Audit Report on Financial Statements
issued by an Independent Auditor

ENAGÁS FINANCIACIONES, S.A.U.
Financial Statements and Management Report
for the year ended
December 31, 2018

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

To the Sole Shareholder of ENAGÁS FINANCIACIONS, S.A.U.:

Opinion

We have audited the financial statements of ENAGÁS FINANCIACIONES, S.A.U. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the 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.

Most Relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the financial statements of the current period. These risks were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Financing Activities

Description

ENAGÁS FINANCIACIONES, S.A.U. is primarily engaged in issuing debt instruments and obtaining financing for the purpose of granting loans and credit facilities to Enagás Group companies. Consequently, the majority of liabilities on the balance sheet relate to long and short-term debentures and other marketable securities totaling 2,988,291thousand euros in connection with various bond issues. In addition, assets on the balance sheet consist principally of loans and credit facilities granted to Enagás Group companies amounting to 3,954,813 thousand euros.

These financial liabilities and financial assets are described in respective Notes 4.1.2 and 9, and 4.1.1 and 5 to the accompanying financial statements.

Given that, as explained above, the issue of debt instruments and the granting of loans to group companies is the Company's main activity, and due to the significance of balance sheet figures, we consider the abovementioned financial assets and liabilities to be a relevant audit issue.

Our Response

Our audit procedures included:

- Understanding established processes and controls for issuing financial debt, as well as for granting loans to group companies based on the amount of debt issued.
- Reviewing bond issues to verify that they have been correctly amortized, interest has been properly calculated and paid, and that they have been correctly classified as long or short-term.
- Analyzing and reviewing loan agreements between group companies to verify that loans and credit facilities have been correctly amortized, interest has been properly calculated and paid, and that they have been correctly classified as long or short-term.
- Testing interest income from loans and financial expenses from bond issues, verifying their reasonableness against the related contracts.
- Reviewing disclosures included in the notes to the financial statements required by applicable accounting regulations

Other information: Managment report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the sole director and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is to assess and report on the consistency of the management report with the financial statements based on the knowledge of the entity we obtained while auditing the financial statements, and not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the 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 in the above paragraph, the information contained in the management report is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

Director´s responsibilities for the financial statements

The sole director is responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the sole director is responsible for assessing the Company'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 sole director either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor´s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 director's 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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the sole director of the 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.

From the significant risks communicated with the Company's sole director, we determine those that were of most significance in the audit of the financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

ERNST & YOUNG, S.L.
(Registered in the Official Register of
Auditors under No. S0530)

David Ruiz-Roso Moyano
(Registered in the Official Register of
Auditors under No. 18336)

April 8, 2019

ENAGÁS FINANCIACIONES, S.A.U.

Financial Statements at December 31, 2018

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.

ENAGÁS FINANCIACIONES, S.A.U.

BALANCE SHEET AT DECEMBER 31, 2018
(Thousands of euros)

