016: 6,915 thousand euros). The trade receivables related to regulated activities follow the settlement system established in Order ECO/2692/2002, of October 28, which regulates the settlement procedures for remuneration of regulated natural gas sector activities and fees for specific purposes (Appendix III).

2.3 Trade and other payables

Accounting policies

- Trade and other payables are financial liabilities that do not accrue explicit interest and are recognized at their face value provided the effect of financial discounting is not significant.

Trade and other payables	12.31.2017	12.31.2016
Borrowings from related parties	3,876	2,736
Remaining suppliers	156,287	127,067
Other accounts payable	11,681	2,371
Subtotal (Notes 3.3)	**171,844**	**132,174**
Value added tax (VAT)	2,397	-
Accounts payable to the Treasury for withholdings and other	32,663	31,705
Total	**206,904**	**163,879**

Information on average payment periods for suppliers

The disclosures required in the second additional provision of Law 31/2014, of December 3, are as follows:

Days	2017	2016
Ratio of payments made	32	38
Ratio of pending payments	37	39
Average supplier payment period (ASPP)	32	38

Amount	2017	2016
Total payments made	445,554	483,326
Total pending payments	32,852	26,037

2.4 Property, plant, and equipment

Accounting policies

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated depreciation and any impairment losses.

- Acquisition or production cost includes:
  - Finance expenses relating to the financing of infrastructure projects accrued only during the construction period when the building work lasts for more than one year, applying a net capitalization rate of 1.81% for 2017 (2016: 1.8%), and amounting to 2,652 thousand euros (2016: 2,876 thousand euros)
  - Employee benefits expenses directly related to work in progress, lowering employee benefits expenses recognized in the amount of 4,846 thousand euros at December 31, 2017 (2016: 6,782 thousand euros) (Notes 2.1.b)
  - Future payments which the Group will have to make with respect to the obligation to dismantle certain PP&E items corresponding to underground storage facilities in Serrablo, Yela, and Gaviota, as well as the regasification plants in Barcelona, Huelva, Cartagena, and Gijón at the end of their useful lives. The carrying amount of said assets includes an estimate of the present value at the acquisition date of the dismantling costs the Group will have to meet, amounting to 171,222 thousand euros (2016: 166,623 thousand euros), recognized as a credit to "Provisions" under non-current liabilities (Notes 2.8.a) in the accompanying consolidated balance sheet.

Non-extractable gas required for exploitation of underground natural gas storage (cushion gas) is recognized under PP&E, depreciated over the specific prevailing useful life (20 years) or over the leasing period if less.

- Natural gas required for minimum levels in gas pipelines and minimum operating levels for regasification plants (heel gas) is recognized as PP&E that cannot be depreciated given that it is not available for sale as indicated under current regulations. It is measured at the auction price as indicated in Order ITC/3993/2006 and the Resolution of April 18, 2007.
- The restatement of assets recognized under PP&E in accordance with Royal Decree Law 7/1996 of June 7, on balance sheet restatements, had an effect of 3,392 thousand euros on depreciation charges in 2017 (2016: 3,613 thousand euros).

Grants

- The official grants relating to the assets recognized under PP&E lower the acquisition cost of said assets and are taken to the income statement over the foreseen useful lives of the corresponding assets, decreasing the related depreciation

Significant estimates and judgments

- PP&E items are depreciated using the straight-line method, applying annual depreciation rates that reflect the estimated useful lives of the corresponding assets.
- The directors of the Group consider that the carrying amounts of the assets do not exceed the recoverable amounts which result from calculating discounted future cash flows generated by said assets based on foreseen remuneration under current regulations.
- Depreciation is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
Buildings	2% - 5%	50 – 20
Technical installations (transport network)	2.5% - 5%	40 – 20
Deposits	5%	20
Underground storage installations	5% - 10%	20 – 10
Cushion gas	5%	20
Other technical installations and machinery	2.5% - 12%	40 – 8.33
Equipment and tools	30%	3.33
Furniture and fixtures	10%	10
Information technology equipment	25%	4
Transport equipment	16%	6.25

2017	Beginning balance	Increases due to changes in the consolidation scope [1]	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Balance at year end
Land and buildings	165,309	87,258	2,370	4,375	(993)	(10,436)	247,883
Plant and machinery	8,801,625	1,009,932	6,931	14,670	(2,064)	(120,463)	9,710,631
Other installations, tools, and furniture	87,107	4,753	2,162	242	(377)	(592)	93,295
Prepayments and work in progress	559,003	6,657	28,323	(19,287)	(5,993)	(914)	567,789
Capital grants	(600,387)	–	–	–	–	–	(600,387)
Total cost	**9,012,657**	**1,108,600**	**39,786**	**–**	**(9,427)**	**(132,405)**	**10,019,211**
Land and buildings	(67,494)	(20,297)	(6,737)	–	856	2,571	(91,101)
Plant and machinery	(4,244,269)	(210,915)	(278,386)	(809)	542	26,742	(4,707,095)
Other installations, tools, and furniture	(61,045)	(3,374)	(4,920)	809	309	423	(67,798)
Capital grants	394,851	–	13,209	–	–	–	408,060
Total depreciation	**(3,977,957)**	**(234,586)**	**(276,834)**	**–**	**1,707**	**29,736**	**(4,457,934)**
Plant and machinery [2]	(13,677)	–	(42)	–	–	–	(13,719)
Prepayments and work in progress [2]	(18,136)	–	(28,071)	–	–	–	(46,207)
Total impairment	**(31,813)**	**–**	**(28,113)**	**–**	**–**	**–**	**(59,926)**
Land and buildings	97,815	66,961	(4,367)	4,375	(137)	(7,865)	156,782
Plant and machinery	4,543,679	799,017	(271,497)	13,861	(1,522)	(93,721)	4,989,817
Other installations, tools, and furniture	26,062	1,379	(2,758)	1,051	(68)	(169)	25,497
Prepayments and work in progress	540,867	6,657	252	(19,287)	(5,993)	(914)	521,582
Capital grants	(205,536)	-	13,209	-	-	-	(192,327)
Net carrying amounts - Property, plant, and equipment	**5,002,887**	**874,014**	**(265,161)**	**-**	**(7,720)**	**(102,669)**	**5,501,351**

(1) "Increases due to changes in the consolidation scope" includes the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company on January 1, 2017 (Notes 1.7).

(2) During the present period the Enagás Group performed an analysis of the ongoing projects as well as inventories of materials deposited in warehouses. After said analysis, the Group recognized impairment losses on both materials considered obsolete as well as on those investments made in projects underway that are most likely not going to be executed this year, amounting to 28,113 thousand euros.

2016	Beginning balance	Additions and allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
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 installations, 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
Capital grants	(600,456)	(591)	-	660	(600,387)
Total cost	**8,942,956**	**72,381**	**-**	**(2,680)**	**9,012,657**
Land and buildings	(63,492)	(3,995)	(7)	-	(67,494)
Plant and machinery [1]	(3,989,173)	(255,096)	-	-	(4,244,269)
Other installations, tools, and furniture [1]	(56,212)	(4,840)	7	-	(61,045)
Capital grants	381,398	13,453	-	-	394,851
Total depreciation	**(3,727,479)**	**(250,478)**	**-**	**-**	**(3,977,957)**
Plant and machinery	(13,677)	-	-	-	(13,677)
Prepayments and work in progress	(18,400)	-	-	264	(18,136)
Total impairment	**(32,077)**	**-**	**-**	**264**	**(31,813)**
Land and buildings	102,183	(2,231)	51	(2,188)	97,815
Plant and machinery	4,722,135	(226,171)	48,087	(372)	4,543,679
Other installations, tools, and furniture	26,173	(2,064)	1,964	(11)	26,062
Prepayments and work in progress	551,961	39,507	(50,102)	(505)	540,867
Capital grants	(219,058)	12,862	-	660	(205,536)
Net carrying amounts - Property, plant, and equipment	**5,183,400**	**(178,097)**	**-**	**(2,416)**	**5,002,887**

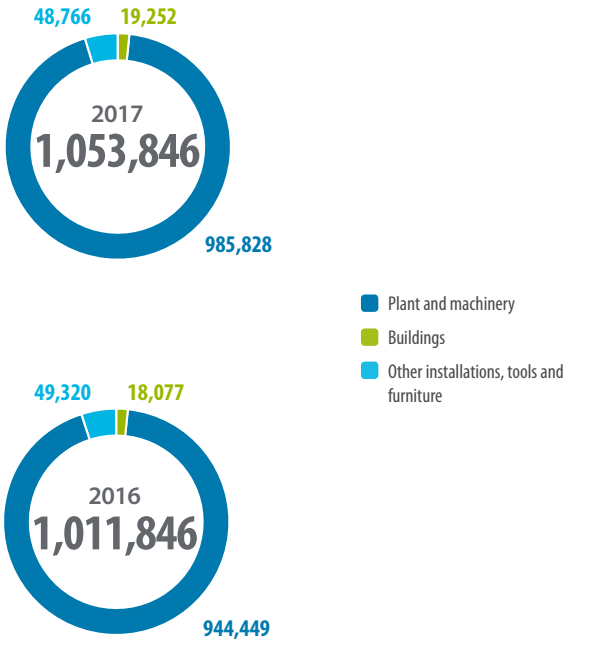
(1) During this year, the impairment corresponding to Prepayments and work in progress, previously recorded in Impairment of Plant and machinery, amounting to 18,136 thousand euros was reclassified. For comparative purposes, the detail "Beginning balance", "Additions and allowances", "Decrease, disposals or reductions" and "Balance at year end" corresponding to the impairment of Prepayment and work in progress in the course of 2016 has been broken down, amounting to 18,400 thousand euros, 264 has been broken down thousand euros and 18,136 thousand euros, respectively.

The increases during the year under "Plant and machinery" due to additions or transfers from "Prepayments and work in progress" are mainly due to the acquisition of cushion gas for the Yela plant, amounting to 7,541 thousand euros, the investment in Estación de Compresión de Euskadour amounting to 3,162 thousand euros, migration of the access network in the amount of 1,419 thousand euros, the Gasoducto Martorell-Figueras in the amount of 1,211 thousand euros, the substitution of electricity generators at the AS Gaviota platform totaling 1,518 thousand euros, as well as the replacement of the tower and Workover of the G-6 well in AS Gaviota, amounting to 1,445 thousand euros.

There are no mortgages or encumbrances of any type on the assets recognized under PP&E.

The Group's policy is to provide sufficient insurance coverage for its assets so as to avoid any significant losses. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

Fully depreciated PP&E items recognized by the Enagás Group and still in use at 2017 and 2016 year end are broken down as follows:



a) Grants

Accumulated capital grants received at year end which correspond to investments in gas infrastructure are broken down as follows:

	Grants received	Released to income	Balance at year end
Regasification plants	79,653	(72,614)	7,039
Gas transportation infrastructure	503,226	(317,938)	185,288
Underground storage	17,508	(17,508)	-
2017	**600,387**	**(408,060)**	**192,327**
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
2016	**600,387**	**(394,851)**	**205,536**

The breakdown at year end of said capital grants by public body which grants them is as follows:

	Grants received	Released to income	Balance at year end
Structural funds of the European Union	434,634	(277,854)	156,780
Official bodies of the Spanish Autonomous Regions	51,905	(30,902)	21,003
Spanish government	113,848	(99,304)	14,544
2017	**600,387**	**(408,060)**	**192,327**
Structural funds of the European Union	434,634	(266,697)	167,937
Official bodies of the Spanish Autonomous Regions	51,905	(29,790)	22,115
Spanish government	113,848	(98,364)	15,484
2016	**600,387**	**(394,851)**	**205,536**

The breakdown by timing criteria of the balance pending application at December 31, 2017 is the following:

	years		
	<1	2 to 5	>5
Government grants	940	3,760	9,844
Spanish Autonomous Regions	1,110	4,402	15,491
FEDER grants	9,110	32,736	114,934
Total grants	**11,160**	**40,898**	**140,269**

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 February 29, 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 authorization for construction of the regasification plant for liquefied natural gas in El Musel (Gijón), thereby nullifying said administrative authorization.

The Company 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 recognized and received by the Company is justified on the basis of said Royal Decree and not the nullified authorization.

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." This execution request has already been resolved in a firm manner by the Superior Court of Justice of Madrid, by Order of October 16, 2017, which has considered the ruling of the court already executed in its entirety after the declaration of nullity of the authorization of the regasification plant and its hibernation, without the need to perform any other action on it.

At December 31, 2017 the carrying amount of said investment totaled 378,887 thousand euros. Further, during 2017 and 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 Company to maintain the plant ready for service. Both of the aforementioned sources of remuneration have been recognized annually by the successive Ministerial Orders regarding remuneration and tolls.

Thus, the directors of the Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any provision and that the definition of a contingent liability is not met.

Regasification plant – Granadilla (Tenerife)
No significant changes arose with respect to 2016 in connection with the project for construction of a regasification plant at the Granadilla port. Thus, on March 16, 2015, the Madrid Supreme Court of Administrative Appeals handed down a sentence annulling the Resolution passed by the Directorate General for Energy policy and Mining on May 4, 2012, which granted the Compañía Transportista de Gas Canarias, S.A. ("Gascan") the prior administrative authorization for construction of a plant for receiving, storing, and regasifying LNG in Granadilla (Tenerife), as well as the Environmental Impact Statement for said project, considered favorably in the Resolution passed on June 8, 2007 by the General Secretariat for the Prevention of Pollution and Climate Change.

In addition, both Compañia Transportista de Gas Canarias, S.A. as well as the Spanish Attorney General filed an appeal against said sentence, resolution of which is expected in the month of February 2018.

It is interesting to note that, in any case, in accordance with the provisions of article 57.1 of Law 30/1992, of November 26, on the Legal Regime of Public Administrations and Common Administrative Procedures, the actions of public administrations subject to administrative legislation are presumed valid and produce effects from the date on which they are announced. Thus, as no administrative or competent legal body has reached any decision to date regarding the suspension of the execution of the administrative actions which have been appealed, there are no legal reasons to justify that the Resolution of the Directorate General for Energy Policy and Mining on December 29, 2008, which granted Enagás the prior administrative authorization for construction of a plant for receiving, storing, and regasifying LNG in Granadilla (Tenerife), or the Resolution of June 8, 2007 of the General Secretariat for the Prevention of Pollution and Climate Change, which issued the favorable Environmental Impact Statement for said plant, have lost their validity. On the contrary, they remain fully valid and effective, especially considering that the appeal filed against the sentence of the Madrid High Court of Justice excludes their validity in spite of article 91.1 of Law 29/1998 of July 13, of the Appeals Courts.

Thus, even in the case that the sentence handed down by the Madrid High Court of Justice were to be confirmed as a result of the appeal being rejected, this would not prevent the formulation and granting of a new Environmental Impact Statement and a new prior administrative authorization for the LNG regasification plant at Granadilla (Tenerife), as to date, the project has been subject to a new favorable Environmental Impact Statement, of July 15, 2016 (B.O.E - Official State Gazette no.176 of July 22), a step required together with the CNMC report for obtaining administrative authorization.

Thus, considering all the above, the directors of the Enagás Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any provision and that the definition of a contingent liability is not met.

Situation of Castor Storage Installations
As explained in Notes 8.1 to the 2014 consolidated financial statements of the Enagás Group, on October 4, 2014 the B.O.E published Royal Decree Law 13/2014 of October 3, by virtue of which urgent measures were adopted in connection with the gas system and title to the nuclear power plants, with a view to guaranteeing the security of people, goods, and the environment with respect to the Castor natural gas underground storage installations, which establishes, amongst other matters, the following:

- The termination of the exploration concession for the Castor underground storage installations, granted by Royal Decree Law 855/2008, of May 16.
- The hibernation of the installations associated with said concession.
- The appointment of Enagás Transporte, S.A.U. for administration of said installations, for the sole purpose of carrying out the necessary measures for maintenance and operability during the hibernation period, prioritizing the objective of guaranteeing the security of the installations for persons, goods, and the environment, while ensuring compliance with applicable regulations. Likewise, the decision included the stipulation that the maintenance and operational costs be paid to Enagás Transporte, S.A.U. with a charge to income from tolls and royalties of the gas system.
- The recognition of the investment made for the storage installations by the titleholder of the concession which was extinguished with 1,350,729 thousand euros, and the establishment of a payment obligation for said amount by Enagás Transporte, S.A.U. to the titleholder of the extinguished concession. As a result of assuming the payment obligation, Enagás Transporte, S.A.U. enjoys the right to collect access tolls and royalties from the gas system's monthly invoicing during 30 years, for the amount paid to the titleholder of the extinguished concession plus the financial remuneration which the Royal Decree Law expressly recognizes. Likewise, this Royal Decree Law contains the necessary measures to guarantee full effectivity of this collection right, that said right could be freely available to Enagás Transporte, S.A.U. or its third party titleholders, and could consequently be totally or partially, ceded, transferred, discounted, pledged, or taxed in favor of any third parties, including securitization funds or other vehicles or companies with a special purpose, either domestic or international. The cession of the collection right will be effective with respect to the gas system, which will pay the new titleholder the corresponding amounts.

In light of the above, on October 4, 2014, Enagás Transporte, S.A.U. signed an agreement with various financial entities by virtue of which it ceded the collection right awarded by the aforementioned Royal Decree Law, with said entities assuming the payment obligation imposed on Enagás Transporte, S.A.U. In this manner, on November 11, 2014, said financial entities made a payment of 1,350,729 thousand euros to the titleholder of the extinguished concession.

Further, Enagás Transporte, S.A.U. transferred the aforementioned contractual obligations and rights inherent to ownership of the financial asset to said financial entities, thus derecognizing it from the balance sheet as the directors of the Group consider that all associated risks and benefits have been transferred.

On December 21, 2017 the Constitutional Court handed down a sentence declaring various provisions of Royal Decree Law 13/2014 as unconstitutional and null and void due to formal errors. Specifically, (i) acknowledgment of the investment made by the renouncing concessionaire and costs accrued up to the date of said norm becoming effective, and thus the consideration in the amount of 1,350,729 thousand euros, as well as (ii) recognition of the correlated collection right of Enagás Transporte, S.A.U. with respect to the gas system for the amount of consideration cited, considering that in both cases the reasons given for the urgency were not justified and therefore said measures should be excluded from the ordinary legislative procedure.

Notwithstanding the foregoing, the Constitutional Court did declare the following as constitutional and valid: (i) adoption of the decision to hibernate the underground storage facilities; (ii) the declaration of the extinction of the concession; and (iii) the appointment of Enagás Transporte, S.A.U. for administration of the facilities to the extent the hibernation is prolonged; as well as (iv) recognition of the right to obtain remuneration for the maintenance and operability costs for Enagás Transporte, S.A.U., including any costs incurred for the administration and other related work which said Royal Decree Law established as a requirement.

In accordance with the analysis carried out by the Company's external legal advisors, the purchase-sale contract for the collection rights signed by Enagás Transporte, S.A.U. with the financial entities represents the transfer of rights and obligations to the financial entities and in no case does it enable the buyers (or their possible transferees) the possibility of claiming reimbursement for the price received or payment of any other amounts from the seller. Thus, in no case can adverse effects arise in connection with the financing of the operation for the Company due to the sentence of the Constitutional Court, as Enagás Transporte, S.A.U. is not titleholder to the collection right which was annulled nor is it obliged to pay the titleholder of the extinguished concession.

Likewise, in accordance with said analysis and conclusions, the aforementioned sentence does not give rise to any negative effect on the right of Enagás Transporte, S.A.U. to obtain remuneration for the administration and operations necessary for maintenance and operability of the infrastructure, as the Royal Decree Law was not affected in such a manner by the declaration of unconstitutionality.