ASSETS	Notes	2018	2017	EQUITY AND LIABILITIES	Notes	2018	2017
NON-CURRENT ASSETS		**3,775,885**	**2,955,167**	**EQUITY**	Note 8	**19,470**	**14,201**
				SHAREHOLDERS' EQUITY		**20,521**	**14,201**
Long-term investments in group companies and associates	Note 5.1	**3,767,658**	**2,950,651**	**Capital**		**890**	**890**
Loans to companies		3,767,658	2,950,651	Subscribed capital		890	890
				Issue premium		**7,270**	**7,270**
Long-term financial investments	Note 5.1	**7,822**	**4,478**	**Reserves**		**6,009**	**18**
Equity instruments		7,822	4,478	Legal and statutory		178	18
				Other reserves		5,831	-
Deferred tax assets	Note 12.8	**405**	**38**	**Other contributions from partners**		**53**	**32**
				Negative results from previous years		**-**	**(27)**
				Profit /(loss) for the year	Note 3	**6,299**	**6,018**
				ADJUSTMENTS FOR CHANGES IN VALUE		**(1,051)**	**-**
				Hedging transactions		(1,051)	-
CURRENT ASSETS		**192,780**	**47,570**	**NON-CURRENT LIABILITIES**		**3,768,442**	**2,947,771**
				Long-term provisions		**-**	**39**
Trade and other receivables	Note 6	**34**	**60**	Obligations for long-term employee benefits		-	39
Customers, Group companies and associates		2	-	**Long-term debts**	Note 9	**3,768,442**	**2,947,732**
Other receivables		22	17	Debentures and other marketable securities		2,956,934	2,947,732
Other loans from the Public Administrations	Note 12.2	10	43	Debts with credit institutions		811,395	-
				Derivatives		113	-
Short-term investments in group companies and associates	Note 5.1	**187,155**	**45,052**				
Loans to companies		187,155	45,052	**CURRENT LIABILITIES**		**180,753**	**40,765**
				Short-term debts	Note 9	**180,589**	**40,058**
Short-term accruals		**7**		Debentures and other marketable securities		31,357	31,354
				Debts with credit institutions		142,262	-
Cash and cash equivalents	Note 7	**5,584**	**2,458**	Derivatives	Note 10	1,474	
Treasury		5,584	2,458	Other financial liabilities	Note 5.1	5,496	8,704
				Short-term borrowings from group companies and associates		**7**	**-**
				Trade and other payables	Note 11	**157**	**707**
				Suppliers		9	11
				Suppliers, group companies and associates		31	611
				Other payables		-	31
				Staff (wages pending payment)		108	44
				Other debts with the Public Administrations	Note 12.2	9	10
TOTAL ASSETS		**3,968,665**	**3,002,737**	**TOTAL EQUITY AND LIABILITIES**		**3,968,665**	**3,002,737**

The accompanying Notes 1 to 18 constitute an integral part of the Balance Sheet at December 31, 2018.

ENAGÁS FINANCIACIONES, S.A.U.

INCOME STATEMENT AT DECEMBER 31, 2018
(Thousands of euros)

	Notes	2018	2017
CONTINUING OPERATIONS		**63,857**	**76,497**
Revenue	Note 13.1	**65,726**	**78,653**
Provision of services		65,726	78,653
Personnel expenses		**(409)**	**(394)**
Wages, salaries and similar		(324)	(303)
Social contributions		(85)	(91)
Other operating expenses		**(1,460)**	**(1,762)**
External services		(1,457)	(1,759)
Taxes		(3)	(3)
OPERATING PROFIT		**63,857**	**76,497**
Financial expenses		**(55,450)**	**(68,473)**
- For borrowings from group companies and associates		(94)	-
- For borrowings from third parties		(55,356)	(68,473)
FINANCIAL RESULT	Note 13.2	**(55,450)**	**(68,473)**
PROFIT /(LOSS) BEFORE TAX		**8,407**	**8,024**
Income tax	Note 12.6	(2,108)	(2,006)
PROFIT /(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**6,299**	**6,018**
PROFIT /(LOSS) FOR THE YEAR		**6,299**	**6,018**

The accompanying Notes 1 to 18 constitute an integral part of the Income Statement at December 31, 2018.

ENAGÁS FINANCIACIONES, S.A.U.

STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2018
A) STATEMENT OF RECOGNISED INCOME AND EXPENSES
(Thousands of euros)

	2018	2017
RESULTS TO THE INCOME STATEMENT	**6,299**	**6,018**
Income and expenses recognized directly in equity		
- From cash flow hedges	(1,968)	-
- Tax effect	492	-
TOTAL INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY (II)	**(1,476)**	**-**
Amounts transferred to the income statement		
- From cash flow hedges	567	-
- Tax effect	(142)	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	**425**	**-**
TOTAL RECOGNISED INCOME AND EXPENSES	**5,248**	**6,018**

The accompanying Notes 1 to 18 constitute an integral part of the Recognized Income and Expenses Statement at December 31, 2018.

ENAGÁS FINANCIACIONES, S.A.U.

STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2018

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of euros)

	Capital	Issue Premium	Legal reserve	Other reserves	Results from previous years	Other contributions from partners	Profit /(loss) for the year	Adjustments for changes in value	Total Equity
BALANCE ADJUSTED AT THE BEGINNING OF 2017	890	7,270	18	431	-	15	(458)	-	8,166
Total recognised income and expenses	-	-	-	-	-	-	6,018	-	6,018
Transactions with shareholders	-	-	-	-	-	17	-	-	17
- Other transactions	-	-	-	-	-	17	-	-	17
Other changes in equity	-	-	-	(431)	(27)	-	458	-	-
BALANCE AT DECEMBER 31, 2017	890	7,270	18	-	(27)	32	6,018	-	14,201
Adjustment for criteria changes 2017	-	-	-		-	-	-	-	-
Adjustments for errors 2017	-	-	-		-	-	-	-	-
BALANCE ADJUSTED AT THE BEGINNING OF 2018	890	7,270	18	-	(27)	32	6,018	-	14,201
Total recognised income and expenses	-	-	-	-	-	-	6,299	(1,051)	5,248
Transactions with shareholders	-	-	-	-	-	21	-	-	21
- Other transactions	-	-	-	-	-	21	-	-	21
Other changes in equity	-	-	160	5,831	27	-	(6,018)	-	-
BALANCE AT DECEMBER 31, 2018	890	7,270	178	5,831	-	53	6,299	(1,051)	19,470

The accompanying Notes 1 to 18 constitute an integral part of the statement of total changes in equity at December 31, 2018.

ENAGÁS FINANCIACIONES, S.A.U.

CASH FLOW STATEMENT FOR 2018
(Thousands of euros)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(1,371)**	**(2,737)**
Profit /(loss) for the year before taxes		**8,407**	**8,024**
Adjustments to profit:		**(9,676)**	**(9,364)**
- Variation of provisions		(19)	24
- Financial expenses	Note 13.2	55,450	68,473
- Financial income	Notes 13.1 and 14.1	(63,065)	(76,286)
- Other income and expenses	Note 5.1	(2,042)	(1,575)
Changes in working capital		**(25,467)**	**(20,169)**
- Trade and other receivables		26	82
- Trade and other payables		(550)	585
- Other current liabilities		(24,943)	(20,836)
Other cash flows from operating activities		**25,365**	**18,773**
- Interest paid		(48,530)	(64,610)
- Interest received		58,891	73,362
- Income tax paid (received)	Note 13.1	15,004	10,021
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**106,997**	**465,616**
Payments for investments		**(925,291)**	**(688,657)**
- Group companies and associates	Note 5.1	(925,291)	(688,657)
Proceeds from sale of investments		**1,032,288**	**1,154,273**
- Group companies and associates	Note 5.1	1,032,288	1,154,273
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(102,500)**	**(466,288)**
Proceeds from and payments on financial liabilities	Note 9	**(102,500)**	**(466,288)**
- Issue of borrowings from credit entities			-
- Issue of debentures and other marketable securities		2,256,569	1,252,324
- Repayment and amortisation of borrowings from credit entities		(102,500)	(467,700)
- Return and amortisation of debentures and other marketable securities		(2,256,569)	(1,250,912)
NET INCREASE/DECREASE IN CASH AND EQUIVALENTS (I + II + III)		**3,126**	**(3,409)**
Cash and cash equivalents at beginning of the year		2,458	5,867
Cash and cash equivalents at year-end		5,584	2,458

The accompanying Notes 1 to 18 constitute an integral part of the Cash Flow Statement at December 31, 2018.

1. - General Information

1.1 Company activity

Enagás Financiaciones S.A.U. was incorporated on April 16, 2012 in Spain in accordance with the Corporate Enterprises Act, its corporate purpose being:

i. The issuance of debt instruments, the obtaining of financing by any means admitted by law, and in accordance with the usual practices and uses of commerce as well as the granting of loans and credits to the companies that make up the Enagás Group at any time and / or any companies in which any of the Enagás Group companies holds an interest. For the above purposes, a company of the Enagás Group shall be understood to be any company, whatever its legal form, in which the requirements of article 42 of the Commercial Code are met.

ii. The management and administration of securities representing the equity of entities resident and non-resident in Spain, the provision of services of all types to entities in which it holds shares and the issuance of financial resources resulting from the activities constituting the corporate purpose, all of which are performed by means of the corresponding organisation of material and personal means.

iii. The acquisition, subscription, ownership, use, management and disposal of shares in the capital of other companies, both resident and non-resident in Spain, and of transferable securities, fixed or variable income.