For this reason, regarding the remuneration granted to Enagás Transporte for the years 2014, 2015 and 2016, it has been the object of a contentious-administrative appeal and it is expected that the Supreme Court will issue judgment in the coming months, once it has been resolved. The appeal of unconstitutionality of Royal Decree Law13/2014 by the Constitutional Court. Likewise, with regard to the remuneration recognized for this concept to Enagás Transporte for the year 2017, the provisional remuneration received in the liquidation 11/2017 of January 2018 has been reimbursed.

In accordance with the legal conclusions of the external and internal advisors, Enagás Transporte has a right to restitution the remuneration corresponding 2017. Likewise, if, as of the resolution by the Supreme Court of the mentioned resources, a refund for the previous years, Enagás Transporte, S.A.U. maintains a right to recover said compensation through an alternative mechanism. In both cases, at 2017, there is no Equity loss for this concept.

2.5 Intangible assets

Accounting policies

Goodwill and business combinations

- The acquisition by the Parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.
- Goodwill or negative goodwill arising on the combination is calculated as the difference between the fair value of the assets acquired and liabilities assumed which meet the relevant recognition criteria and the cost of the business combination, all measured at the acquisition date.
- Goodwill that arises upon acquisition of companies whose functional currency is not the euro is recognized in the functional currency of the acquired company, translating to euros at the exchange rate prevailing at the balance sheet date.
- Goodwill is not amortized and is subsequently measured at cost less any impairment losses. Goodwill impairment losses are not reversed in subsequent periods.

Other intangible assets

- The cost model is applied for measuring these assets, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated amortization and any impairment losses.
- Development costs are capitalized by amortizing on a straight-line basis over the corresponding useful life, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.
- The Group recognizes all research expenses in the consolidated income statement, including those development costs for which technical and commercial viability cannot be established. The amount recognized in the accompanying consolidated income statement in connection with research expenses totals 1,133 thousand euros for 2017 (2016: 780 thousand euros).
- Concessions can only be included under assets when acquired for consideration separately by the Company and corresponding to concessions that can be transferred, or in the amount of expenses incurred to acquire them directly from the corresponding State or Public Authority. Should circumstances involving non-compliance with stipulated conditions arise which lead to the loss of rights related to a concession, the corresponding carrying amount for the concession will be written down in order to cancel the net carrying amount. Said concessions are amortized based on their remaining useful life.
- Acquisition and development costs incurred with respect to basic IT systems used for management are recognized with a charge to "Intangible assets" in the consolidated balance sheet. Maintenance costs of IT systems are recognized in the consolidated income statement for the year in which they are incurred. They are measured at the amount disbursed for ownership or right-of-use of the IT programs, as well as their production cost if they are developed by the Group.

Significant estimates and judgments

- Amortization of intangible assets is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
IT applications	10% - 25%	10 - 4
Development costs	5% - 50%	20 - 2
Port concessions	1.28% - 7.6%	78 - 13

2017	Beginning balance	Increases due to changes in the consolidation scope [2]	Increases or allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Balance at year end
Goodwill [1]	25,812	184,950	-	-	-	(29,058)	181,704
Other intangible assets			-	-	-	-	-
Development	7,418	-	720	-	(13)	-	8,125
Concessions	5,871	835,441	-	-	-	(99,806)	741,506
IT applications [3]	198,009	3,848	11,905	-	-	(818)	212,944
Other intangible assets	7,837	10,096	-	-	-	(851)	17,082
Total cost	**244,947**	**1,034,335**	**12,625**	**-**	**(13)**	**(130,533)**	**1,161,361**
Other intangible assets							-
Development	(2,798)	-	(572)	-	-	-	(3,370)
Concessions	(3,912)	-	(23,024)	(20,405)	-	3,675	(43,666)
IT applications	(154,127)	(2,447)	(18,315)	-	-	320	(174,569)
Other intangible assets	(7,691)	(2,093)	(348)	-	-	265	(9,867)
Total amortization	**(168,528)**	**(4,540)**	**(42,259)**	**(20,405)**	**-**	**4,260**	**(231,472)**
Total goodwill	25,812	184,950	-	-	-	(29,058)	181,704
Total other intangible assets	50,607	844,845	(29,634)	(20,405)	(13)	(97,215)	748,185
Net carrying amounts - Intangible assets	**76,419**	**1,029,795**	**(29,634)**	**(20,405)**	**(13)**	**(126,273)**	**929,889**

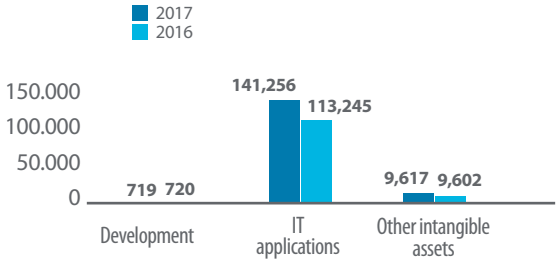
(1) Includes the amounts corresponding to goodwill arising on acquisition of ETN (17,521 thousand euros), on acquiring control over Gascán (8,291 thousand euros), as well as goodwill arising during the purchase price allocation process for GNL Quintero (184,950 thousand euros) as a consequence of acquiring control over said company from January 1, 2017 (Notes 1.7).

(2) "Increases due to changes in the consolidation scope" for 2017 includes the effect of consolidating GNL Quintero under the full consolidation method as a consequence of acquiring control (Notes 1.7).

(3) Amongst the additions during the year, the most noteworthy are mainly those corresponding to IT applications for updating SW servers, amounting to 1,071 thousand euros, adaptation of the ATR system to European legislation in the amount of 1,011 thousand euros, implementation of the Capacity Contracting Platform in the amount of 1,367 thousand euros as well as implementation of the Regulatory Information System for Costs in the amount of 890 thousand euros.

2016	Beginning balance	Increases or allowances	Increases or decreases due to transfers	Decreases, disposals or reductions	Balance at year end
Goodwill	25,812	-	-	-	25,812
Other intangible assets					
Development	6,640	778	-	-	7,418
Concessions	5,871	-	-	-	5,871
IT applications	181,618	16,391	-	-	198,009
Other intangible assets	7,835	2	-	-	7,837
Total cost	**227,776**	**17,171**	**-**	**-**	**244,947**
Other intangible assets					
Development	(2,228)	(570)	-	-	(2,798)
Concessions	(3,862)	(50)	-	-	(3,912)
IT applications	(133,824)	(20,303)	-	-	(154,127)
Other intangible assets	(7,576)	(115)	-	-	(7,691)
Total amortization	**(147,490)**	**(21,038)**	**-**	**-**	**(168,528)**
Total goodwill	25,812	-	-	-	25,812
Total other intangible assets	54,474	(3,867)	-	-	50,607
Net carrying amounts - Intangible assets	**80,286**	**(3,867)**	**-**	**-**	**76,419**

Fully amortized items



2.6 Impairment of non-financial assets

Accounting policies

- With respect to goodwill, at the closing of each year, or more frequently if certain circumstances or changes arise which indicate that the net carrying amount of said goodwill may not be entirely recoverable, and when there are indications of impairment losses on the remaining non-current assets, the Company analyzes the corresponding recoverable amounts to determine the possibility of impairment.
- The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated.
- The period used by the Enagás Group to determine the projected cash flows of the cash-generating units corresponds to the period in which the asset accrues revenue associated with the investment (Appendix III). At the closing of this period, the Enagás Group considers residual values based on the cash flows of the last period with a growth rate equal to zero.

Significant estimates and judgments

Determination of impairment losses on non-current assets other than financial assets is based on fulfillment of a series of hypotheses which are described below in this note and are revised annually. 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 Notes 4.7 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).

The CGUs identified by the Enagás Group in 2016 are shown below:

- Infrastructure activity in Spain (includes transport, regasification, and storage).
- Technical management of the system.

In 2017, Enagás Chile S.p.A acquired control over GNL Quintero, which was subsequently consolidated under the full consolidation method (Notes 1.7). This change in the consolidation method represents the integration in the Enagás Group financial statements of all the assets, liabilities, income, expenses, cash flows, and other items relating to GNL Quintero.

GNL Quintero is a terminal for receiving, unloading, storing, and regasifying liquefied natural gas. The only PP&E item identified corresponds to the regasification plant. The intangible assets identified correspond to the Terminal Use Agreement ("TUA"), the maritime concession, the rights relating to the gas transportation contract and the Esval rights. The TUA represents a contract which attributes a series of contractual rights that are associated with future economic benefits (Notes 2.1).

As can be deduced from the previous paragraph, said assets generate cash flows which are independent of the remaining assets or groups of assets of the Enagás Group. In this sense, Chile is defined as a new cash generating unit.
The remaining companies continue to be accounted for in the same manner as until now.

Thus, subsequent to the changes during the year, the CGUs identified at December 31, 2017 in the Enagás Group are as follows:

- Infrastructure activity in Spain (includes transport, regasification, and storage).
- Technical management of the system.
- Chile.

To estimate value in use, the Enagás Group estimates projections regarding future cash flows after taxes based on the most recent budget forecasts approved by the directors. The best estimates available for income, costs, and investments relating to CGUs are used for said forecast, making use of historical experience, sector projections, and future expectations, in accordance with the prevailing regulatory framework and corresponding contracts.

With respect to this infrastructure activity, 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 ("RSC"), calculated in accordance with the regulatory parameters established and described in Appendix III.
- The remuneration for operating and maintenance costs of the last projected period, applying the prevailing regulatory framework for the fully amortized/depreciated items described in the aforementioned Appendix III.
- Financial remuneration or remuneration related to amortization/depreciation was not taken into account as said remuneration will end 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 ends 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 normalization adjustments. This is due to the fact that, as indicated in Appendix III, 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, taken together with the nature of the business, make it possible to predict cash flows for the periods under consideration.

The most representative hypotheses used in the projections, based on business forecasts and past experience, are the following:

- Regulated remuneration was estimated in accordance with the remuneration approved by law for the years in which it is available while the same mechanisms for updating said remuneration as established in legislation were used for subsequent years.
- Investment: the Group used the best information available for the investment plans relating to assets and maintenance of infrastructures and systems, based on the one hand on historical experience of investments in maintenance and systems, and on the other hand, the new projects that are highly likely to be executed in accordance with the work in progress being performed with the Ministry and the CNMC.
- Operating and maintenance costs were estimated considering the prevailing maintenance contracts, as well as remaining estimated costs based on sector knowledge and past experience. The projections made were consistent with the growth expected as a result of the investment plan.
- Other costs were projected based on sector knowledge, past experience, consistent with the growth expected as a result of the investment plan.

In order to calculate present value, projected future cash flows are discounted at an after-tax rate which reflects the weighted average cost of capital corresponding to the business and the geographical area in which the business is carried out. For its calculation, the time value of money is taken into consideration together with the risk-free rate and risk premiums generally used by analysts of the business and geographic area in question. The risk-free rate corresponds to the sovereign bonds issued by each country in the corresponding market, with sufficient depth and solvency. However, associated country risk is also taken into consideration for each geographical area. The risk premium of the asset corresponds to the risks specific to the asset, calculated taking into consideration the estimated betas in accordance with the selection of comparable businesses dedicating themselves to a similar main activity.

The after-tax discount rates used in 2017 and 2016 for regulated activities in Spain are 3.92% and 4.37%, respectively (with 6.52% and 6.01% as the pre-tax discount rate for 2017 and 2016). In addition, the after-tax discount rate used for Chile in 2017 is 5.78% (8.33% was the pre-tax discount rate used in 2017). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2017 year end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

2.7 Other non-current liabilities

	Royalties Gasoducto de Extremadura, S.A. (1)	Royalties Gasoducto Al-Andalus, S.A. (1)	Connections to basic network	Total
Balance at December 31, 2015	**4,751**	**10,777**	**35,011**	**50,539**
Taken to profit and loss	(950)	(2,156)	(1,225)	(4,331)
Balance at December 31, 2016	**3,801**	**8,621**	**33,786**	**46,208**
Additions	-	-	1,126	1,126
Disposals	-	-	(746)	(746)
Taken to profit and loss	(950)	(2,155)	(1,144)	(4,249)
Balance at December 31, 2017	**2,851**	**6,466**	**33,022**	**42,339**

(1) The amounts recognized for royalties relating to Gasoducto de Extremadura, S.A. and Gasoducto Al-Ándalus, S.A. correspond to the balances pending application with respect to the contracts signed with said companies for "gas transportation rights," which are consolidated under the proportionate consolidation method applying the percentage of ownership interest held by Enagás Transporte, S.A.U. in said companies. This income is allocated and recognized on a straight-line basis up to 2020, the year in which the transportation contract terminates.

2.8 Provisions and contingent liabilities

Significant estimates and judgments

- The consolidated financial statements include all significant provisions when the Group considers that it will more likely than not have to settle the related obligations. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow of resources embodying economic benefits is considered remote.
- Provisions, which are quantified taking into consideration the best available evidence on implications of obligating events and that are re-estimated at each balance sheet date, are used to cover the specific obligations for which they were originally recognized and are partially or fully reversed when said obligations decrease or cease to exist.
- The compensation receivable from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will be received, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized. The policy followed with respect to the recognition of provisions for risks and expenses is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or liabilities, sureties and similar guarantees. They are recognized upon emergence of the liability or obligation determining the indemnity or payment.
- At year end 2017 and 2016, several legal proceedings were underway against the Group in connection with matters relating to the normal course of its activities. The Group's legal advisors and directors consider that the final outcome of these proceedings and claims will not have a significant effect on its future consolidated financial statements.

a) Non-current provisions

The movements during the period under this heading were as follows:

Non-current provisions	Beginning balance	Amounts provisioned	Revaluation/	Aplicaciones	Saldo final
Staff remuneration	7,421	3,180	(4,671)	-	5,930
Other liabilities	10,323	30	(5,366)	**(3,735)**	1,252
Dismantling	166,623	-	4,599	-	171,222
Total non-current provisions	**184,367**	**3,210**	**(5,438)**	**(3,735)**	**178,404**

The dismantling provisions correspond to 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 (Note 2.4 and Appendix III).

These provisions are updated and discounted regularly during the periods following initial recognition. The pre-tax discount rate, utilizing the last discounting carried out at December 31, 2016, was 2.76%, considering that this rate continues to reflect current market valuations with respect to the time value of money and those specific risks relating to the obligation being provisioned. A change in the discount rate of +/- 0.05% would result in change in the amount recognized for the provision of 1.81% and -1.81%, respectively.

"Staff remuneration" includes a total of 1,677 thousand euros (2016: 800 thousand euros) corresponding to the portion accrued for the long-term incentive plan aimed at executive directors and senior management payable in cash (Note 4.4), as well as the bonus payable every three years for contribution to results and corresponding to the remaining staff of the Group.

The directors of the Company consider that the provisions recognized in the accompanying balance sheet for litigation and arbitration risk as well as other risks described in this note are adequate and, in this respect, they do not expect any additional liabilities to arise other than those already recorded. Given the nature of the risks covered by these provisions, it is not possible to determine a reasonably reliable schedule of payment dates, if any.

b) Contingent liabilities

At December 31, 2017, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

3. Capital structure, financing, and finance revenue (expense)

Significant matters

Financial leverage

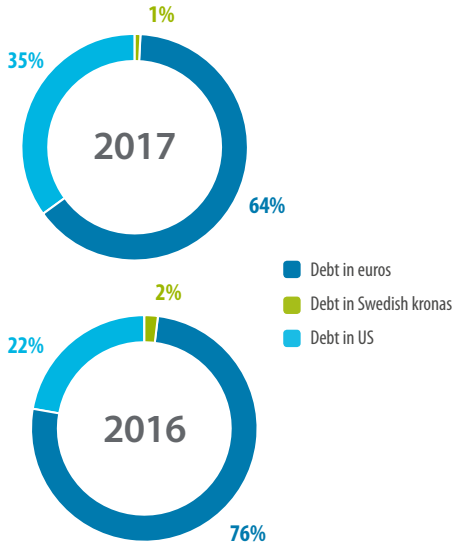
- Financial leverage at December 31, 2017 amounted to 65.9% (2016: 68.2%) (Note 3.7).
- The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative prognosis at December 31, 2017. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2017 with a stable prognosis.

Equity

- At December 31, 2017, equity had increased by 19.4% with respect to the prior year closing, amounting to 2,941 million euros.
- Share capital at December 31, 2017 amounted to 358 million euros.
- The last closing price of Enagás, S.A. shares recognized at December 29, 2017 amounted to 23.87 euros per share.
- No natural or legal person can participate directly or indirectly in an amount exceeding 5% of Enagás, S.A. share capital, or exercise rights in the Company exceeding 3% (1% for those subjects who, directly or indirectly, carry out activities in the gas sector). Said limitations are not applicable to direct or indirect interest held by the public corporate sector (Note 3.1).

Net financial debt (NFD)

- Net financial debt is the main indicator used by Management to measure the Group's debt level. At December 31, 2017 net financial debt amounted to 5,008 million euros (2016: 5,089 million euros) (Note 3.4).
- The average annual interest rate during 2017 for the Group's net financial debt amounted to 2.7% (2016: 2.4%) (Note 3.4).
- More than 80% of net financial debt accrued fixed interest rates at December 31, 2017 and 2016, while the average maturity period at December 31, 2017 amounted to 6.8 years (2016: 6.3 years) (Note 3.4).
- The main financing transactions carried out during the period were the following:
  - Early cancellation of two loans granted to Enagás, S.A. by the European Bank of Investments with a payment of 275,000 thousand euros.
  - Enagás Financiaciones, S.A.U. formalized a credit facility of 300,000 thousand euros in June 2017.
  - The contracting of credit lines in US dollars in the amount of 550 million US dollars.
- The Enagás Group increased its US dollar-denominated debt as a consequence of the consolidation of GNL Quintero debt under the full consolidation method.



Available funds

- The Group has available funds in the amount of 2,484 million euros at December 31, 2017 (2016: 2,409 million euros) (Note 3.8).

Finance expenses

- Financial and other similar expenses went from 121 million euros in 2016 to 186 million euros in 2017 mainly due to the full consolidation of GNL Quintero from January 1, 2017, as well as the cancellation of translation differences against financial results due to the exclusion of GSP from the consolidation scope (8,248 thousand euros) (Notes 1.6 and 3.5).

Finance income

- Finance income and similar income went from 14 thousand euros in 2016 to 102 million euros in 2017 mainly due to the full consolidation of Quintero from January 1, 2017 (restatement of the prior interest held and cancellation of translation differences) (Note 1.7).

Derivative financial instruments

- The Group arranges cash-flow hedges, fair value hedges, and net investment hedges. At December 31, 2017 the net fair value of the Group's derivatives (both assets and liabilities) amounts to 24 million euros of liabilities (2016: 104 million euros) (Note 3.6).

3.1 Equity

a) Share capital

At 2017 and 2016 year end, the Company's share capital amounted to 358,101 thousand euros, represented by 238,734,260 shares with a nominal value of 1.5 euros each, all of the same class, fully subscribed, and paid in.

All shares of the parent company Enagás, S.A. are listed on the four official Spanish exchanges as well as on the electronic trading market. At the closing of December 29, 2017 the quoted share price was 23.87 euros, having reached a maximum of 26.72 euros per share on June 7.

It is worth noting that, subsequent to publication of Additional Provision 31 of Hydrocarbon Sector Law 34/1998, in force since enactment of Law 12/2011, of May 27, "no natural or legal person can participate directly or indirectly in the shareholder structure of Enagás, S.A. with a stake exceeding 5% of share capital, nor exercise political rights in said parent company exceeding 3%. These shares cannot be syndicated under any circumstances." Further, "those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in said parties of more than 5%, may not exercise voting rights exceeding 1% in said parent company. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector."

At December 31, 2017 and 2016 the most significant shareholdings in the share capital of Enagás, S.A. were as follows (from the information published by the Spanish Securities Market Commission – CNMV (1) in Spanish at December 31, 2017):

	Interest in share capital (%)	
Company	12.31.2017	12.31.2016
Sociedad Estatal de Participaciones Industriales	5,000	5,000
Lazard Asset Management (2)	5,074	0,133
Bank of America Corporation	3,614	3,614
BlackRock Inc.	3,383	2,721
Fidelity international limited	1,906	2,119
State Street Corporation	3,008	1,925
Retail Oeics Aggregate	1,010	1,010

(1) The information obtained from the CNMV was based on the last notification that each entity thus obliged must send to said body, in connection with the stipulations of Royal Decree 1362/2007, of October 19 and Circular 2/2007, of December 19.

(2) After December 31, 2017, Lazard Asset Management informed the CNMV Spanish Securities Market Commission – CNMV and Enagás, SA that on February 8, 2018, they reduced their participation in the company, holding 4.63% of Enagas. S.A.

b) Treasury shares

On May 25, 2016, Enagás, S.A. finalized the process for acquiring 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 system in place and based on the terms stipulated in the long-term incentive plan and the remuneration policy for the 2016-2018 period 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 EC 2273/2003 and was subject to the terms authorized by the shareholders in general meeting on March 18, 2016. Management of the temporary treasury share repurchase program 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 (Note 4.4).

There were no more acquisitions or disposals of treasury shares during 2017.

c) Reserves

The Spanish Corporate Enterprises Act stipulates that 10% of profit for the year must be transferred to the legal reserve until it represents at least 20% of share capital. At 2017 and 2016 year end, the legal reserve was fully allocated and totaled 71,620 thousand euros.

The legal reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase. Except for this purpose, until the legal reserve exceeds the limit of 20% of capital, it can only be used to compensate losses provided there are no other reserves available.

In 2017 the Group derecognized, with a charge against reserves, the put option on Enagás Transporte del Norte, S.L., amounting to 15,600 thousand euros (Note 3.4.d) and the purchase and sales options on GNL Quintero, amounting to 39,059 thousand euros (Note 1.7).

d) Income and expense recognized directly in equity

	Beginning balance	Change in value	Taken to profit and loss	Balance at year end
2017				
Cash flow hedges	16,840	(8,546)	16,212	24,506
Tax recognized in equity	(5,396)	2,600	(3,820)	(6,616)
Translation differences	(114,511)	(7,520)	(18,575)	(140,606)
Companies consolidated using the full consolidation method	**(103,067)**	**(13,466)**	**(6,183)**	**(122,716)**
Cash flow hedges	(6,361)	(462)	4,524	(2,299)
Tax recognized in equity	2,029	123	(899)	1,253
Translation differences	181,958	(119,828)	8,248	70,378
Companies accounted for using the equity method	**177,626**	**(120,167)**	**11,873**	**69,332**
Total	**74,559**	**(133,633)**	**5,690**	**(13,327)**
2016				
Cash flow hedges	(4,787)	2,604	19,023	16,840
Tax recognized in equity	11	(651)	(4,756)	(5,396)
Translation differences	(66,437)	(48,074)	-	(114,511)
Companies consolidated using the full consolidation method	**(71,213)**	**(46,121)**	**14,267**	**(103,067)**
Cash flow hedges	(2,968)	(12,103)	8,710	(6,361)
Tax recognized in equity	1,389	2,799	(2,159)	2,029
Translation differences	131,018	53,003	(2,063)	181,958
Companies accounted for using the equity method	**129,439**	**43,699**	**4,488**	**177,626**
Total	**58,226**	**(2,422)**	**18,755**	**74,559**

3.2 Results and change in minority interests

Accounting policies

- Minority interests are those that can be attributed to shareholders who have no control over the subsidiary.
- They are recognized under equity as a line item separate from the net equity attributable to the Parent.
- In business combinations, minority interests are measured at fair value or the proportional part of assets acquired.
- The amount corresponding to minority interests relating to the change in equity of the subsidiary is attributed based on the percentage of interest held in the subsidiary.
- Changes in the percentage of ownership interest held by the Parent in the subsidiary which do not represent a loss of control are recognized as equity transactions.
- The amount corresponding to minority interests is calculated for the whole Enagás Group based on the carrying amounts of the companies in which minority interest is held. However, the amount recognized under "Changes in consolidation scope" corresponding to GNL Quintero was determined based on the fair value of the company at the date control over it was acquired, that is, January 1, 2017.

	Participation of minority interests	Beginning balance	Changes in consolidation scope	Dividends distributed	Translation differences	Appropriation of profit	Balance at year end
2017							
ETN, S.L.	10.0%	14,618	-	(689)	-	1,049	14,978
GNL Quintero, S.A.	54.6%	-	396,031	(15,364)	(40,057)	13,198	353,808
Other companies		78	116	-	-	(8)	186
Total 2017		**14,696**	**396,147**	**(16,053)**	**(40,057)**	**14,239**	**368,972**
2016							
ETN, S.L.	10%	14,435	-	(765)	-	948	14,618
Other companies	-	-	80	-	-	(2)	78
Total 2016		**14,435**	**80**	**(765)**	**-**	**946**	**14,696**

The financial information of the main subsidiaries with significant minority interests is shown below:

	2017	2016
Accumulated balances of significant minority interest		
ETN, S.L.	13,929	13,670
GNL Quintero, S.A.	340,610	-
Other companies	194	80
Total	**354,733**	**13,750**
Gains (losses) attributed to significant minority interest		
ETN, S.L.	1,049	948
GNL Quintero, S.A.	13,198	-
Other companies	(8)	(2)
Total	**14,239**	**946**

The summarized financial information of these subsidiaries is shown below. This information is based on the amounts recognized before eliminations amongst Group companies:

Condensed income statement	2017		2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Ordinary revenue	29,057	173,746	28,299
Cost of sales	(7,563)	(48,187)	(7,556)
Administrative expenses	(4,316)	(16,605)	(4,868)
Finance expenses	(3,203)	(63,973)	(3,431)
Profit before tax	**13,975**	**44,981**	**12,444**
Income tax expense	(3,480)	(13,349)	(2,965)
Profit (loss) from continuing operations	**10,495**	**31,632**	**9,479**
Total results	**10,495**	**31,632**	**9,479**
Attributable to minority interests	1,049	13,198	948
Dividends paid to minority interests	689	15,364	765

Condensed balance sheet	12.31.2017		12.31.2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Inventories, treasury, and current accounts (current)	11,147	301,383	10,928
PP&E and other non-current assets (non-current)	262,055	765,275	267,615
Suppliers and other payables (current)	7,411	32,585	7,039
Loans, credits, and deferred tax liabilities (non-current)	115,983	993,402	125,300
Total equity	**149,808**	**40,671**	**146,204**
Attributable to:			
Shareholders of the Parent	134,830	(313,137)	131,585
Minority interest	14,978	353,808	14,619

Cash flow statement	2017		2016
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.
Operating income	17,850	96,989	11,854
Investment	(921)	(14,972)	(1,104)
Financing	(15,889)	(15,364)	(11,655)
Effect of changes in consolidation methods	-	243,092	-
Effect of exchange rate fluctuations	-	(31,555)	-
Total net cash flows	**1,040**	**278,190**	**(905)**

3.3 Financial assets and liabilities

Accounting policies

Financial assets

- Financial assets are recognized in the consolidated balance sheet at the transaction date when the Group becomes party to the contractual terms of the instrument.
- Financial assets are classified under "Loans and receivables" except for the investments accounted for using the equity method (Note 1.6) and derivative financial instruments (Note 3.6).

Loans and receivables

- Items recognized under this heading are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.

Fair value measurement

- In accordance with IFRS 13, for purposes of financial disclosure, the measurement of fair value is classified as Level 1, 2, or 3, based on the degree that the inputs applied are observable and their importance in measuring fair value in its totality, as described below:
  - Level 1 – Inputs are based on quoted prices (unadjusted) for instruments of an identical nature traded in active markets.
  - Level 2 – Inputs are based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data.
  - Level 3 – Inputs are not generally observable and generally reflect estimates regarding market movements for determining the price of the asset or liability.

Trade and other payables

- Trade and other payables that do not accrue explicit interest are measured at their face value when the effect of not discounting is not significant.

a) Financial assets

Class / Categories	Equity instruments		Loans, derivatives, and other		Total	
	2017	2016	2017	2016	2017	2016
Loans	-	-	402,913	289,142	402,913	289,142
Trade and other receivables (Note 2.2)	-	-	117,947	397,351	117,947	397,351
Derivatives (Note 3.6)	-	-	22,213	16,670	22,213	16,670
Other	4,573	813	388,403	212,249	392,976	213,062
Total non-current financial assets	**4,573**	**813**	**931,476**	**915,412**	**936,049**	**916,225**
Loans	-	-	6,695	4,808	6,695	4,808
Total current financial assets	**-**	**-**	**6,695**	**4,808**	**6,695**	**4,808**
Total financial assets	**4,573**	**813**	**938,171**	**920,220**	**942,744**	**921,033**

The directors consider that the fair value of financial assets at December 31, 2017 does not differ significantly from their carrying amounts.

Loans
The amounts recognized mainly correspond to loans granted to Group companies which are consolidated under the equity method and are therefore not eliminated during the consolidation process, broken down as follows:

	Interest rate	Maturity date	12.31.2017	12.31.2016
Non-current loans to related parties			**402,892**	**289,121**
Trans Adriatic Pipeline AG	FTA + spread	July-2043	293,921	168,593
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	5.9%	December-2032	52,781	62,471
Gasoducto de Morelos, S.A.P.I. de C.V.	7.5%	September-2033	29,316	31,292
Planta de Regasificación de Sagunto, S.A.	EUR 6M + spread	June-2025	26,874	26,765
Current loans to related parties			**6,695**	**4,808**
Trans Adriatic Pipeline AG	FTA + spread	July-2043	4,188	2,128
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	5.9%	December-2032	2,495	2,672
Planta de Regasificación de Sagunto, S.A.	EUR 6M + spread	June-2025	12	8
Total			**409,587**	**293,929**

Other
Other non-current financial assets include an amount of 4,478 thousand euros (2016: 714 thousand euros) corresponding to the investment made by the Group in Economic Interest Groups (EIG) whose activity is the leasing of assets managed by another entity unrelated to the Group and which retains both the majority of profits as well as the risks related to the activities, with the Group only availing itself of the regulated tax incentives in Spanish legislation. The Company attributes the tax loss carryforwards generated by these EIGs against shares and taking into account the debt registered with the tax authorities, recognizing the corresponding finance income. The main change with respect to 2016 is due to the disbursement of pending contributions by Enagás Financiaciones during 2017.

Likewise, this heading also includes the accounts receivable for the both the corporate guarantee granted in connection with GSP financial debt as well as the guarantee for full compliance with respect to the concession agreement, executed to the Enagás Group as a consequence of the GSP concession agreement being terminated.

Both guarantees are considered to be recoverable via the net carrying amount procedure. The accounts receivable for both items, financially discounted over the 4-year recovery period, amounts to 173,258 thousand euros at December 31, 2017 (2016: 207,865 thousand euros).

Finally, as indicated in Note 1.5, this heading includes the accounts receivable from GSP for recovery of the financial investment in GSP, financially discounted with a 4-year recovery period and totaling 208,755 thousand euros.

The recognition of this amount represented a finance expense in the consolidated income statement relating to the financial discounting effect, amounting to 8,248 thousand euros.

Impairment losses on assets
During the twelve months of 2017, there were no movements with respect to the provisions which cover impairment losses of assets held by the Group.

b) Financial liabilities

Class / Categories	Borrowings from credit entities		Bonds and other marketable debt securities		Derivatives and other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial debt (Note 3.4)	1,429,236	1,657,307	4,000,662	3,106,757	5,994	21,613	5,435,892	4,785,677
Derivatives (Note 3.6)	-	-	-	-	32,845	102,969	32,845	102,969
Trade payables (Note 2.3)	-	-	-	-	73	103	73	103
Total non-current financial liabilities	**1,429,236**	**1,657,307**	**4,000,662**	**3,106,757**	**38,912**	**124,685**	**5,468,810**	**4,888,749**
Financial debt (Note 3.4)	152,883	399,439	49,864	504,985	14,262	272,535	217,009	1,176,959
Derivatives (Note 3.6)	-	-	-	-	12,994	17,280	12,994	17,280
Trade payables (*) (Note 2.3)	-	-	-	-	171,844	132,174	171,844	132,174
Total current financial liabilities	**152,883**	**399,439**	**49,864**	**504,985**	**199,100**	**421,989**	**401,847**	**1,326,413**
Total financial liabilities	**1,582,119**	**2,056,746**	**4,050,526**	**3,611,742**	**238,012**	**546,674**	**5,870,657**	**6,215,162**

(*)The breakdown of "Trade payables" does not include the amount of the Debts with Public Administrations.

The breakdown by maturities for this heading in 2017 and 2016 is as follows:

	2018	2019	2020	2021	2022 and beyond	Value adjustments and/or other transaction costs	Total
Bonds and other marketable debt securities	49,864	-	-	64,173	4,020,735	(84,246)	4,050,526
Borrowings from credit entities	152,883	546,006	121,742	121,742	646,445	(6,699)	1,582,119
Trade and other payables (*)	186,106	2,610	451	354	2,652	-	192,173
Total	**388,853**	**548,616**	**122,193**	**186,269**	**4,669,832**	**(90,945)**	**5,824,818**

(*) Does not include derivatives

	2017	2018	2019	2020	2021 and beyond	Value adjustments and/or other transaction costs	Total
Bonds and other marketable debt securities	504,985	-	-	-	3,178,331	(71,574)	3,611,742
Borrowings from credit entities	399,439	525,299	141,742	121,742	875,522	(6,998)	2,056,746
Trade and other payables (*)	446,532	17,873	483	438	2,922	-	468,248
Total	**1,350,956**	**543,172**	**142,225**	**122,180**	**4,056,775**	**(78,572)**	**6,136,736**

(*) Does not include derivatives

3.4 Financial borrowings

Accounting policies

- Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs.
- Subsequently, financial liabilities are recognized at amortized cost, except for derivative financial instruments and the yen bond which are recognized at fair value.
- Financial liabilities are derecognized when the related contractual obligations are canceled or expired.
- Options on interest held by minority shareholders are accounted for by recognizing the minority interests arising in a business combination and recognizing a financial liability against equity. The changes in fair value of the financial liability are accounted for in the consolidated income statement.

	2017	2016
Bonds and other marketable debt securities	4,050,526	3,611,742
Borrowings from credit entities	1,582,119	2,056,746
Other borrowings	20,256	294,148
Total financial debt	**5,652,901**	**5,962,636**
Non-current financial debt (Note 3.3)	**5,435,892**	**4,785,677**
Current financial debt (Note 3.3)	**217,009**	**1,176,959**

The fair value of debts owed to credit entities as well as other obligations and debt securities at December 31, 2017 is the following:

	2017	2016
Borrowings from credit entities	1,591,908	2,066,990
Bonds and other marketable debt securities	4,271,395	4,084,054
Total borrowings at fair value	**5,863,303**	**6,151,044**
Total borrowings at fair value	**5,632,645**	**5,668,488**

a) Net financial debt (NFD)

Net financial debt is the main indicator used by Management to measure the Group's debt level. It is comprised of gross debt less cash in hand:

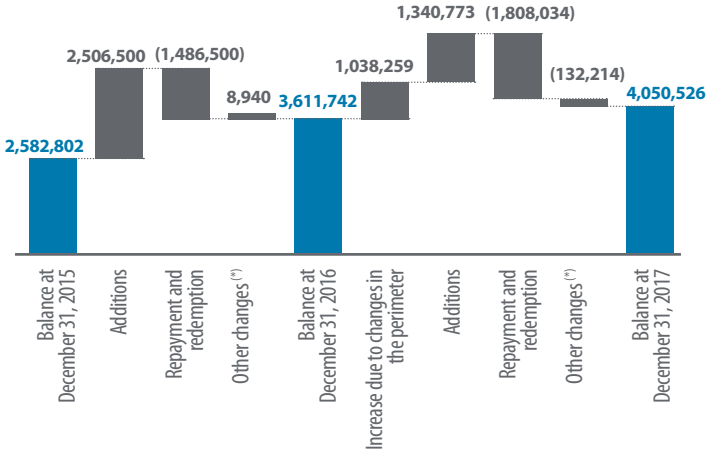
	2017	2016
Borrowings from credit entities (Note 3.3)	1,582,119	2,056,746
Bonds and other marketable debt securities (Note 3.3)	4,050,526	3,611,742
Adjustment to reflect the amortized cost of the Bonds (*)	(1,587)	(20,817)
GSP guarantees	-	221,150
Loans from the Secretariat General of Industry, Secretariat General of Energy and Omán Oil	4,509	5,336
Gross financial debt	**5,635,567**	**5,874,157**
Cash and cash equivalents (Note 3.8)	(627,864)	(785,454)
Net financial debt (NFD)	**5,007,703**	**5,088,703**

(*) Includes the adjustment to record at amortized cost the yen bond of the Enagás Group as well as the adjustment made on the GNL Quintero bond to show its fair value at the date of the business combination (January 1, 2017). As of the date of said business combination, the GNL Quintero bond is recorded at amortized cost.

The average annual interest rate during 2017 for the Group's net financial debt amounted to 2.7% (2016: 2.4%). The percentage of net financial debt at fixed interest rates at December 31, 2017 amounted to more than 80%, while the average maturity period at that date amounted to 6.8 years (2016: 6.3 years).

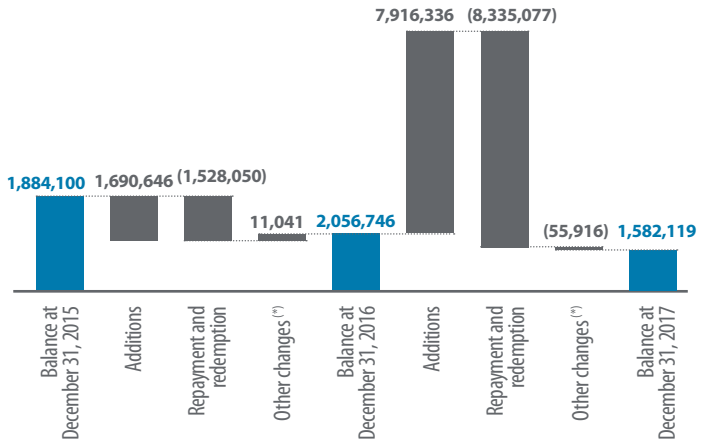
The net financial costs are determined by dividing net finance expenses by the average net debt multiplied by the number of effective days in the year (360 days) divided by the natural days of the period (365 days), where net finance expenses correspond to interest on loans and derivatives, less cash and cash equivalent income. Further, average net debt is calculated as the daily average of nominal amounts of net financial debt.

b) Bonds and other marketable debt securities



(*) Includes payment of interest, accrued interest, valuations, and other.

c) Borrowings from credit entities



(*) Includes payment of interest, accrued interest, valuations, and other.

Amongst the most significant events during 2017, the following are the most noteworthy:

- Early cancellation of two loans granted to Enagás, S.A. by the European Bank of Investments with a payment of 275,000 thousand euros.
- Enagás Financiaciones, S.A.U. formalized of a credit facility of 300,000 thousand euros in June 2017.
- The contracting of credit lines in US dollars in the amount of 550 million US dollars.