Its registered address is located at Paseo de los Olmos, 19, 28005 Madrid.

The Company forms part of the Enagás Group, the Parent of which is Enagás, S.A., with registered address at Paseo de los Olmos 19, 28005 Madrid. Enagás, S.A draws up the Group's consolidated financial statements. The Financial Statements of Enagás S.A. and its consolidated Group at December 31, 2018, were approved by the Enagás, S.A. General Shareholders' Meeting held on March 29, 2019. The 2017 Financial Statements of Enagás S.A. and its consolidated Group were approved at the Enagás, S.A. General Shareholders' Meeting held on March 22, 2018 and duly filed at the Madrid Mercantile Registry.

Likewise, the Financial Statements of Enagás Financiaciones S.A.U. at December 31, 2018 were prepared by its Directors at the Board of Directors meeting held on March 29, 2019.

2.- Basis of presentation of the Financial Statements

2.1 Regulatory financial reporting framework applicable to the Company

The Financial Statements have been prepared in accordance with the Spanish National Charts of Accounts enacted by Royal Decree 1514/2007 of November 16, modified in 2016 by Royal Decree 602/2016 of December 2, and prevailing mercantile law.

These Financial Statements have been prepared by the Directors of the Company and will be submitted for approval by the Sole Shareholder. It is expected that they will be approved without modification. The 2017 Financial Statements were approved by the Sole Shareholder on June 29, 2018.

These Financial Statements are presented in thousands of euros (unless expressly stated otherwise) as this is the functional currency of the main economic area in which Enagás Financiaciones, S.A.U. operates.

2.2 True and fair view

The accompanying Financial Statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and criteria set out therein and, accordingly, provide a true and fair view of the Company's equity, financial position, results of operations, the statement of changes in equity and cash flows during the year.

2.3 Non-compulsory accounting principles applied

No non-compulsory accounting principles have been applied. Also, the Directors authorized these Financial Statements for issue in due consideration of all compulsory accounting principles and standards with a significant effect on the Financial Statements.

2.4 Critical issues regarding measurement and estimation of uncertainty

The results and determination of assets and liabilities disclosed in the Financial Statements are sensitive to the accounting principles and policies, measurement bases and estimates used by the Company's Directors.

These estimates relate basically to the following:

- The measurement of assets to determine any impairment losses (see Note 4.1.1).
- The market value of certain financial instruments (see Note 4.1.3).
- The calculation of income tax (see Note 4.3).

Although these estimates were made on the basis of the best information available at December 31, 2018 regarding the facts analysed, it is possible that future events may require these to be modified (upwards or downwards) in the years ahead. This would be carried out prospectively.

During the twelve-month period ended December 31, 2018, there were no significant changes to the estimates made at 2017 year-end, and thus future periods are also not expected to be affected.

2.5 Comparison of information

The information included in these Notes relating to 2017 is presented solely and exclusively for purposes of comparison with the information relating to 2018.

2.6 Grouping of items

Certain items on the Balance Sheet, the Income Statement, the Statement of Changes in Equity and Cash Flow Statement are grouped together to make them easier to understand, although when individual data is significant, specific information has been included in the respective Notes to these Financial Statements.

3.- Allocation of profit

The proposed allocation of profit for 2018 as drawn up by Company's Directors to be submitted for approval by the Sole Shareholder is as follows:

	2018
Legal reserve	-
Negative results of previous financial years	-
Voluntary reserves	6,299
Total	**6,299**

4.-Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company in preparing its Financial Statements for 2018, in accordance with the Spanish National Chart of Accounts, were as follows:

4.1 Financial instruments

4.1.1 Financial assets

Classification

The financial assets held by the Company are classified according to the following categories:

a) Loans and receivables: These are financial assets arising from the sale of goods or the rendering of services in the ordinary course of business, or financial assets which do not arise from the ordinary course of business, are not equity instruments or derivatives with fixed or determinable payments and are not traded on an active market.

b) Financial assets available for sale: these include debt securities and equity instruments of other companies that have not been classified in the above category.

Initial measurement

Financial assets are initially measured at the fair value of the consideration given, plus directly attributable transaction costs.

Subsequent measurement

Loans and receivables are measured at amortized cost.

Available-for-sale financial assets are measured at fair value, with the result of changes in said fair value recorded in net equity, until the asset is disposed of or has undergone a value impairment (stable or permanent), at which point such accumulated results are recorded in the Income Statement.

At least at each year end, the Company performs an impairment test on financial assets not measured at fair value. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss 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.

An impairment loss on financial assets measured at amortized cost arises when there is objective evidence that the Company 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 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 income statement for the year.

The Company 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 granting company neither retains subordinated financing, grants any form of guarantee nor assumes any other type of risk.

However, the Company does not derecognize those financial assets and instead recognizes a financial liability 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.

4.1.2 Financial liabilities

Financial liabilities include the Company's trade payables that have arisen from the purchase of goods and services in the normal course of its business, or non-trade payables that cannot be considered derivative financial instruments.

These payables are initially recognized at the fair value of the consideration received, adjusted by directly attributable transaction costs. These liabilities are subsequently measured at their amortised cost.

Derivative financial instruments are recognized at fair value using the same criteria as financial assets held for trading as described in the preceding section.

The Company derecognizes financial liabilities once the obligations generating them have been extinguished.

4.1.3 Derivatives and hedging transactions

The Company uses derivative financial instruments to hedge its exposure to future business, operating and cash flow risks. Under these operations, the Company has contracted interest rate swaps (IRS) under market conditions, without using derivative financial instruments for speculative purposes.

In order for these derivative financial instruments to be classified as hedges they are initially designated as such, and the relationship between the hedging instrument and the hedged items is documented, together with the risk management objective and the hedge strategy for the various hedged transactions. In addition, the Company verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) that the hedging relationship is effective, i.e., that it is prospectively foreseeable that the changes in fair value or in the cash flows from the hedged item (attributable to hedged risk) are almost entirely offset by those of hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of the gains or losses on the hedged item.

All derivative financial instruments are measured, both initially and subsequently, at fair value. Differences in fair value are recognized in the income statement, unless there is a specific treatment required under hedge accounting.

The Company uses cash flow hedges so that changes in the fair value of the derivatives are recorded, in the part in which these hedges are effective and net of their tax effect, under "Net Equity - Adjustments for changes in value - hedging operations". The accumulated gain or loss under this heading is transferred to the income statement in the same period in which the item being hedged affects the result when settled. The results corresponding for the ineffective part of the hedges are recorded directly in the income statement as financial income.

Hedge accounting is discontinued when the hedging instrument expires, or when it is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument recognized under equity at that time remains in equity until the forecast hedged transaction takes place. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year.

The Company calculates credit risk when measuring derivatives. This adoption requires that an adjustment be made to the Company's valuation techniques for obtaining the fair value of its derivatives. The Company includes a bilateral credit risk adjustment to reflect its own risk and that of the counterparty in the fair value of the derivatives.

To determine the credit risk adjustment, a technique has been applied based on the calculation through total expected exposure simulations (which include both current exposure and potential exposure), adjusted for the likelihood of non-compliance over time and the severity (or potential loss) assigned to the Company and to each of the counterparties.

The credit risk adjustment has been more specifically obtained using the following formula:

EAD * PD * LGD

- EAD (Exposure at default): Exposure at the time of non-compliance at each point in time. The EAD is calculated by simulating market price curve scenarios (e.g.: Monte Carlo).
- PD (Probability of default): Likelihood that one of the counterparties will fail to comply with payment commitments at each point of time.
- LGD (Loss given default): Severity = 1- (recovery rate): Percentage of loss that ultimately arises when one of the counterparties has failed to comply.

The total expected exposure of the derivatives is obtained using observable market inputs, such as interest rate, exchange rate and volatility curves in accordance with market conditions on the measurement date.