At December 31, 2017, the Group had access to credit lines in the amount of 2,260,656 thousand euros (2016: 2,067,816 thousand euros), of which 1,856,393 thousand euros had not been drawn down (2016: 1,623,755 thousand euros) (Note 3.8).

d) Other financial debt

	2017	2016
Guarantees GSP (Note 1.6)	-	221,150
Loans from the Secretariat General of Industry, Secretariat General of Energy, and Omán Oil	4,509	5,336
Options on GNL Quintero	-	39,127
Fair value of the sales option on interest held by EVE	-	17,200
Other	15,747	11,335
Total - other financial debt	**20,256**	**294,148**

At December 31, 2016, a liability of 221,150 thousand euros was recognized in connection with the GSP project, of which 154,093 thousand euros correspond to the corporate guarantee granted with respect to the companies debt and 67,057 thousand euros to the guarantee for full compliance with the concession agreement. As indicated in Note 1.6, during the month of January 2017 the financial liability relating to the GSP guarantees was canceled in the amount of 216,519 thousand euros.

Sales option on interest held by EVE
With respect to the agreement signed by Enagás Transporte, S.A.U. and EVE includes the sales option on the 10% stake held by EVE and exercisable in July 2018. Since the execution of the sales option expired in 2017, the Enagás Group has canceled, at that date, the financial liability recognized against reserves amounting 15,600 thousand euros. Said cancellation had a positive impact on financial results in the consolidated financial statements, amounting to 2,813 thousand euros at December 31, 2017.

Options on GNL Quintero
As indicated in Note 1.5 and Note 1.7, in the context of the acquisitions of 40% of GNL Quintero, in addition to the 20.40% stake already held by the Enagás Group, a sales option and a purchase option were granted on different percentages of ownership in said company. Said options were exercised on April 11, 2017 based on the terms described in Note 1.7.

3.5 Net financial result

	2017	2016
Income from associates	10,590	7,458
Income from third parties [3]	73,268	6,639
Income in cash and cash equivalents	2,259	160
Other [1]	16,259	-
Finance income	**102,376**	**14,257**
Finance and similar expenses [2]	(29,710)	(14,873)
Loan interest	(156,648)	(106,773)
Interest capitalized during construction	2,632	2,876
Other	(2,446)	(2,373)
Finance expenses	**(186,172)**	**(121,143)**
Gains (losses) on hedging instruments	**(18,123)**	**(5,644)**
Exchange gains (losses)	**1,013**	**(867)**
Net finance cost	**(100,906)**	**(113,397)**

(1) Finance income arising from the full consolidation of GNL Quintero from January 1, 2017.
(2) In 2017, 16,919 thousand euros of the cost relating to the effect of discounting the credit recognized for recovery of the guarantees provided by the Company in favor of GSP within a maximum of 4 years (2016: 13,285 thousand euros). In addition, a finance expense is also included in the amount of 8,248 thousand euros as a consequence of the cancellation of translation differences against financial results, as a consequence of excluding GSP from the consolidation scope (Note 1.6).
(3) The change with respect to 2016 is mainly due to the consolidation of GNL Quintero under the full consolidation method from January 1, 2017 (restatement of previous interest held in the company and cancellation of translation differences) (Note 1.7).

3.6 Derivative financial instruments

Accounting policies

- The Enagás Group contracts derivative financial instruments to cover its exposure to financial risk arising from fluctuations of interest rates and/or exchange rates, and does not use derivative financial instruments for speculative purposes. All derivative financial instruments are measured, both initially and subsequently, at fair value. The differences in fair value are recognized in the consolidated income statement except in the case of specific treatment under hedge accounting.
- The measurement and recognition criteria for derivative financial instruments in keeping with the different types of hedge accounting are as follows:

  a) Fair value hedges
  These instruments hedge against changes in the fair value of an asset or liability recognized, or a specific portion of said asset or liability, which can be attributed to a particular risk and can affect profit for the period.

  Changes in the fair value of a hedging instrument and changes in the fair value of hedged items attributable to the hedged risk, are recognized in the consolidated financial statements.

  b) Cash flow hedges
  These are instruments that hedge against exposure to changes in cash flows which: (i) are attributed to a specific risk associated with an asset or liability recognized, with a highly probable planned transaction or a firm commitment if the covered risk relates to exchange rates and (ii) can affect profit for the year.

  The effective portion of the changes in fair value of the hedging instrument are recognized under equity, and the gains and losses relating to the ineffective portion are recognized in the consolidated income statement. The accumulated amounts under equity are transferred to the consolidated income statement in the periods in which the hedged items affect the consolidated income statement.

  c) Hedges of a net investment in a foreign operation
  These instruments hedge the foreign currency risk arising from net investments in foreign operations.

  The hedges for net investments in transactions carried out abroad are accounted for in a similar manner to cash flow hedges, though the valuation changes in these transactions are accounted for as translation differences under "Unrealized gains (losses) reserve" in the accompanying balance sheet.

  These translation differences are taken to the consolidated income statement when the gain or loss on disposal of the hedged item occurs.

- For these derivative financial instruments to qualify as hedges, they are initially designated as such, documenting the hedging relationship as well as the risk management objective and hedging strategy for the various transactions hedged. In addition, the Group assesses the effectiveness of its hedges from inception to derecognition/discontinuation (and at least at every close). Hedges are deemed effective if it is expected, prospectively, that the changes in fair value or cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in 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, or when it is sold, or exercised, or when it no longer qualifies for hedge accounting. At that time, any accumulated gain or loss on the hedging instrument recognized in equity is retained in equity until the hedged transaction occurs.

- In accordance with IFRS 13, for purposes of presenting financial information, the measurements of fair value are classified as Level 1, 2, or 3, as indicated in Note 3.3.

Significant estimates

- The Group determined that the majority of inputs employed for determining the fair value of derivative financial instruments are classified as level 2; however, the adjustments to credit risk use inputs corresponding to level 3 for assessing credit based on credit ratings or comparable companies for evaluating the probability of a company or counterparties to the company going bankrupt. The Group evaluated the relevancy of the inputs and recognized the corresponding adjustments to credit risk for evaluation of the derivative financial instrument, which were not significant.
- Thus, the entire portfolio of derivative financial instruments is classified under level 2 of the hierarchy.

					Income and expenses recognized directly in equity		Transfers to the income statement			
Category	Type	Maturity	Notional amount	Fair value at 12.31.16	Hedging transactions	Translation differences	Changes in results	Counterparty risk and other	Other changes (*)	Fair value at 12.31.17
Cash flow hedges										
Interest rate swap	Variable to fixed	January 2017	475,000	(681)	-	-	113	-	568	-
Interest rate swap	Variable to fixed	May 2017	100,000	(217)	(3)	-	155	-	65	-
Interest rate swap	Variable to fixed	December 2019	150,000	(1,992)	(125)	-	1,326	(425)	(34)	(1,250)
Interest rate swap	Variable to fixed	January 2020	150,000	(986)	(80)	-	563	-	(264)	(767)
Interest rate swap	Variable to fixed	March 2020	65,000	(1,270)	(130)	-	396	-	282	(722)
Fair value hedges										
Cross currency swap	Fixed to variable	September 2039	147,514	16,670	-	-	-	239	(14,736)	2,173
Cobertura de inversión neta										
Cross Currency Swap	Fixed to fixed	April 2022	400,291	(102,684)	(12,898)	67,783	10,748	(2,150)	-	(39,201)
Cross Currency Swap	Fixed to fixed	May 2028	237,499	(12,419)	4,690	20,959	2,911	-	-	16,141
Total			**1,725,304**	**(103,579)**	**(8,546)**	**88,742**	**16,212**	**(2,336)**	**(14,119)**	**(23,626)**

(*) Includes interest accrued and not paid, other commissions relating to derivative financial instruments, as well as changes in the fair value of the hedging derivative.

The breakdown by maturity is as follows:

2017	2018	2019	2020	2021	2022 and beyond	Total
Derivatives	(13,000)	(12,171)	(10,680)	(9,867)	22,092	(23,626)

2016	2017	2018	2019	2020	2021 and beyond	Total
Derivatives	(17,280)	(11,612)	(11,637)	(10,352)	(52,698)	(103,579)

a) Cash flow hedges

With respect to cash flow hedges, the breakdown by period in which the related cash flows will arise is as follows:

Contracted amount (thousands of euros)	Total	2018	2019	2020 and beyond
150,000	(1,250)	(621)	(629)	-
65,000	(722)	(318)	(275)	(129)
150,000	(767)	(373)	(271)	(123)
365,000	**(2,739)**	**(1,312)**	**(1,175)**	**(252)**

Two cash flow hedges matured during 2017.

b) Fair value hedges

During 2009, the Enagás Group contracted a cross currency swap (CCS) to cover changes in the fair value of a yen-denominated bond arising from euro-yen exchange rate risk and the related interest rate risk. The fixed yen (JPY) component of this CCS covers changes in the value of the bond with respect to the specified risks. Said bond is recognized as a non-current liability under "Financial liabilities" in the consolidated balance sheet.

At the initiation date of the CCS, the principal exchange was carried out so that Enagás received 147,514 thousand euros and paid 20,000 million JPY, with the Group recognizing said item at fair value through profit and loss in the consolidated income statement. Likewise, Enagás will receive interest at a fixed rate in JPY and pay six-month Euribor until maturity. When the contract matures, Enagás will receive the principal in JPY and will return the principal in euros.

The changes in fair value experienced by the hedging instrument as well as the changes in the value of the hedged instrument are broken down as follows:

	Fair value at 12.31.16	Fair value at 12.31.17	Change (Income statement)
Valuation of the derivative (+asset/-liability)	16.670	2.173	(14.497)
Valuation of the hedged instrument (liability)	(168.332)	(153.596)	14.736
Total net amount recognized in the income statement (expense)			**239**

c) Hedges of net investments in foreign operations

The main characteristics of the two derivative financial instruments contracted as net investments hedges are the following:

Category	Contracted amount in Euros	Contracted amount in USD	Type	Maturity
Cross currency swap	400,291	550,000	Fixed to fixed	April 2022
Cross currency swap	237,499	270,000	Fixed to fixed	May 2028
Total	**637,790**	**820,000**		

The investments considered as hedged items in the aforementioned hedging relationships are the following:

Project	Investment hedged in USD
GNL Quintero, S.A.	179,989
Subgrupo Altamira LNG, C.V	52,423
TgP	587,588
Total	**820,000**

3.7 Financial risk and capital management

a) Qualitative information

The Enagás Group is exposed to certain risks which it manages with a risk control and management model which is directed towards guaranteeing achievement of the Company's objectives in a predictable manner with a medium-low risk profile. 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 materialize more quickly and the danger of contagion is evident.

The model is based on the following:

- the consideration of some standard types of risk to which the Company is exposed;
- segregation and independence of risk control and management functions articulated in three lines of "defense";
- the existence of governing bodies responsible for matters relating to risk exposure;
- Establishing a risk-prone framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the Group carries out its activities;
- transparency in the information provided to third parties, guaranteeing reliability and rigor.

The integrated analysis of all risks allows their adequate control and management, understanding the relationship amongst them and facilitating their overall assessment. Enagás has established a regulatory framework through its "Risk control and management policy" and "General risk control and management standards," which define the basic principles to be applied and identify the responsibilities of the different departments of the Company.

The risk control and management function is articulated around three lines of defense, each presenting different responsibilities:

- 1st line of defense: organizational units which assume risks in the normal course of their activities. The organizational units are responsible for identifying and measuring their respective risk exposure.
- 2nd line of defense: the Risk Department, mainly charged with ensuring the correct functioning of the risk control and management system, defining the regulatory and methodological framework while carrying out periodic supervision and global control of the Company's risk exposure.
- 3rd line of defense: the Internal Audit Department, responsible for supervising the efficiency of the established risk controls.

The governing bodies responsible for risk control and management are the followings:

- The 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: the main function is to supervise the efficacy of the risk control and management systems as well as evaluating Group risk exposure (identification, measurement, and establishment of management measures).
- Risk Committee: the main functions include establishment of global risk strategies, establishing the global risk limits, revising the level of risk exposure, and acting to correct any instances of non-compliance.

The main risks of a financial and tax nature to which the Group is exposed are as follows:

Credit risk

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Enagás Group has granted net credit which is pending settlement or collection.

Credit risk in connection with trade receivables arising from its commercial activity is historically very limited as the Group operates in a regulated environment (Note 1.1). 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 organized gas market.

The Enagás Group is also exposed to the risk of its counterparties not complying with obligations in connection with financial derivatives and placement of surplus cash balances. In order to mitigate this risk, these transactions are carried out in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of fixed-rate assets and liabilities and the future cash flows from floating-rate assets and liabilities.

The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the consolidated income statement.

Based on the Enagás Group's estimates and debt structure targets, hedges are put in place using derivatives that reduce these risks (Note 3.6).

Foreign currency risk
Changes in exchange rates during the consolidation process can affect the debt positions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses of subsidiaries that do not use the euro as functional currency, and translation differences of the financial statements for those companies whose functional currency is not the euro. With a view to mitigating said risk, the Group can avail itself of financing obtained in US dollars and Swedish kronas, as well as contracting derivative financial instruments which are subsequently designated as hedging instruments (Note 3.6). In addition, the Enagás Group tries to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies.

Liquidity risk
Liquidity risk arises as a consequence of differences in the amounts or payment and collection dates relating to the different assets and liabilities held by the Group.

The liquidity policy followed by the Enagás Group is oriented towards ensuring that all short-term payment commitments acquired are fully met without having to secure funds under burdensome terms. For this purpose, different management measures are taken such as maintenance of credit facilities ensuring flexibility, sufficient amounts and sufficient maturities, diversified sourcing for financing needs via access to different markets and geographical areas, as well as the diversification of maturities in debt issued.

The financial debt of the Group at December 31, 2017 has an average maturity of 6.8 years (Note 3.4).

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.

Other risks
Given the dynamic nature of the business and its risks, and in spite of a risk control and management system in keeping with the best international recommendations and practice, it is not possible to assure that all risks have been identified by the Enagás Group.

In addition, the internationalization 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.

b) Quantitative information

Interest rate risk
The percentage of net debt at fixed interest rates at December 31, 2017 and 2016, amounted to more than 80%.

Taking into account these percentages of net financial debt at fixed rates, and after performing a sensitivity analysis using a range of +1/-1% changes in market interest rates, the Group considers that according to its estimates the impact on results of such variations on finance costs relating to variable rate debt could be as follows:

	Interest rate change			
	2017		2016	
	25 basis points	-10 basis points	25 basis points	-10 basis points
Change in finance costs	2,709	(1,083)	2,691	(1,077)

In addition, the aforementioned changes would not produce any significant changes in the Company's equity position in connection with contracted derivatives.

Foreign currency risk
The Enagás Group mainly obtains its financing in euros, though certain financing is also obtained in US dollars, Japanese yen and Swedish kronas. The currency exposed to the greatest variations in its exchange rate is the US dollar, given that financing in yen is hedged via the use of exchange rate hedges (Note 3.6).

The exposure of the Group to changes in the US dollar/euro exchange rate is mainly determined by the effect of translating the financial statements of the companies whose functional currency is the US dollar. In addition, there are Group companies whose functional currency is the Peruvian nuevo sol and Swedish krona.

Further, the Group also holds loans denominated in US dollars granted by Enagás, S.A. to companies in which it does not control a majority stake.

The sensitivity of net profit and equity to exchange rate risk, via appreciation or depreciation of exchange rates and based on the financial instruments held by the Group at December 31, 2017, is shown below:

	Thousands of euros			
	Appreciation / (Depreciation) of Euro with respect US dollar			
	2017		2016	
	5,00%	-5,00%	5,00%	-5,00%
Impact on profit or loss after tax	3,779	(3,779)	1,166	(1,166)
Effect on equity	22,078	(22,078)	(44,409)	49,084

c) Capital management

The Enagás Group has developed capital management at a corporate level with a view to ensuring financial stability and achieving adequate financing for its investments, optimizing the cost of capital and thereby maximizing the creation of value for the shareholder while maintaining its commitment to solvency.

The Enagás Group uses its leverage ratio as an indicator for monitoring its financial situation and capital management. The ratio is defined as the result of dividing consolidated net financial debt by net consolidated assets (understood as the sum of net financial debt and consolidated own funds).

The Group's financial leverage, calculated as the ratio of net financial debt and total financial debt plus own funds at December 31, 2017 and 2016, is as follows:

	2017	2016
Net financial debt (Note 3.4)	5,007,703	5,088,703
Capital and reserves	2,585,639	2,373,681
Leverage ratio	**65.95%**	**68.2%**

The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative prognosis at December 31, 2017. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2017 with a stable prognosis.

3.8 Cash flows

Accounting policies

- Under this heading of the consolidated balance sheet the Group recognizes cash in hand, sight deposits, and other highly liquid short-term investments that can be readily converted into cash and are not exposed to the risk of changes in value.

a) Cash and cash equivalents

	12.31.2017	12.31.2016
Cash	627,864	765,453
Other cash equivalents	-	20,001
Total	**627,864**	**785,454**

"Other cash equivalents" includes those deposits that mature in the short term.

Generally, the banked cash accrues interest at rates similar to daily market rates. The deposits maturing in the short term are easily convertible into cash, and accrue interest at the going market rates. There are no significant restrictions regarding availability of cash.

b) Available funds

In order to guarantee liquidity, the Enagás Group has arranged loans and credit lines which it has not drawn down. Thus, liquidity available to the Enagás Group is broken down as follows:

Available funds	12.31.2017	12.31.2016
Cash and cash equivalents	627,864	785,454
Other available financing (Note 3.4)	1,856,393	1,623,755
Total available funds	**2,484,257**	**2,409,209**

In the opinion of the directors of the Company, its situation allows for sufficient funding to meet possible liquidity requirements in the short term considering its current obligations.

c) Reconciliation of movements in liabilities arising form financing activities and cash flows

		Borrowings from credit entities	Bonds and other marketable debt securities	Total
12.31.2016		2,056,746	3,611,742	**5,668,488**
Cash flows	Issues	7,916,366	1,340,773	**9,257,139**
	Repayment and redemption	(8,335,077)	(1,808,034)	**(10,143,111)**
	Interest paid	(21,474)	(114,220)	**(135,694)**
Without an impact on cash flows	Changes in the scope of consolidation	-	1,038,259	**1,038,259**
	Exchange rate and other adjustments	(34,442)	(17,994)	**(52,436)**
12.31.2017		1,582,119	4,050,526	**5,632,645**

4. Additional information

Significant matters

Investment property

- At 2017 year end, the Enagás Group recognized impairment losses in the amount of 5,290 thousand euros in light of the report issued by the independent expert, which determined that the recoverable amount of the investment property at December 31, 2017 amounted to 19,610 thousand euros.

Remuneration for Board of Directors and Senior Management

- Remuneration for the Board of Directors, without taking into account insurance premiums, amounted to 4,221 thousand euros (2016: 3,958 thousand euros) (Note 4.4).
- Remuneration for Senior Management, without taking into account the pension plans and insurance premiums, amounted to 3,355 thousand euros (2016: 2,875 thousand euros) (Note 4.4).

4.1 Investment property

Accounting policies

Investment property

- The cost model is applied for measuring investment property, that is, the corresponding assets are measured at acquisition cost less the corresponding accumulated depreciation and any impairment losses. However, as this heading only includes one plot of land not currently in use, it was measured at its recoverable amount, calculated as the fair value less the necessary costs for its sale.
- Market valuations carried out by the independent expert were carried out in accordance with the standards established in the Regulations of the Royal Institute of Chartered Surveyors ("RICS") and can be found in the so-called "Red Book" - Valuations Manual (RICS Valuation - Professional Standards, January 2014). Said market valuations defined by RICS are internationally recognized by advisors and accountants providing services for investors and corporations that own investment properties, as well as by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

	Balance at December 31, 2015	Impairment allowances 2016	Balance at December 31, 2016	Impairment allowances 2017	Balance at December 31, 2017
Cost [1]	47,211	-	47,211	-	47,211
Impairment	(22,241)	(70)	(22,311)	(5,290)	(27,601)
Net carrying amount	**24,970**	**(70)**	**24,900**	**(5,290)**	**19,610**

(1) Corresponds entirely to a plot of land located at km. 18 of the A-6 in Las Rozas (Madrid). At January 2, 2018, Jones Lang LaSalle España, S.A. issued a valuation report dated December 31, 2017, which concluded that the recoverable amount of the plot at that date amounted to 19,610 thousand euros (2016: 24,900 thousand euros). It is worth noting that the aforementioned independent expert's report did not include any scope limitations with respect to the conclusions reached. There are no mortgages or encumbrances of any type on said property. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

4.2 Tax matters

Accounting policies

- Income tax expense for the year is calculated as the sum of current tax, resulting from applying the corresponding tax rate to taxable income for the year (after applying any possible deductions) and any changes in deferred tax assets and liabilities.
- Income tax is recognized in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the related profits or losses were recognized.
- Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the carrying amounts of assets and liabilities and their tax bases, as well as any unused tax credits. These amounts are measured by applying the tax rate to the corresponding temporary differences or tax credits at which they are expected to be realized or settled.
- Deferred tax assets are only recognized when the Group expects sufficient future taxable profits to recover the deductible temporary differences. Deferred tax liabilities are recognized for all taxable temporary differences except for those arising from the initial recognition of goodwill.
- Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability.
- The Group offsets deferred tax assets and deferred tax liabilities corresponding to one and the same tax authority, as established in IAS 12.74.

Significant estimates

- In accordance with prevailing legislation in Spain, tax returns cannot be considered final 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. The directors of the Company consider that all applicable taxes open to inspection described in this note 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.
- The deferred tax assets were recognized in the balance sheet as the directors believe, based on the best estimate of future profits and reversals of deductible temporary differences, that it is probable that these assets will be recovered.

a) Balances with tax authorities

	2017	2016
Credit balances		
Deferred tax assets	**96,910**	**69,590**
Income tax expense	-	448
Value added tax (VAT)	15,709	24,160
	15,709	**24,608**
Debit balances		
Deferred tax liabilities	**562,154**	**297,471**
Income tax expense (1)	19,736	10,118
Value added tax (VAT)	4,765	-
Accounts payable to the Treasury for withholdings and other	30,295	31,705
Total	**54,796**	**41,823**

(1) Corresponds to companies belonging to the tax consolidation group in the amount of 15,648 thousand euros (2016: 6,418 thousands euros) and those not belonging to the tax consolidation group in the amount of 4,088 thousand euros (2016: 3,700 thousand euros).

b) Tax returns

Enagás S.A. has been the parent company of the Tax Consolidation Group 493/12 for Corporate Income tax from January 1, 2013, comprised of the following subsidiaries at December 31, 2017:

- 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.
- Infraestructuras de Gas, S.A.
- Scale Gas Solutions, S.L.
- Efficiency for LNG Applications, S.L.
- Gas to Move Transport Solutions, S.L.

The Group's remaining companies file individual tax returns in conformity with the applicable tax laws.

c) Corporate income tax

	2017	2016
Pre-tax consolidated book results	**631,166**	**538,325**
Permanent differences and consolidation adjustments [1]	(108,158)	(41,829)
Consolidated tax base	**523,008**	**496,496**
Tax rate	**25%**	**25%**
Adjusted results by tax rate [2]	130,752	124,124
Effect of applying different rates to tax base	232	2,337
Tax calculated at each country's prevailing income tax rate	-	300
Tax base	**130,984**	**126,761**
Effect of deductions	4,171	(2,423)
Effect of tax loss carryforwards not used during the period	-	99
Other adjustments to corporate income tax	(9,065)	(4,280)
Income tax for the period	**126,090**	**120,157**
Current income tax [3]	(121,192)	(121,159)
Deferred tax	12,793	11,325
Adjustments to income tax rate [4]	(17,691)	(10,323)

(1) The permanent differences mainly correspond to the elimination of the results of companies consolidated under the equity method, as well as other consolidation adjustments relating to the reconciliation of Spanish GAAP and IFRS. In order to determine income tax, a 25% rate was applied to all Spanish companies, except for those that file tax returns under the special regime of Vizcaya (Enagás Transporte del Norte, S.L.) where a 28% rate is applied.

(2) In order to determine income tax, a 25% rate was applied to all Spanish companies, except for those that file tax returns under the special regime of Vizcaya (Enagás Transporte del Norte, S.L) where a 28% rate is applied. The tax rates applicable in 2016 to the foreign companies Enagás Perú, S.A.C., Enagás Chile, S.P.A., and GNL Quintero and Enagás México, S.A. de C.V. were 28%, 24%, and 30%, respectively, while for 2017 they were 29.5%, 25.5%, and 30%.

(3) In 2017, 102,245.14 thousand euros were paid on account (2016: 110,979 thousand euros) in connection with the amount to be disbursed for settling 2017 corporate income tax, of which 96,264 thousand euros correspond to the Tax Consolidation Group (2016: 105,500 thousand euros).

(4) For comparative purposes with 2016, in 2017 the information relating to taxable income for the Economic Interest Groups (EIGs) is presented separately.

d) Tax recognized in equity

	2017			2016		
	Increases	Decreases	Total	Increases	Decreases	Total
Income and expenses recognized directly in equity						
Tax effect from cash flow hedges	2,961	(238)	2,723	3,704	(1,556)	**2,148**
Amounts transferred to income statement						
Tax effect from cash flow hedges	130	(4,849)	(4,719)	-	(6,915)	**(6,915)**
Total income tax recognized in equity	**3,091**	**(5,087)**	**(1,996)**	**3,704**	**(8,471)**	**(4,767)**

e) Years open to tax verification and inspections

In accordance with prevailing legislation in Spain, tax returns cannot be considered final 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.

In March 2017 a tax inspection was initiated by the Spanish Tax Authorities for general verification of Enagás, S.A., Enagás Transporte, S.A.U., and the Tax Consolidation Group 0493/12. The years and taxes subject to this process correspond to the corporate income tax for the years 2012 to 2015, VAT for the years 2013 to 2015, withholdings/payments on account with respect to tax on income from professional work, property taxes, and taxes levied on non-residents for the years 2013 to 2015.

At 2017 year end the verification and inspection processes were still ongoing. At any rate, the Group does not expect any additional liabilities to arise which may significantly affect its equity statement as a consequence of said verification and inspection processes.

Likewise, at 2017 year end, the inspections for 2016 and 2017 are pending with respect to applicable taxes. Additionally, in 2018 Enagás Transporte S.A.U. was notified by the Spanish Tax Authorities that a general tax inspection was being initiated with respect to the hydrocarbons tax corresponding to 2015 and 2016.

Also, notification was also received regarding the initiation of a partial verification with respect to VAT on imports and inspection of importation rights corresponding to 2016.

The Enagás Group does not expect these verification and inspection actions to give rise to any liabilities which may significantly affect the Group's equity situation.

f) Deferred tax assets and liabilities

2017	Initial value	Recognized in the income statement	Recognized in equity	Change in scope of consolidation [4]	Final value
Deductible temporary differences					
Capital grants and other	1,388	(101)	-	-	**1,287**
Limited deduction for amortization/depreciation R.D.L. 16/2012 [1]	34,119	(4,347)	-	-	**29,772**
Provisions for employee benefits	5,678	(751)	-	-	**4,927**
Asset provisions	3,906	13,031	-	-	**16,937**
Provisions for litigation and other	11,235	3,092	-	-	**14,327**
Derivatives	931	222	(776)	-	**377**
Tax loss carryforwards [5]	5,509	(11,408)	(3,280)	32,507	**23,328**
Pending deductions and other (2)	6,824	(869)	-	-	**5,955**
Total deferred tax assets	69,590	(1,131)	(4,056)	32,507	**96,910**
Accelerated depreciation/ amortization [3]	(282,683)	14,153	-	-	**(268,530)**
Derivatives	(5,882)	-	(444)	-	**(6,326)**
Amortization Property, Plant and Equiment [5]	-	15,931	27,457	(319,826)	**(276,438)**
Other	(8,906)	(1,954)	-	-	**(10,860)**
Total deferred tax liabilities	**(297,471)**	**28,130**	**27,013**	**(319,826)**	**(562,154)**
Net carrying amount	**(227,881)**	**26,999**	**22,957**	**(287,319)**	**(465,244)**

(1) Arises from the limitation to tax deductible amortization/depreciation with respect to the corporate income tax for the years 2013 and 2014. Said amortization/depreciation is recoverable from a tax point of view from 2015 on a straight line basis over 10 years.

(2) In addition, it includes the deduction to be applied from 2015 in accordance with the thirty-seventh transitory provision of Law 27/2014, by virtue of which those contributors for whom limited amortization/depreciation was applicable in 2013 and 2014 will have the right to a 5% deduction of the tax base with respect to the amounts included in the taxable income for the corresponding period.

(3) Arising from application of accelerated amortization/depreciation of certain assets for tax purposes during the period 2009-2014.

(4) Includes deferred tax assets and deferred tax liabilities integrated in the Group as a consequence of the GNL Quintero business combination on January 1, 2017 (Note 1.7).

(5) Includes deferred tax assets and liabilities of GNL Quintero, after the acquisition of control and its global consolidation dated January 1, 2017. The recognized effect in equity corresponds to the conversion differences to exchange rate at the end of the financial year 2017 these deferred tax assets and liabilities.

The Enagás Group offset deferred tax assets in the amount of 76,998 thousand euros from the Tax Group in Spain (67,059 thousand euros in 2016) against deferred tax liabilities in its consolidated statement of financial position in accordance with IAS 12.

	Final value of deferred tax assets and liabilities by nature	Offset of deferred tax assets and liabilities - Tax Group	Final value
Deferred tax assets	96,910	(76,998)	**19,912**
Deferred tax liabilities	(562,154)	76,998	**(485,156)**
Net value	**(465,244)**	-	**(465,244)**

The Enagás Group has unregistered deferred tax assets and liabilities amounting to 9,190 thousand euros and 12,664 thousand euros, respectively, at the end of 2017 (8,476 thousand euros and 18,653 thousand euros, respectively, at the end of 2016). These correspond mainly to taxable temporary differences associated with investments in companies that are accounted for using the equity method and that meet the requirements established in IFRS to apply the registration exception.

4.3 Transactions and balances with related parties

Accounting policies

- In addition to subsidiaries, associates, and joint ventures, the Group's "related parties" are considered to be its "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control as established by Order EHA/3050/2004, of September 15, and Circular 1/2008 of January 30 of the CNMV.
- 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.

Income and expenses	Directors and executives	Group employees, companies or entities	Other related parties	Total [1]
2017				
Expenses:				
Finance expenses	-	-	8,715	**8,715**
Receipt of services	-	48,604	207	**48,811**
Losses on the disposal or derecognition of assets	-	-	-	**-**
Other expenses	1,844	-	-	**1,844**
Total Expenses	**-**	**48,604**	**8,922**	**57,526**
Income:				
Finance income	-	10,590	7	**10,597**
Rendering of services	-	7,563	-	**7,563**
Gains on the disposal or derecognition of assets	-	14	-	**14**
Other income	-	3,106	-	**3,106**
Total income	**-**	**21,273**	**7**	**21,280**
2016				
Expenses:				
Finance expenses	-	-	3,853	**3,853**
Receipt of services	-	34,449	234	**34,683**
Losses on the disposal or derecognition of assets	-	-	-	**-**
Other expenses	1,632	-	-	**1,632**
Total Expenses	**1,632**	**34,449**	**4,087**	**40,168**
Income:				
Finance income	-	7,342	-	**7,342**
Rendering of services	-	14,259	-	**14,259**
Gains on the disposal or derecognition of assets	-	14	-	**14**
Other income	**-**	**3,106**	**-**	**3,106**
Total income	**-**	**24,721**	**-**	**24,721**

(1) No transactions were carried out during 2017 and 2016 with significant shareholders.

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
2017				
Guarantees for related party debts (Note 1.10)	-	24,131	-	**24,131**
Guarantees and sureties granted - other (Note 1.10)	-	8,376	130,212	**138,588**
Investment commitments (Note 1.10)	-	68,800	-	**68,800**
Dividends and other earnings distributed	58,624	-	-	**58,624**
2016				
Guarantees for related party debts (Note 1.10)	-	24,779	-	**24,779**
Guarantees and sureties granted - other (Note 1.10)	-	9,464	144,175	**153,639**
Investment commitments (Note 1.10)	-	218,289	-	**218,289**
Dividends and other earnings distributed	30,970	-	-	**30,970**

The Banco Santander Group qualified as a related party for the years 2017 and 2016.

Of the transactions disclosed in the above table, 8,679 thousand euros of finance expenses correspond to this entity for 2017 (2016: 3,853 thousand euros), including finance expenses arising out of the interest rate hedging contracts, and 130,212 thousand euros of guarantees and sureties granted at December 31, 2017 (December 31, 2016: 144,175 thousand euros).

In addition, this banking entity carried out the following transactions with the Enagás Group:

- The Enagás Group maintains a multi-currency club deal for financing purposes, in which the related party represents 9.63% of all banks participating in this financing source.
- In February 2017, Enagás, S.A. arranged a credit line denominated in US dollars in the amount of 150,000 thousand USD.
- As described in Note 2.2, on December 1 Enagás Transporte, S.A.U. ceded the credit rights recognized by sector legislation on the amount of accumulated deficit in the gas system to which it held title at December 31, 2014, amounting to a total of 354,751 thousand euros, to the Banco Santander Group.
- The directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognized in the accompanying consolidated balance sheet.

4.4 Remuneration for the Board of Directors and Senior Management

Accounting policies

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 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 with a credit to "Non-current provisions" in the accompanying balance sheet. The liability is subsequently measured at fair value at each balance sheet date, up to and including the settlement date, with changes in fair value recognized in the income statement.
- The Enagás Group used the Monte-Carlo model to evaluate this program. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the Company takes into account the fact that the dividends accrued during the plan period are not paid to the beneficiaries as they do not become shareholders of the Company until the plan has effectively been settled.

Significant estimates and judgments

- The Enagás Group estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.
- 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, 2017, the estimate is made assuming that all the objectives relating to the plan have been fully achieved

Remuneration received	Salaries	Per diems	Other items	Pension plans	Insurance premiums
2017					
Board of Directors	2,215	1,844	161	-	21
Senior management	3,162	-	128	65	21
Total	**5,377**	**1,844**	**289**	**65**	**42**
2016					
Board of Directors	2,121	1,630	206	-	111
Senior management	2,738		137	62	61
Total	**4,859**	**1,630**	**343**	**62**	**172**

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 2017 was approved in detail by the shareholders in general meeting on Saturday, March 18, 2017 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 2016-2018 long-term incentive plan approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8. In said meeting, a total of 97,455 rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

Senior management saw a new member join the team starting from October 1, 2017.

Members of Senior Management (members of the Management Committee) are equally beneficiaries of the 2016-2018 long-term incentive plan. As approved by the shareholders in general meeting, the Board has assigned them a total of 99,433 rights relating to shares as well as an incentive in cash amounting to 903 thousand euros. Said rights do not at present constitute acquisition of shares or collection of any amounts until the program has finalized, the final bonus depending on the degree to which the program objectives have been met.

Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2017, 419 thousand euros correspond to Executive Directors and 708 thousand euros to Senior Management.

The aforementioned remuneration, broken down for each member of the Board of Directors, without taking into account insurance premiums, is as follows:

	2017	2016
Mr. Antonio Llardén Carratalá, (Executive Director) [1]	1,793	1,839
Mr. Marcelino Oreja Arburúa (Executive Director) [2]	818	693
Sociedad Estatal de Participaciones Industriales (Proprietary Director)[4]	140	127
Mr. Luis García del Río (Independent Director) [3] [4]	98	-
Mr. Ramón Pérez Simarro (Independent Director) [3] [4]	37	126
Mr. Martí Parellada Sabata (External Director) [4]	148	142
Mr. Luis Javier Navarro Vigil (External Director) [4]	144	126
Mr. Jesús Máximo Pedrosa Ortega (Proprietary Director) [4]	144	126
Ms. Rosa Rodríguez Diaz (Independent Director) [4]	144	127
Ms. Ana Palacio Vallelersundi (Coordinator Independent Director) [4]	166	133
Ms. Isabel Tocino Biscalorasaga (Independent Director) [4]	157	139
Mr. Antonio Hernández Mancha (Independent Director) [4]	144	126
Mr. Luis Valero Artola (Independent Director) [4]	144	127
Mr. Gonzalo Solana González (Independent Director) [4]	144	127
Total	**4,221**	**3,958**

(1) The remuneration for the Executive Chairman in 2017 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." During 2017, the Executive Chairman received fixed remuneration in the amount of 1,000 thousand euros and variable remuneration in the amount of 540 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 135 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 totaled 1,793 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 20 thousand euros for the period. The Group has outsourced its pension commitments with respect to its executives 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, and of the total premium paid during the year, 252 thousand euros correspond to the Executive Chairman. The Executive Chairman is beneficiary of the long-term incentive 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 69,711 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the program finalizes, the final bonus depending on the degree to which the program objectives have been met.

(2) The remuneration for the CEO in 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." During 2017, the CEO received fixed remuneration in the amount of 460 thousand euros and variable remuneration in the amount of 215 thousand euros; he also received 117 thousand euros for Board membership and other remuneration in kind amounting to 26 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 totaled 818 thousand euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.2 thousand euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 167 thousand euros for the period. In addition, the CEO is beneficiary of the long-term incentive 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 program finalizes, the final bonus depending on the degree to which the program objectives have been met.

(3) On March 31, 2017 Mr. Ramón Pérez Simarro resigned as director and Mr. Luis García del Río occupied his position.

(4) The remuneration for these directors relating to Board and committee membership 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."

Share-based payments

On March 18, 2016, the Enagás, S.A. shareholders in general meeting approved a long-term incentive plan aimed at executive directors and senior management of the Company and its Group, with a view to maximizing 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, the total number to be delivered will be 307,643 shares. The cash part of the plan is limited to an estimated maximum payment of approximately 2.5 million euros should all the objectives be fully met.

The portion to be settled in Enagás, S.A. shares accrued during 2017 is included in the consolidated income statement under "Employee benefits expense" in the amount of 2,206 thousand euros (2016: 1,959 thousand euros), with a credit to "Other equity instruments" under consolidated equity in the consolidated balance sheet at December 31, 2017.

With respect to that part of the bonus payable in cash, the Enagás Group recognized the rendering of services corresponding to this plan as an employee benefits expense amounting to 877 thousand euros (2016: 800 thousand euros), with a credit to "Provisions" under non-current liabilities in the consolidated balance sheet at December 31, 2017.

At December 31, 2017, the estimate is made assuming that all the objectives relating to the plan have been fully achieved.

4.5 Other information on the Board of Directors

The information included below as required by article 229 and subsequent of the Spanish Corporate Enterprises Act was prepared considering that they are companies with similar or complementary activities to those carried out by Enagás, that is, natural gas transport, regasification, distribution, and marketing activities regulated by Law 34/1998 of the Hydrocarbons Sector.

The interest held in companies performing the same, similar or complementary activities as communicated to the Group by the Board members at December 31, 2017 and 2016 was as follows:

Board member	Company	No. of shares	% shareholding
2017			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega [1]	Iberdrola	8,508	0.00%

(1) Via the company Inversores Asfis, for which it acts as solidary director, with a 60% stake.

Board member	Company	No. of shares	% shareholding
2016			
Mr. Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr. Jesús Máximo Pedrosa Ortega	Iberdrola	3,851	0.00%
Mr. Jesús Máximo Pedrosa Ortega [1]	Iberdrola	8,508	0.00%

(1) Via the company Inversores Asfis, for which it acts as solidary director, with a 60% stake.

The positions or functions of the Group's Board members in other companies with the same, similar or complementary activities, as communicated to Enagás, S.A. at December 31, 2017 and 2016, were the following:

Board member	Company	Position
2017		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V..	Board Member
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member
2016		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V..	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member

There are no activities of the same, similar or complementary nature to those carried out by Enagás which are performed by its Board members, on their own behalf or on behalf of third parties, not included in the above section.

At 2017 year end, neither the members of the Board of Directors of the Company nor any parties related to them, as defined in article 229 of the Spanish Enterprises Act, had notified the remaining Board members of any conflicts of interest, direct or indirect, with those of the Company.

4.6 Other information

a) Environmental information

The Enagás Group carries out the activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources as part of its environmental management in order to mitigate the impact of its activities.

The Group has integrated protection of the environment within its policy and strategic programs via implementation of an Environmental Management System developed and certified by LLOYD'S, in accordance with the requisites of standard UNE EN ISO 14001, which guarantees compliance with applicable environmental legislation and continuous improvement of its environmental behavior with respect to the activities it carries out in the LNG storage and regasification plants of Barcelona, Cartagena, Huelva, and Quintero (Chile), the underground storage facilities of Serrablo, Gaviota, and Yela, the basic gas pipeline network installations, the Olmos headquarters, the Zaragoza laboratory, and management of development projects for new infrastructure.

In 2017, the certifying company LLOYD'S (SGS - Quintero) issued the corresponding audit report on the Environmental Management System with favorable results, concluding that the system's maturity and degree of development ensure continuous improvement for the Company in this field.

The Enagás Group makes ongoing efforts to identify, characterize, and minimize the environmental impact of its activities and installations, evaluating the related risks and strengthening eco-efficiency, responsible management of waste and discharges, minimizing the impact in terms of emissions and climate change.

In addition, the Group incorporates environmental criteria in its relationship with suppliers and contractors, as well as in connection with decision-making with respect to the awarding of contracts for the provision of services and products.

During 2017, environmental actions were carried out in the amount of 5,288 thousand euros, recognized as investments under assets in the consolidated balance sheet (2016: 11,084 thousand euros). In addition, the Company also assumed environmental expenses amounting to 2,422 thousand euros in 2017, recognized under "Other operating expenses" (2016: 1,853 thousand euros).

The Group has arranged sufficient civil liability insurance to meet any possible contingencies, compensation and other risks of an environmental nature which it might incur.

The Group did not benefit from any tax incentives during 2017 as a consequence of activities relating to the environment.

b) Greenhouse gas emission rights

Some of the Enagás Group's installations are included within the scope of Law 1/2006 of March 9, which regulates the commercial regime for greenhouse gas emission rights.

On November 15, 2013, the Council of Ministers approved the final assignation of free greenhouse gas emission rights to institutions subject to the greenhouse gas emission allowance trading regime for the period 2013-2020, amongst which the Enagás Transporte, S.A.U. installations are included.

The total free rights assigned definitively to the Enagás Group's installations amounted to 985,915 rights for the 2013-2020 period, with 53,811 corresponding to 2017 and 90,224 to 2016.

Within the Group, the rights assigned for 2017 and 2016, were valued at 6.11 euros/right and 8.04 euros/right, respectively, corresponding to the spot price of the first business day in 2017 and 2016 from RWETrading GMBH, which represents additions during the period amounting to 329 thousand euros (2016: 639 thousand euros).

The Enagás Group consumed 154,647 greenhouse gas emission rights during 2017 while 133,878 rights were consumed during 2016.

During 2017 the Enagás Group did not engage in any negotiations for future contracts relating to greenhouse gas emission rights, nor were there any contingencies relating to penalties or provisional cautionary measures in the terms established by Law 1/2005.

c) Audit fees

"Other operating expenses" includes the fees for audit and non-audit services provided by the auditor of the Group, Ernst & Young, S.L., or by a company belonging to the same network or related to the auditor, broken down as follows:

Categories	2017		2016	
	Services rendered by the auditor of accounts and related companies	Services rendered by other auditors of the Group	Services rendered by the auditor of accounts and related companies	Services rendered by other auditors of the Group
Audit services [1]	1,259	95	712	89
Other assurance services [2]	229	-	239	-
Total audit and related services	**1,488**	**95**	**951**	**89**
Other services rendered [3]	-	-	140	-
Total other professional services	**-**	**-**	**140**	**-**
Total professional services	**1,488**	**95**	**1,091**	**89**

(1) Audit Services: This heading includes services rendered for the performance of statutory audits of the Group's annual financial statements and the limited review work performed with respect to the interim and quarterly consolidated financial statements as well as the Certification of the Financial Information Control System (CFICS). For comparative purposes, fees corresponding to GNL Quintero were included in 2017.

(2) Other audit-related assurance services: This heading includes the work relating to the Annual Corporate Governance Report, the review of non-financial information included in the Annual Report, the audit reports for issuing Comfort letters, as well as the issuing of a Quarterly Report on Agreed-Upon Procedures for Alternative Performance Measures.

(3) Other professional services rendered: This heading includes other professional services rendered by the auditor and qualified as permitted services under Law 22/2015.

4.7 Segment reporting

Accounting policies

Basis of segmentation

- Segment reporting is structured based on the Group's various business lines as described in Note 1.1. 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.

a) Main business segments

Regulated activities – Infrastructure activity

Gas transportation: The main activity consists in the delivery of gas via its transport network, comprised of primary transport pipelines (with maximum design pressure equal to or greater than 60 bars) and secondary transport pipelines (with maximum design pressure ranging from 16 to 60 bars) up to the distribution points, as owner of most of the gas transportation network in Spain.

Regasification: The gas is transported from the producing countries in methane tankers at 160ºC below zero in its liquid state (LNG) and is unloaded at the regasification plants where it is stored in cryogenic tanks. At these installations, via a physical process which normally makes use of vaporizers with sea water, the temperature of the liquefied gas is increased until it is transformed into its gaseous state. The natural gas is injected into the gas pipelines for transportation to the whole peninsula.

Storage of gas: The Enagás Group operates the following underground storage facilities: Serrablo (located between Jaca and Sabiñánigo - Huesca), Gaviota (off-shore storage, located close to Bermeo - Vizcaya), and Yela (Guadalajara).

Regulated activities - Technical Systems Manager Activity

The Enagás Group continued carrying out its functions as Technical Systems Manager in 2017 in compliance with Royal Decree 6/2000 of June 23 and Royal Decree 949/2001 of August 3, with a view to guaranteeing supply continuity and safety, as well as the correct coordination amongst the access, storage, transportation, and distribution points.

Non-regulated activities

This item includes all non-regulated activities as well as transactions related to investments in associates and jointly controlled entities, except for those corresponding to BBG, Saggas, MIBGAS e Iniciativas del Gas, S.L.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transport and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively).

The structure of this information is designed as if each business line were an autonomous business with its own independent resources which are distributed based on the assets assigned to each line in accordance with an internal cost distribution system by percentages.

	Infrastructures		Technical Systems Management		Non-regulated activities [3]		Adjustments [1]		Total Group	
Income statement	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Operating revenue										
Third parties	1,170,280	1,173,615	23,984	23,966	179,640	2,381	-	-	**1,373,904**	**1,199,962**
Group companies	8,489	8,967	1,890	1,672	66,763	78,990	(66,472)	(72,075)	**10,670**	**17,553**
Depreciation and amortization allowances	(245,993)	(251,054)	(8,642)	(9,688)	(64,611)	(10,919)	153	145	**(319,093)**	**(271,516)**
Operating profit (loss) [4]	644,740	673,172	(765)	(824)	81,292	(19,957)	6,805	(669)	**732,072**	**651,722**
Finance income	16,456	1,937	-	10	522,176	432,821	(436,256)	(420,511)	**102,376**	**14,257**
Finance expense	(51,102)	(53,321)	(276)	(97)	(181,050)	(118,237)	46,256	50,512	**(186,172)**	**(121,143)**
Income tax	(148,144)	(148,823)	330	234	21,648	28,267	76	165	**(126,090)**	**(120,157)**
After tax profit	461,117	468,270	(711)	(677)	413,550	320,133	(383,119)	(370,504)	**490,837**	**417,222**

	Infrastructures		Technical Systems Management		Non-regulated activities [3]		Adjustments [1]		Total Group	
Balance de situación	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Total assets	5,821,771	6,887,426	71,174	59,092	8,419,727	8,105,135	(4,740,036)	(5,870,745)	**9,572,636**	**9,180,908**
Acquisition of assets	34,347	71,584	5,755	8,993	12,729	9,789	(420)	(814)	**52,411**	**89,552**
Non-current liabilities [2]	437,016	454,658	(1,239)	(1,180)	268,916	5,875	1,206	1,634	**705,899**	**460,987**
Deferred tax liabilities	221,036	239,204	(1,725)	(1,735)	264,639	(8,691)	1,206	1,634	485,156	230,412
Provisions	173,641	169,246	486	555	4,277	14,566	-	-	178,404	184,367
Other non-current liabilities	42,339	46,208	-	-	-	-	-	-	42,339	46,208
Current liabilities [2]	668,295	1,039,621	43,279	31,853	60,502	45,390	(565,172)	(952,985)	**206,904**	**163,879**
Trade and other payables	668,295	1,039,621	43,279	31,853	60,502	45,390	(565,172)	(952,985)	**206,904**	**163,879**

(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted) as well as the elimination of Investments - Own Funds.

(2) Financial liabilities are not included.

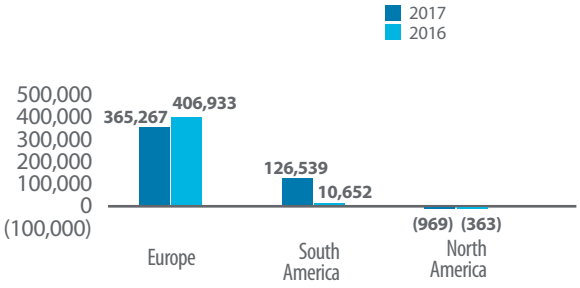
(3) From January 1, 2017 GNL Quintero, S.A. is consolidated under the full consolidation method.

(4) The consolidated income statement at December 31, 2016 has been restated, in accordance with the change in presentation described in Note 1.2 to the accompanying consolidated financial statements.

b) Segments by geographical information

The majority of companies in the Enagás Group operating outside Europe were consolidated under the equity method, with the corresponding expenses and income thus recognized under "Profit/(loss) from investments consolidated under the equity method" in the consolidated income statement. In view of this, the information relating to geographical markets is based on net revenue.

The distribution of consolidated results for 2017 and 2016, broken down by geographical markets, is as follows:



4.8 Inventories

As established in Order IET/2736/2015 of December 17: "From October 1, 2016, the quantity of working gas is zero." At December 31, 2015, the Enagás Group, as Technical Systems Manager, maintained control of approximately 755 GWh of working gas necessary for enabling operation of the gas system as established in the fifth additional provision to Order ITC/3863/2007 of December 28. This gas is not reflected in the consolidated financial statements as it is gas available for the System and therefore not owned by the Enagás Group.

4.9 Subsequent events

From January 1, 2018, up to the date of preparation of these Consolidated Annual Accounts, no events have occurred that significantly affect the results of the Group or its financial position.

5. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (Note 1.2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I.
Subsidiaries at December 31, 2017

Subsidiaries	Country	Activity	% of ownership interest and voting rights controlled by the Enagás Group	Amount of share capital in functional currency
Enagás Transporte, S.A.U.	Spain	Regasification, storage, and transportation of gas	100.00%	532,089,120 euros
Enagás GTS, S.A.U.	Spain	Technical Management of the Gas System	100.00%	5,914,451 euros
Enagás Internacional, S.L.U.	Spain	Holding	100.00%	125,659,767 US dollars
Enagás Financiaciones, S.A.U.	Spain	Financial management	100.00%	890,000 euros
Enagás Transporte del Norte S.L.	Spain	Gas transport	90.00%	38,501,045 euros
Compañía Transportista de Gas Canarias, S.A.	Spain	Regasification and storage of gas	100.00%	900,000 euros
Enagás Chile, S.P.A.	Chile	Holding	100.00%	383,530,442 US dollars
Enagás México, S.A.	Mexico	Holding	100.00%	2,696,486 US dollars
Enagás Perú, S.A.C.	Peru	Holding	100.00%	7,154,428 US dollars
Enagás USA, LLC	USA	Holding	100.00%	1,450,000 US dollars
Infraestructuras de Gas, S.A.	Spain	Holding	85.00%	340,000 euros
Enagás Emprende, S.L.	Spain	Holding	100.00%	600,000 euros
Terminal Bahía de Quintero, SpA.	Chile	Holding	51.90%	5,200 US dollars
Efficiency for LNG Aplications, S.L.	Spain	Development of industrial projects and activities relating to the GNL terminals	92.00%	90,000 euros
Scale Gas Solutions, S.L.	Spain		90.00%	64,920 euros
GNL Quintero, S.A.	Chile	Reception, unloading, storage, and regasification of LNG	45.40%	114,057,777 US dollars
Terminal de Valparaíso, S.A.	Chile	Holding	100.00%	347,615,214 US dollars
Gas to Move Transport Solutions, S.L.	Spain	Development of industrial projects and activities relating to the GNL terminals	82.00%	99,000 euros

Appendix II. Business combinations, joint operations, and associates

					Thousands of euros (1)		Net carrying amount in functional currency		
Company	Country	Activity	%	% of voting rights controlled by the Enagás Group	Net carrying amount	Dividends received	Thousands of euros	Thousands of US dollars	Thousands of Swedish kronas
Joint operations									
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	66.96%	66.96%	15,183	12,363	15,183	-	-
Gasoducto Extremadura, S.A.	Spain	Gas transport	51.00%	51.00%	5,392	7,662	5,392	-	-
Joint ventures									
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	50.00%	50.00%	54,884	4,000	54,884	-	-
Subgrupo Altamira LNG, C.V. (3)	Holland (4) / Mexico	Holding/ Regasification	40.00%	40.00%	46,878	3,248	-	52,423	-
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	50.00%	50.00%	14,576	-	-	16,205	-
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	50.00%	50.00%	3	3,578	-	4	-
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	50.00%	50.00%	9,933	-	9,934	-	-
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	50.00%	50.00%	2	-	-	2	-
Compañía Operadora de Gas del Amazonas, S.A.C.	Peru	Operation and maintenance	51.00%	51.00%	20,605	-	-	23,995	-
Tecgas, Inc.	Canada	Holding	51.00%	51.00%	1,120	-	-	1,191	-
EC Soto la Marina O&M SAPI de CV	Mexico	Operation and maintenance	50.00%	50.00%	1	-	-	2	-
Morelos O&M, S.A.P.I de CV	Mexico	Operation and maintenance	50.00%	50.00%	36	-	-	39	-
Subgrupo Swedegas (4)	Sweden	Gas transport	50.00%	50.00%	86,665	7,540	-	-	98,447
Iniciativas de Gas, S.L. (5)	Spain	Holding	60.00%	60.00%	46,648	-	46,648	-	-
Planta de Regasificación de Sagunto, S.A. (5)	Spain	Storage and regasification	72.50%	72.50%	1,500	19,575	1,500	-	-
Vira Gas, SL	Spain	Development and commercialization of technological activities	49.00%	49.00%	209	-	209	-	-
Associates									
Transportadora de gas del Perú, S.A.	Peru	Gas transport	28.94%	28.94%	487,451	74,926	-	629,450	-
Trans Adriatic Pipeline, A.G. (2 y 3)	Switzerland (2 and 3)	Gas transport	16.00%	16.00%	148,803	-	179,784	-	-
Mibgas Derivatives, S.A.	Spain	Operation of organized gas market	28.34%	28.34%	432	-	432	-	-
Mibgas, S.A.	Spain	Operation of organized gas market	13.34%	13.34%	417	-	417	-	-

1) For those companies whose local currency is different to that of the Group, the euro (Note 1.3), the "net carrying amount" of the financial investment is shown in historic euros and includes the capitalized acquisition costs. The euros corresponding to "dividends received" are translated at the exchange rate corresponding to the transaction date.

(2) This company has three permanent establishments: in Greece, Italy, and Albania.

(3) Both companies are owned together with other international industrial partners. Their activity consists in the development and operation of infrastructure projects, such as the regasification plant already operational in Altamira and the TAP trans-adriatic gas pipeline project (declared Project of Common Interest by the European Union).

(4) The Group holds a 50% stake in the Swedish company Knubbsäl Topholding AB together with Fluxys Europe BV. This company in turn indirectly holds a 100% stake in Swedegas AB, operator of the Swedish gas system.

(5) Iniciativas de Gas, S.L. and Infraestructuras de Gas, S.L. each hold a 50% stake in Planta de Regasificación de Sagunto Gas, S.A. Both companies are in turn investees of the Enagás Group, which holds a 60% stake and an 85% stake in them, respectively. Thus, the indirect interest held by the Enagás Group in Planta de Regasificación de Sagunto Gas, S.A. amounts to 72.50%. The dividend distribution is carried out by Planta de Regasificación de Sagunto Gas, S.

Balance sheet figures 2017

Company	Thousands of euros								
	Investee figures [1][2]								
	Assets			Equity		Liabilities			
	Non-current	Current		Other results	Remaining equity	Non-current		Current	
		Cash and cash equivalents	Other current assets			Financial liabilities	Other liabilities	Financial liabilities	Other liabilities
Gasoducto Al-Andalus, S.A.	22,876	17,252	5,271	-	37,885	-	-	-	7,514
Gasoducto de Extremadura, S.A.	10,279	8,511	3,463	-	19,287	-	-	-	2,966
Bahía de Bizkaia Gas, S.L.	239,584	27,664	15,049	(4,711)	77,770	164,712	23,814	15,201	5,510
Subgrupo Altamira LNG, C.V.	299,098	11,449	15,404	170	153,806	67,264	62,216	33,140	9,356
Gasoducto de Morelos, S.A.P.I. de C.V.	269,821	21,564	45,254	(2,434)	24,497	132,697	63,079	5,250	113,549
Morelos EPC, S.A.P.I. de C.V.	(42)	3,615	30,610	-	23,913	-	-	-	10,271
EC Soto La Marina SAPI de CV	75,364	3,227	2,495	-	12,128	-	2,826	55,270	10,862
EC Soto La Marina EPC SAPI de CV	-	41	11,365	-	(2,031)	-	-	42	13,395
Transportadora de gas del Perú, S.A.	1,157,739	104,751	73,785	-	293,265	881,771	101,074	7,927	52,237
Trans Adriatic Pipeline, A.G.	2,758,971	44,133	62,072	(1,818)	661,414	1,863,105	61,811	-	280,664
Compañía Operadora de Gas del Amazonas, S.A.C.	1,669	9,131	14,347	-	5,888	-	-	-	19,259
Vira Gas, S.L.	251	102	142	-	392	-	-	-	104
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	2,229	174	711	-	159	2,215	-	1	739
Morelos O&M, S.A.P.I de CV	142	735	111	-	199	-	-	-	789
Subgrupo Swedegas	637,365	16,460	9,147	(7,693)	155,440	395,955	112,513	-	6,757
Iniciativas de Gas, S.L.	986	631	-	-	1,611	-	-	-	6
Planta de Regasificación de Sagunto, S.A.	302,392	22,572	37,658	(5,950)	60,102	252,343	25,830	25,546	4,750
Mibgas, S.A.	776	1,732	33,613	-	3,347	-	-	31,715	1,060

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2017

Company	Thousands of euros						
	Figures for investee[1][2]						
	Income statement						
	Revenue	Depreciation and amortization	Interest income	Interest expense	Income tax	Other expenses and income	Net profit/ (loss)
Gasoducto Al-Andalus, S.A.	39,602	(7,251)	-	-	(6,241)	(7,296)	18,813
Gasoducto de Extremadura, S.A.	26,129	(3,185)	-	-	(4,209)	(6,007)	12,728
Bahía de Bizkaia Gas, S.L.	55,893	(13,969)	141	(9,320)	(5,136)	(17,008)	13,209
Subgrupo Altamira LNG, C.V.	67,969	(13,223)	89	(4,724)	(11,631)	(15,172)	23,307
Gasoducto de Morelos, S.A.P.I. de C.V.	36,559	(13,103)	-	(11,692)	4,738	(13,111)	3,391
Morelos EPC, S.A.P.I. de C.V.	15,753	-	-	-	(4,133)	(970)	10,650
EC Soto La Marina SAPI de CV	11,588	(5,436)	1,319	(3,691)	2,701	20,667	27,148
EC Soto La Marina EPC SAPI de CV	-	-	864	(193)	(3,200)	10,444	7,914
Transportadora de gas del Perú, S.A.	598,653	(84,466)	638	(62,884)	(82,879)	(181,470)	187,591
Trans Adriatic Pipeline, A.G.	-	640	8	(297)	(3,202)	24,928	22,077
Compañía Operadora de Gas del Amazonas, S.A.C.	104,116	(630)	39	-	(1,029)	(100,343)	2,153
Tecgas, Inc.	-	-	-	-	-	N,D,	N,D,
EC Soto la Marina O&M S.A.P.I. de C.V.	2,592	-	-	(13)	(31)	(2,481)	67
Morelos O&M, S.A.P.I de C.V.	2,356	(8)	-	-	(147)	(2,074)	126
Subgrupo Swedegas	42,631	(13,658)	-	(9,886)	(846)	(15,522)	2,718
Iniciativas de Gas, S.L.	-	-	13,500	-		(70)	13,430
Planta de Regasificación de Sagunto, S.A.	77,017	(21,108)	388	(12,586)	(5,853)	(20,010)	17,849
Vira Gas, S.L.	134,345	-	-	-	-	(126,063)	8,282
Mibgas, S.A.	4,113	(45)	-	-	(117)	(3,801)	150

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the income statement figures were translated at the average exchange rate for the reporting period.

Balance sheet figures 2016

Company	Thousands of euros								
	Investee figures [1][2]								
	Assets			Equity		Liabilities			
	Non-current	Current		Other results	Remaining equity	Non-current		Current	
		Cash and cash equivalents	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 Valparaiso, 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 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 provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2016

Company	Thousands of euros						
	Figures for investee[1][2]						
	Income statement						
	Revenue	Depreciation and amortization	Interest income	Interest expense	Income tax	Other expenses and income	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.P.I. de C.V.	33,158	(11,957)	-	(12,754)	(1,784)	(6,321)	342
Morelos EPC, S.A.P.I. 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 Valparaiso, S.A.	10,993	-	-	-	-	4	10,997
EC Soto La Marina S.A.P.I. de C.V.	11,463	(4,459)	-	(3,828)	192	(5,294)	(1,926)
EC Soto La Marina EPC S.A.P.I. 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 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.P.I. de C.V.	3,631	-	-	-	(59)	(3,489)	83
Morelos O&M, S.A.P.I 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 provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the income statement figures were translated at the average exchange rate for the reporting period.

Appendix III. Regulatory framework

a) Income from regasification, storage, and transport activities

The regulatory framework for these activities applicable from 2002, based on Law 34/1998 of October 7, of the Hydrocarbons Sector, and later developments of said law, was updated subsequent to Royal Decree Law 8/2014 of July 4 becoming effective, approved by Parliament and subsequently passing into legislation, finally published as Law 18/2014 of October 15, on approving urgent measures for growth, competitiveness, and efficiency.

The bases of the new remuneration scheme are as follows:

- The principle of economic and financial sustainability of the gas system is established as a guiding principle for actions conducted by Public Administrations and other subjects participating in the gas system. By virtue of said principle, any regulatory measure with respect to the sector which involves an increased cost for the gas system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium in the system. In this manner, the possibility of deficits accumulating is definitively eliminated.

  This principle is reinforced with the establishment of restrictions relating to the appearance of temporary annual imbalances, establishing a rebalancing mechanism via the obligation for automatic reviews of the corresponding tolls and royalties if certain limits are exceeded. The limits introduced allow for overruns provoked by temporary circumstances or the volatility for gas demand, which can be reversed in the following period without any need to modify tolls and royalties, while at the same time guaranteeing that imbalances may not arise which put the financial stability of the system at risk.

  The temporary mismatches which arise subsequent to the present Royal Decree Law becoming effective, without exceeding the aforementioned limits, will be financed by all participants in the settlement system based on the collection rights they generate.

  This principle of economic and financial sustainability must be understood in such a manner that income collected in connection with use of the installations can cover the totality of costs generated by the system. The regulated remuneration methodologies in the natural gas sector consider the necessary costs for a company to manage its activities well and efficiently in accordance with the principle for performing its activities at the lowest cost for the system.

- Regulatory periods of six years are fixed to establish the remuneration of regulated activities, providing regulatory stability for said activities. The first regulatory period terminates on December 31, 2020. From January 1, 2021, the subsequent consecutive regulatory periods will each last six years.

  Should there be significant variations in terms of income and costs, adjustments can be made every three years with respect to the remuneration parameters of the system, such as the unit reference values relating to clients, sales, operation and maintenance costs, improved productivity factors, etc.

- The remuneration system for transportation, regasification, and storage installations was established under harmonized principles adapting the net carrying amount of the asset as a basis for calculating remuneration for the investment, and likewise includes variable remuneration based on transported, regasified, or stored gas, depending on the type of asset, and any automatic review procedure for remuneration values and parameters in connection with price indices are eliminated.

- Accumulated deficit at December 31, 2014. The amount corresponding to the accumulated system deficit at December 31, 2014 is determined in the definitive settlement for 2014. The participants in the settlement system have the right to recover the annual amounts relating to said accumulated deficit in the settlements corresponding to the following 15 years, recognizing market based interest rates. On December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights for the accumulated deficit at December 31, 2014 (Note 2.2).

- In order to limit any further increase in the deficit, when the annual mismatch between income and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the recognized annual amounts pending payment exceeds 15%, the tolls and royalties 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.

- Remuneration is comprised of a fixed portion for availability of the installation and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization/depreciation, and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.

Inclusion of the variable portion for supply continuity in the remuneration for the installations balances income and system costs by linking part of said costs to the changes in demand.

This portion is based on the total changes in domestic consumption of natural gas, excluding supply through satellite plants, with respect to the prior year in the case of transport installations, of the change in demand for regasified gas in all the plants operating in the system in the case of regasification installations, and the change in useful gas held at the storage facilities, at November 1 of the corresponding year and including cushion gas mechanically extracted of the latter.

Remuneration for supply continuity is divided amongst all the installations based on the weighting of their replacement value with respect to all installations relating to the activity, calculating said values by applying the unit investment values prevailing for each year.

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.

a.1) Accredited fixed cost Remuneration for Availability (RA)
This cost is determined individually for each of the assets in production. This parameter compensates the investment and operating costs of the assets used for operating in the gas system.

a.1.1. Remuneration for investment costs is comprised of the following:

- Value of assets recognized. The amounts recognized for assets in the previous regulatory framework are maintained. For installations put to use before 2002, the corresponding amounts are calculated based on the carrying amounts of the assets once the accounting restatement of 1996 is taken into account (Royal Decree Law 7/1996), less grants received for the purpose of financing said assets, applying a restatement coefficient comprised of the adjusted average Consumer Price Index (CPI) and Industrial Price Index (IPI) to this difference.

  For the new installations put to use from 2002, the standard value of each investment as established by the regulator is used, while for those which require expansion, the real cost is used.

  Given that for investments in underground storage facilities there are no standard values, they are also measured at real cost.

  Transport installations put to use from 2008 are measured by taking the average of the standard value and real cost.

  Regasification installations put to use from 2006 are measured at real cost plus 50% of the difference between the standard value and said real cost, up to a maximum of the standard value.

- Remuneration for amortization/depreciation of system assets. The value of the resulting amount recognized for the investment is amortized/depreciated applying a rate corresponding to its useful life, obtaining the related income in this manner.

  The new framework maintains the useful lives of the assets except for gas pipelines, which are attributed a useful life of 40 years for all installations, regardless of when they were put to use.

- Financial remuneration of the amount invested.
  This item is calculated by applying a financial remuneration rate to the net carrying amounts of the assets without restatement. During the first regulatory period, the remuneration rate for assets relating to transport, regasification, and basic storage with a right to remuneration on account of the gas system will be the average of the returns generated by the ten-year government bonds in the secondary market amongst titleholders of unsegregated accounts with respect to the previous 24 months preceding the regulation becoming effective, increased by a spread of 50 basis points. The financial remuneration rate for the regulatory period was set at 5.09% (ratified by Law 8/2015, of May 21).

- Remuneration for fully amortized/depreciated assets.
  Once the regulatory useful life of each asset finalizes, if the asset is still in use, the remuneration accrued for said installation corresponding to remuneration for investment, depreciation, and financial remuneration will be nil.

  In contrast, remuneration for operation and maintenance of the asset "i" each year "n" will be increased. In this manner, the value recognized will be the amount corresponding to it multiplied by a coefficient for increasing its useful life, μin.

This parameter will have the following values:

- During the first five years in which the regulatory useful life has been exceeded: 1.15
- When the regulatory useful life has been exceeded by 6 to 10 years, the value of the coefficient for extending the useful life will be: 1.15+0.01(X-5).
- When the regulatory useful life has been exceeded by 11 to 15 years, the value of the coefficient for extending the useful life will be: 1.20+0.02 (X-10).
- When the regulatory useful life has been exceeded by more than 15 years, the value of the coefficient for extending the useful life will be: 1.30+0.03 (X-15).

Where "X" is the number of years that the asset has exceeded its regulatory useful life. The parameter μin can never be greater than 2.

a.1.2. In general, the calculation for remuneration corresponding to operating costs in connection with transport, regasification, and underground storage assets will be maintained. The only difference is the application of unit costs for operation and maintenance of all transport installations, regardless of when the asset is put to use.

a.1.3. Enagás Transporte, S.A.U. has established a straight-line criterion for attributing the revenue corresponding to the accredited fixed cost to the income statement. In this manner the company manages to correlate income (remuneration) and expenses (amortization/depreciation) on an inter-monthly basis.

a.2) Remuneration for continuity of supply (RCS)
Remuneration for continuity of supply (RCS) is calculated as a whole for each of the activities: transport, regasification, and underground storage.

The remuneration for this item in year "n" is in all cases calculated based on the remuneration for the previous year "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 considered are the following:

- With respect to the gas pipeline transport network, the change in total domestic demand for gas will be considered excluding the supply via satellite plants, with the following maximum and minimum limiting values for demand: 410 TWh and 190 TWh.
- With respect to regasification plants, the change in total demand for gas produced by all the regasification plants in the gas system will be considered, with the following maximum and minimum values of gas produced: 220 TWh and 50 TWh.
- With respect to storage installations, the change in useful gas stored at November 1 of the corresponding year will be considered, including the portion of cushion gas that can be mechanically extracted, with the following maximum and minimum values for stored gas: 30 TWh and 22 TWh.

Remuneration for continuity of supply which results for each activity in year "n" will be divided amongst each of the installations "i" which remain in operation, based on a coefficient, αi, which results from dividing the replacement cost of installation "i" by the sum of the replacement costs for all installations. This replacement cost is calculated based on the prevailing unit investment costs, except for singular installations and underground storage, for which the investment value will be used.

a.3) Variable accredited cost for regasification and transfer of LNG to ships
a.3.1. This amount is determined based on the kWh actually regasified as well as the kWh loaded in LNG cisterns for each period and the variable unit value for regasification in the period considered. For 2017 this cost was set at 0.000162 €/kWh regasified and 0.000194 €/kWh loaded in cisterns.

a.3.2. For the LNG ship loading services from regasification plants or cooling down ships, a cost is recognized identical to the variable cost of the cistern loads. For ship-to-ship transfer the cost is 80% of said value.

b) Income corresponding to Technical System Management (TSG)

Income from this activity is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical System Manager, which includes coordinating the development, operation, and maintenance of the transport network, supervising the safety of natural gas supply (storage levels and emergency plans), carrying out plans for future development of gas infrastructure, and controlling third-party access to the network.

The fee meant for the Technical Systems Manager to be collected for 2017 from companies that own regasification, transport, storage, and natural gas distribution installations as a percentage of billing for tolls and royalties associated with third-party access to the network amounts to 0.778%. This fee is paid into the CNMC account held for this purpose by said companies in installments, as established in the settlement procedure.

The previous percentage over billing is calculated based on the result of applying maximum tolls and royalties to the amounts invoiced, without deducting possible discounts which may have been agreed upon by the owners and users of the installations.

Without prejudice to the above, provisional remuneration recognized for the activity of Technical System Management in 2017 in accordance with ETU/1977/2016, of December 23, amounts to 23,966 thousand euros.

The inter-monthly attribution of previous income to the consolidated income statement is carried out on a straight line basis.

c) Settlement of tolls associated with third-party access to gas installations

The invoicing and collection of remuneration for the regulated activities subject to settlement (third-party access to the network and Technical System Management) is carried out in accordance with the settlement procedure, as per Ministerial Order of October 28, 2002.

d) Settlement system

On November 1, 2002, Ministerial Order ECO/2692/2002, of October 28 was published, regulating the settlement procedures relating to remuneration for regulated activities and establishing an information system which the companies must present.

The fifth additional provision to Order ITC/3993/2006 modifies section I.5 to Appendix II of this Order on settlements, establishing that interest will be applied to the amounts to be settled with each transport entity or distributor. Said interest is calculated as the result of applying the average values of the one-year treasury bond during 60 days.

e) Income corresponding to heel gas and minimum gas levels for filling gas pipelines

Order IET/3587/2011 establishes in article 16 that the gas meant for minimum levels in gas pipelines for transport and regasification plants (heel gas) will be remunerated as a necessary investment for transport activity, recognizing financial remuneration.

Remuneration for this item was maintained subsequent to the new remuneration framework taking effect, which applies the same rate for financial remuneration and transport, regasification, and underground storage. The acquisition cost will be the result of applying the price resulting from the auction to the acquired quantity.

f) Income corresponding to the purchase of gas for self-consumption

Until 2015, the gas was acquired by transporters and recognized 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 organized gas market. The acquisition cost for this gas is recognized at the auction price and is considered a reimbursable expense.

In addition, with the new remuneration framework of 2014 taking effect, the purchase of gas for self-consumption at regasification plants is no longer considered a recognized cost, though a transitional period was established for adaptation.

During this period, the following percentages will be recognized for purchases of operating gas at regasification plants.

	2014	2015	2016	2017
Transitional period - gas for self-consumption recognized	100%	90%	50%	20%

g) Settlement of accumulated deficit

Royal Decree Law 8/2014, of July 4, and Law 18/2014, of October 15, establish the principle of economic and financial sustainability in the gas system. In accordance with this principle, the system income will exclusively be dedicated to sustaining remuneration corresponding to regulated activities relating to gas supply. Further, this income must be sufficient to satisfy the totality of costs incurred by the gas system. In addition, in order to ensure economic sufficiency and avoid the appearance of new deficits ex ante, all regulatory measures relating to the gas system which involve an increase in costs for the system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium for the system.

Likewise, the new remuneration framework establishes a specific methodology for the resolution of temporary imbalances between system income and costs, which together with the aforementioned measures is meant to avoid gas system deficits definitively, establishing a period of various years for the recovery of these imbalances and further recognizing financial costs accrued by regulated companies for the financing of these imbalances.

The methodology established in articles 61 and 66 of this Royal Decree Law and in this Law distinguishes between the accumulated deficit at December 31, 2014 and the deficit which may be generated in subsequent years, so that:

- The quantity corresponding to the deficit accumulated in the gas system at December 31, 2014 will be determined in the definitive settlement of 2014, and the participants in the settlement system will have the right to recover the annual amounts corresponding to said accumulated deficit in the settlements corresponding to the subsequent fifteen years, recognizing interest at market rates.
- Definitive settlement in 2014 was approved by the regulatory oversight chamber of the CNMC in its session held on November 24, 2016, recognizing 1,025,053 thousand euros for the accumulated deficit of the gas system at December 31, 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.

In addition, with respect to the temporary imbalances 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 recognizing 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, recognizing 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, prioritizing 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 income and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the recognized annual amounts pending payment exceeds 15%, the tolls and royalties 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 prioritizing 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, established the provisional interest rates for the gas system to be applied to the accumulated deficit of December 31, 2014 and the temporary mismatch of 2015. The values were the following:

- The provisional interest rate for the accumulated deficit at December 31, 2014 will be 1.104%. The interest recognized for said deficit accrues from the day following approval of the definitive settlement for 2014.
- The provisional interest rate for the temporary mismatch between income and expenses in the gas system for 2015 will be 0.836%. The interest recognized for said mismatch accrues from the day following approval of the definitive settlement for 2015.

The final settlement of 2016 was approved by the chamber of the regulatory oversight of the National Commission of markets and competition at its meeting on 30 November 2017, Recognizing 90,014 Thousands of Euros in concept of deficit of the regulated activities of the natural gas sector for the year 2016. This deficit will be recovered annually since 1 December 2017 (day following the adoption of the final liquidation of the year 2016) and until the 30 of November of 2022.

According to the ETU/1283/2017, the annuity of the year 2017 will be paid in the first settlement available this year, as a single payment and applying a market rate of interest.

h) Establishment of the organized gas market

Law 8/2015 of May 21, amending Law 34/1998, of October 7, on the Hidrocarburos Sector, designates MIBGAS S.A. as Organized Gas Market Operator. This law was enacted by Royal Decree 984/2015, of October 30, which assigns the principal functions of the Organized Gas Market Operator to the mercantile company MIBGAS, establishing its functions and role within the gas sector.

It is worth noting that in its article 65 ter. "Operator of organized gas market," it establishes that a mercantile company 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%. 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 1.3.

i) Recognition of costs associated with the dismantling of natural gas installations

Royal Decree 949/2001, of August 3, which regulates third-party access to the gas installations and determines an integrated economic system of the natural gas sector ("RD 949/2001"), establishes that with respect to regulated activities, when plants and storage facilities are shut down remuneration will cease from the closing date, without prejudice to the net dismantling costs recognized if the plants and storage facilities are actually dismantled.

j) Adjusting the agreements for international gas transit to the prevailing regulatory framework

The CNMC in its Board meeting of April 11, 2013 required Enagás, S.A. (currently succeeded in its transport activity by Enagás Transporte, S.A.U.), Galp Gas Natural, S.A., and Gasoducto Al-Ándalus, S.A. to adjust the gas transit agreements to Portugal, signed in 1996 by Transgas, S.A. (currently Galp Gas Natural, S.A.) in order to adapt to the new regulatory framework introduced by Directive 2009/73/CE and Regulation (CE) 715/2009, of July 13, 2009, of the European Parliament and of the Council.

With a view to complying with said requirement, Galp Gas natural, S.A. and Enagás Transporte, S.A.U. signed a Framework Contract on February 27, 2014 for access to the transport and distribution system of Enagás Transporte, S.A.U. via international gas pipeline connections with Europe. Subsequently, on November 18, 2014, both companies signed the corresponding long-term access contract to transport and distribution networks and an addendum to the Framework Contract, which took effect on January 1, 2015, thereby complying with all CNMC requirements.
The CNMC considered the adjustments to said contracts for third-party access to the transport and distribution system to be in compliance with prevailing regulations.

k) Regulatory framework development

The main regulatory developments applicable to the gas sector, approved in the course of 2017, were the following:

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 November 23, 2017, on strengthening the energy networks of Europe.

Commission Regulation (EU) 2017/1938 of the European Parliament and of the Council, of October 25, 2017 on measures to guarantee the security of gas supply, repealing Commission Regulation (EU) no. 994/2010.

Commission Regulation (EU) 2017/459 of March 16, 2017, establishing a network code for assignment mechanisms with respect to capacity in the natural gas transportation networks and repealing Regulation (EU) nº 984/2013.

Commission Regulation (EU) 2017/460 of March 16, 2017, establishing a network code in connection with the harmonization of tariff structures for gas transportation.

2. Spanish regulations

Remuneration, tolls, and fees
Order ETU/1283/2017, of December 22, 2017, establishing the tolls and royalties for third-party access to gas facilities and remuneration of regulated gas sector activities for 2018.

Resolution of April 20, 2017, modifying Appendix IV "instructions for filling out forms" of Circular 1/2015, of July 22, of the CNMC, on the regulatory information regarding costs for regulated transport, regasification, storage, and technical system management activities for natural gas, as well as transportation and operation of the electricity system.

Correction of errors, of January 18, 2017, of Order ETU/1977/2016, of December 23,establishing the tolls and fees for third-party access to gas facilities and remuneration of regulated gas sector activities for 2017.

Resolution of December 26, 2017, of the DGEPM, publishing the tariff of last resort for natural gas.

Resolution of September 25, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of June 28, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of March 24, 2017, of the DGEPM publishing the tariff of last resort for natural gas.

Resolution of March 29, 2016, of the DGEPM, publishing the tariff of last resort for natural gas.

Resolution of January 21, 2016, of the DGEPM, correcting errors in the Resolution of December 23, 2015, publishing the tariff of last resort for natural gas.

Operation of the System

Circular 3/2017, of November 22, of the CNMC, relating to the assignment mechanisms with respect to capacity in the international natural gas connections to Europe.

Resolution of the DGEPM of April 5, 2017, establishing the parameters for auctioning capacity in basic storage facilities (not published in the Official State Gazette - BOE in Spanish).

Resolution of March 30, 2017, of the Secretariat of Energy, establishing the procedure for awarding capacity in basic underground storage facilities, as well as injection and extraction rights.

Resolution of March 15, 2017, of the DGPEM, establishing operating gas volume and the volume of gas required for minimum levels in gas pipelines and basic underground storage facilities for the period 2017-2018.

Resolution of January 30, 2017, of the DGEPM establishing the assigned and available capacity for basic underground storage of natural gas for the period from April 1, 2017 to March 31, 2018.

Resolution of December 22, 2017, of the DGEPM, awarding of the voluntary market making service in the organized natural gas market during the first half of 2018 to "ENGIE ESPAÑA S.L.U." (not published in the BOE).

Resolution of July 6, 2017, of the DGEPM, awarding the role of market maker in the organized gas market to AXPO IBERIA S.L. during the second half of 2017 (not published in BOE).

Resolution of January 20, 2017 of the DGEPM, awarding the role of market maker in the organized natural gas market to "GUNVOR INTERNATIONAL B.V. AMSTERDAM, GENEVA BRAND."

Resolution of December 11, 2017, of the SEE, establishing the conditions for the rendering of obligatory market making services by the dominant operators in the natural gas market.

Resolution of November 14, 2017, of the SEE, publishing the Agreement of the Council of Ministers of November 10, 2017, establishing the obligation of presenting purchase and sales offers to the dominant natural gas market operators.

Resolution of November 27, 2017, of the DGEPM, approving the Winter Action Plan for operation of the gas system.

Resolution of July 21, 2017, of the DGEPM, partially modifying the appendix to the Resolution of May 3, 2010, approving the models for statements of responsibility and communication of initiation of the various marketing activities in the hydrocarbons sector.

Resolution of July 5, 2017 of the DGEPM, updating and publishing the Preventive Action Plan and the Emergency Plan of the Spanish gas system.

Resolution of June 16, 2017, of the DGEPM, modifying Resolution of July 25, 2006, by virtue of which the conditions for assigning and the procedure applied for the interruptibility of the gas system are regulated.

Order ETU/175/2017, of February 24, determining the transfer of clients from Investigación Criogenia y Gas, S.A. to a last resort supplier and establishing the supply terms for said clients.

Resolution of February 15, 2017 of the DGEPM, by virtue of which Investigación, Criogenia y Gas, S.A. was disqualified from performing natural gas supply activities.

Announcement of January 24 of the Sub-directorate General of Hydrocarbons, publishing the Agreement of the DGEPM by virtue of which the debarment procedure was initiated with respect to Investigación, Criogenia y Gas, S.A. in connection with the activity of supplying natural gas; and another Agreement by virtue of which the transfer procedure was initiated with respect to the clients of said company to a last resort supplier as well as determining the supply terms for said clients.

Consolidated Managment Report

I.-Enagás situation

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.

Through our activities we strengthen and guarantee the security of energy supply, promoting the use of natural gas in preference to other more polluting alternative fuels such as oil or coal. In addition, natural gas is of great importance for improving competitiveness, as it allows for the introduction of efficient industrial technologies which improve the intensity of energy usage and competitiveness in the industry, generating direct and indirect employment.

Enagás Gas Infrastructure

At December 31, 2017, the gas infrastructure of the Enagás Group was integrated by the Natural Gas Basic Network as follows:

Spain:

- 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 72.5% of the Sagunto plant (Valencia).

Chile:

- Subsequent to different agreements reached amongst the GNL Quintero shareholders in April 2017, Enagás holds an indirect stake of 45.40%, maintaining control and consolidating said interest under the full consolidation method. Chile is a key country for the strategy pursued by Enagás and GNL Quintero is an asset to which it has committed for the long term.

México:

- Enagás holds a 50% stake in the Soto La Marina compression station, another 50% stake in the Morelos gas pipeline, and a 40% stake in the Altamira plant.

Greek, Albania e Italy:

- Enagás holds 16% of interest in the compay responsible for developing the Trans Adriatic Pipeline (TAP) project, which consists in the construction of a gas pipeline linking Turkey and Italy via Greece and Albania, and is considered a Project of Common Interest (PCI) by the European Union.

Peru:

- In 2017 Enagás increased its interest in Compañía Operadora de Gas del Amazonas (COGA) from 30% up to 51%, positioning itself as one of the main shareholders of the natural gas transportation system in Peru and as active operator in said country.
- Enagás further holds a 28.94% stake in Transportadora de gas del Perú (TgP).

Sweden:

- 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 companies in the Spanish continuous market with more free float (95%). More than 70% of our international shareholding, highlighting the shareholding in the US-Canada and the United Kingdom (27% and 12% 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 (54%) 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 Board is reflected in the significant increase in the percentage of women, from 6% in 2007 to 23% in 2017, with a commitment to reach 30% by 2020.

Behavior and probable evolution

Enagás works for the development of the gas sector, because natural gas is a key element to achieve a sustainable, safe and efficient energy in a low carbon economy. It is the most efficient technical-economic solution compared to other conventional fuels, with the lowest cost for citizens and companies. Natural gas contributes to the competitiveness of the industry and reduces the environmental impact.

In 2017, Enagás has operated in a context of relatively stagnant energy demand, in which gas has accelerated its growth in the last two years, moving towards mostly coal and being overtaken by renewables, whose growth has been faster. LNG is being the main protagonist of the gas sector, with growth in 2016 and in 2017 much higher than the demand for gas.

In Spain, the gas demand grow by 9% in 2017, compared to the previous year (growth for the third consecutive year). This increase is mainly due to the growth of industrial demand (7% respect to the previous year) and the demand for electricity generation (27% increase).

In relation to the net profit during 2018, it is expected that the growth of the result without taking the effect of the revaluation of the cost of the first acquisition of Quintero is 1% in 2017. Enagás Group plans to make net investments for the year 2018 for an approximate value of 67 million euros, of which is expected that around 150 million euros will be allocated to regulated assets in Spain and the rest come from international investment.

The Strategic Priorities 2017-2020, which gives continuity to the approach that the company has been developing in recent years. During 2017, 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 Enagas, it is based on the following strategic priorities:

- Growth
- Solid financial and liquidity
- Efficiency and regulatory visibility
- Attractive and sustainable shareholder remuneration
- Leadership in sustainability

II. Evolution and results

The information included in "Enagás: good new energy," "Our project for the future,""Our culture: doing things properly,""Creating economic, social and environmental value," and "Key indicators" in the Annual Report forms a part of this Management Report, fulfilling the stipulations of Royal Decree Law 18/2017, of November 24, on non-financial information and diversity.

Economic Dimension

Good governance

Good governance is a priority for the company, as reflected in Enagas Sustainability and Good Governance Policy. This Policy confirms that a good governance model allows us to generate value in the short, medium and long term for shareholders, customers, suppliers and other interest groups. In addition, it strengthens the control environment of the company, its reputation and credibility with third parties.

The key areas on which our governance model is based are the strategy and objetives of the company, the structure and functioning of the company bodies (independence, diversity, etc.), their performance and the incentive systems for the takings decisions. In 2017, the Board's training in key financial and non-financial matter in the management of the company continued, as well as the Board's evaluation by an independent external auditor.

Financial and operational excellence

Principal Economic Results

Net Profit amounted to 490.8 million euros, 17.6% higher than 2016, compared to the estimated 12%. The result was by the equity method of 72.9 million euros (15% contribution of the investee companies to the profit after taxes). In 2017, investments worth 329 million euros were made, focusing the effort on managing the heavy investment made in recent years.

The dividend per share of 2017 increased by 5% over the previous year, reaching 1.5 euros per share. Enagás concluded 2017 at 23.9 euros per share. This implies a capitalization of 5,699 million euros. The share capital of Enagás as of December 31, 2017 was 358.1 million euros, with 238.7 million shares.

Enagás has adapted to the new context derived from the crisis, reducing the external financing of banks and replacing it with another type of financing -such as bonds-, which has allowed it to achieve a more diversified structure. Net debt at a fixed rate is higher than 80%, without significant debt maturities until 2022.

In 2017 the rating agencies Standard & Poor's and Fitch Ratings in its annual review report has reaffirmed Enagás' long-term "A-" rating.

Enagás is part of the Dow Jones Sustainability Index for the tenth consecutive year, with the leading company in the Oil & Gas Storage & Transportation with a rating of 86 points.

Business growth
As a consequence of the options agreement signed by Enagás Chile and ENAP in 2016, in 2017 various agreements were reached amongst the GNL Quintero shareholders, with the following results: Enagás Chile continues to maintain control and consolidate its indirect stake of 45.40% in GNLQ under the full consolidation method, resulting in a net cash flow of 150 million US dollars for the Enagás Group. Amongst said agreements, Enagás Chile reached an options agreement for acquisition of an additional 5% of GNLQ share capital, held by OMERS via Terminal de Bahía de Quintero SpA, and exercisable in one year.

Via Enagás Internacional S.L.U., Enagás increased its share in Compañía Operadora de Gas del Amazonas (COGA) by 21%, that is, from a total holding of 30% up to 51%. As a result of this acquisition, the shareholder structure of COGA is as follows: Enagás Internacional, S.L.U. 51%, Carmen Corporation (CPPIB) 49%. As a result of this agreement, Enagás became the main shareholder of the company responsible for operating and maintaining the natural gas transportation systems in Peru.

In 2017, two companies derived from the Enagás Emprende corporate project were formed and the majority owned by Enagas Emprende, SLU: Scale Gas Solutions, SL, amounting to 216 thousand euros and Efficiency for LNG Applications, SL, amounting to 300 thousand euros.

In July 2017, the company Mibgas Derivatives, S.A. was set up amounting to 500 thousand euros. This company was initially created by Mibgas, S.A., but after signing a contract for the sale of shares, the result is that the Enagás Group holds a total participation of 28.34% over this company.

Social Dimension

Human resources management
Enagás, as a certified Top Employer company, offers stable and quality employment with high percentages of permanent and full-time labor contracts, totalling 98.3% and 97.8%, respectively. In addition, the commitments acquired by Enagás in the policy it pursues for Management of Human Resources, together with the measures and actions implemented, translate into high levels of employment satisfaction and motivation, as reflected in low staff turnover (1.9% voluntary turnover) and the results obtained in the survey conducted on the working environment and atmosphere.

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.

Corporate guidelines on diversity and equal opportunities, define the principles on which Enagás frames its action in this area. These principles reflect the integration of diversity in key Human Resources processes such as access to employment, personal growth and development and career advancement. It also reflects the company's commitment to the promotion of policies and measures that favor the balance between work and personal life of its professionals. In the same way, Enagás extends this commitment to all its stakeholders, paying special attention to suppliers and contractors as indispensable collaborators for the achievement of the company's business objectives.

In 2017 Enagás renewed its certification as a Top Employer Company, its commitment to the Charter for Diversity, and the Equality Distinction issued by the Ministry of Health, Social Services, and Equality.

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
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 2017 two reports were made via the Ethics Channel: a complaint alleging a superior's abuse of power and privileges, the subsequent investigation of which concluded with corrective measures; and a second report relating to a selection process, which was rejected and filed subsequent to communicating with the interested party.

The Compliance Model applied by Enagás is the main tool to ensure ethics and integrity in the performance of its activities. This model is articulated around the Compliance Policy and its related regulations.

In addition, framed in the compliance model, Enagás has a crime prevention model that is configured as the main core of the company's criminal compliance.

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 (387 participating employees and 2,675 dedicated hours), sponsorship, patronage or donation (2 million euros in 2017).

Supply chain
Management of the supply chan is one of our key material issues. Adequate management of the supply chain allows us to identify and manage regulatory, operational, and reputational risks, as well as take advantage of opportunities for collaboration and the creation of shared value.

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 32 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 Enagás 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 and 100% of its activity is certified in accordance with ISO 14001. In addition, in 2017 EMAS verification was conducted for the storage facilities of Serrablo and Yela; the Huelva and Barcelona regasification plants having already received the corresponding certification.

During 2017, environmental actions were carried out in the amount of 5,288 thousand euros, recognised as investments under assets in the balance sheet (11,084 thousand euros in 2016). The Company also assumed environmental expenses amounting to 2,422 thousand euros in 2017, recognised under "Other operating expenses" (1,853 thousand euros in 2016).

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.

In addition, Enagás is invested in the use of gas as the least polluting fuel and, therefore, key to the power generation mix for meeting emission reduction targets and allowing the development of more efficient energies; as well as replacing other fossil fuels as we move towards more sustainable mobility in sea, rail and road transport.

The Company sets itself improvement challenges by establishing objectives for reducing annual emissions in the medium term, as well as via the definition of an emissions compensation strategy. In order to achieve said objectives, the Company implemented an Energy Efficiency and Emissions Reduction Plan some years ago, through which different energy saving measures are identified, developed, and quantified.

Noteworthy in 2017 was the signing of a commitment to adopt the reporting recommendations prepared by the Task Force on Climate related Financial Disclosures (TFCD) and the initiation of a voluntary compensation program for greenhouse gas emissions.

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 2017 decreased by 5,008 thousand euros with respect to 2016.

The Enagás debt structure is noteworthy in that fixed rate debt predominates, comprising more than 80% of debt. Likewise, 72% of the debt corresponds to capital markets, 20% to long-term institutional debt (BEI and ICO), and 8% to bank financing.

	2016	2017
Net Debt/ Adjusted EBITDA (*)	5.2x	4.4x
FFO / Net Debt	15%	17.4%
Debt Cost	2.4%	2.7%
Liquidity (millions of euros)	2,409	2,484

(*) Adjusted EBITDA for dividends received from subsidiaries.

IV. 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:

- The consideration of some standard types of risk to which the Company is exposed.
- Segregation and independence of risk control and management functions articulated by the Company in three lines of "defense".
- Governing bodies with responsibilities regarding supervision of the Company's risk level.
- 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 activities are carried out.
- 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. 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 3.7 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 bear fixed rates as well as the future cash flows generated by assets and liabilities accruing variable rates. The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the income statement. Changes in exchange rates during the consolidation process can affect the debt positions denominated in foreign currency, certain payments for services and acquisitions of capital goods in foreign currency, income and expenses of subsidiaries that do not use the euro as functional currency, and translation differences of the financial statements for those companies whose functional currency is not the euro. The Enagás Group's exchange rate risk management is designed to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies. It also involves analyzing the possibility of contracting exchange rate derivatives to hedge against volatility when collecting dividends for each of the opportunities for international expansion analyzed.

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 3.7 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 Enagás Group.

V. Subsequent Events

a) Since January 1 2018 and the date on which these Consolidated Annual Accounts were drown up, no events have occurred that would significantly affect the profit(loss) of the Group or its equity.

VI. Reserch and Development activies

In the field of technological innovation developed by Enagás during 2017, 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 2017 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. Currently, Enagás has facilities for each of these three types. In the course of 2017 various projects were initiated or further developed, such as Feasibility studies for wind turbines in Zaragoza and Bermeo, Optimization of ORV seawater consumption, Measurement of fugitive methane emissions, Frequency variators in seawater pumps at plants in Barcelona and Cartagena and the primary tank pump at the Cartagena plant, Optimization of dry-coolers in compressor stations, and Predictive control in regulation and measurement stations.

Technical Efficiency

As a result of the experience acquired in previous years, during 2017, 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 noteworthy production is that of expanding the autonomous generation of nitrogen at the Huelva plant.

In addition, during 2017, the technical-economic analysis of possible installation alternatives for the BOG/LNG heat exchanger equipment which increase the amount of boil-off recovered in the reliquefaction unit and, consequently, reduce the consumption of electric energy in the compressors. Based on the results obtained from the study, and subsequent to carrying out a sensitivity analysis in order to determine how changes in the initial parameters affect project profitability, the proposal for optimal configuration of the Cartagena plant involves installation of LNG/BOG heat exchanger equipment in series with the existing seawater/BOG.

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 2017, among which we highlight the following: Upgrading the Communications and Measurement Model, upated with the most ideal technology available in the market, and upgrading the LACAP management and control system (Laboratory for the calibration of high pressure counters).

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 2017 its effort to improve the results obtained in the analytical of certain minor components of natural gas: water, sulfur, hydrocarbons and odorant. After finalizing the study, measures could be determined, such as an archiving system for incidents, acquisition of portable measurement equipment, corrective procedures, evaluation of preventive measures.

3. Operational Safety

Throughout 2017, 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 y equipment

During 2017, 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 infraestructure

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 2017, the Group continued with and finalized development of the RENOVAGAS Project, a project initiated and led by Enagás, which concluded in June 2017. This project mainly consisted in the design and construction of a 15 kW pilot installation which transforms the CO2 present in biogas produced at the waste treatment plant of FCC-AQUALIA in Jerez de la Frontera into methane. The biogas is made to pass through a reactor which, via appropriate catalyzers and with hydrogen input produced by hydrolysis using excess electricity energy of a renewable nature, makes the CO2 react with the hydrogen, thereby producing methane.

Finally, during 2017, 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.

VII. Acquisition and sale of treasury shares

In 2017, there was not acquisitions or disposals of treasury shares.

On February 19, 2018, the Board of Directors of Enagás, S.A. authorised the consolidated financial statements and management report for the year ended December 31, 2017, consisting of the accompanying documents, sined 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 October 19, 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

Mr. Antonio Llardén Carratalá

Chief Executive Officer

Mr. Marcelino Oreja Arburúa

Consultant

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por Mr. Bartolomé Lora Toro)

Mr. Luis Javier Navarro Vigil

Mr. Martí Parellada Sabata

Mr. Luis García del Río

Mr. Gonzalo Solana González

Mr. Luis Valero Artola

Mr. Antonio Hernández Mancha

Ms. Ana Palacio Vallelersundi

Mr. Jesús Máximo Pedrosa Ortega

Ms. Rosa Rodríguez Diaz

Ms. Isabel Tocino Biscarolasaga

Managment Board

Mr. Rafael Piqueras Bautista