The inputs applied to obtain the Company's own credit risk and counterparty risk (determination of the probability of default) are based mainly on the application of the credit spreads relating to the Company or comparable companies that are currently traded in the market (CDS curves, IRR debt issues). Where own or comparable company credit spreads were not available, and in order to maximize the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS (Credit Default Swaps) quoted on the market.

To adjust the fair value to the credit risk, credit enhancements relating to guarantees or collateral have also been used when determining the severity rate to be applied to each of the positions. A single severity rate is taken into consideration over time. If there are no credit enhancements relating to guarantees or collateral, the minimum recovery rate has been set at 40%.

The use of derivative financial instruments is governed by the Company's risk management policies, and the principles regarding their use are disclosed in Note 5.2.

4.1.4 Cash and cash equivalents

Liquid financial assets, deposits and liquid financial investments that may be transformed into a determinable amount of cash within less than three months, and whose risk of changes in value is immaterial, are considered cash equivalents.

4.2 Foreign currency transactions

The Company's functional currency is the euro. Consequently, transactions in currencies other than the euro are considered to be foreign currency transactions and are recognized by applying the prevailing exchange rates at the dates of the operations.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing. Any gains or losses arising are taken directly to the income statement for the year in which they arise.

4.3 Income tax

As of January 1, 2013, Enagás Financiaciones, S.A.U. forms part of the Tax Consolidated Group 493/12, the Parent of which is Enagás, S.A., and files consolidated tax returns in accordance with Chapter VI, Title VII of the Spanish Corporate Income Tax Law 27/2014, of November 27.

The income tax payable or receivable comprises the current tax payable or receivable and the deferred tax income or expense.

Current tax is the amount paid by the Company in settlement of income tax during a particular year. Tax credits and other tax benefits applied to the taxable profit, excluding withholdings, prepayments and tax loss carryforwards effectively offset during the year, are deducted from the current tax.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences measured as the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax value, as well as negative tax bases pending payment and credits for tax deductions not applied fiscally. These amounts are measured by applying the tax rate to the corresponding temporary differences or tax credits at which they are expected to be recovered or settled.

Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of those arising from initial recognition of goodwill or from other assets and liabilities in a transaction that do not affect taxable profit or accounting profit and is not a business combination.

Deferred tax assets are only recognized to the extent that it is considered likely the Company will have sufficient taxable profit in the future against which the deferred tax assets can be offset.

Deferred tax assets and liabilities arising from transactions directly charged or credited to equity accounts are also recognized with a charge or credit, respectively, to equity.

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. Deferred tax assets not recognized on the balance sheet are also reassessed at the end of each reporting period and are recognized where it has become highly probable that they will be recovered through future taxable profits.

4.4 Income and expenses

Income and expenses are also recognized on an accruals basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Income is measured at the fair value of the consideration received, net of discounts and tax.

4.4.1 Income

In application of the criterion stated by the Institute of Accounting and Auditing of Accounts, through BOICAC No. 79, income obtained by the Company from its financial activity is included as an integral part of the net amount of Company turnover, provided that said activity is considered to be ordinary activity, as well as the income from the provision of financial services to Enagás Group companies (see Note 13.1).

Interest income is accrued based on a temporary financial criterion, based on the outstanding principal and the applicable effective rate, which is the rate of the estimated future cash flows over the expected life of the asset that is equal to its carrying amount.

Ordinary revenue from the rendering of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

4.4.2 Expenses

Expenses are recognized in the Income Statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that an expense is recognized simultaneously with the recognition of the increase in the liability or the reduction of the asset.

An expense is recognized immediately when a payment does not generate future economic benefits or when the prerequisites for capitalization as an asset are not met.

4.5 Provisions and contingencies

While drawing up the Company's Financial Statements, the Directors made a distinction between the following:

a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.

b) Contingent liabilities: possible obligations that arise from past events, the future emergence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events even if all are beyond the control of the Company.

The Financial Statements include all provisions for which it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognized in the Financial Statements but are disclosed in the accompanying Notes, unless they are considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences and any adjustments arising from the restatement of these provisions are recognized as finance costs as they are accrued.

The compensation to be received from a third party when an obligation is settled is recognized as an asset, provided it is certain that reimbursement will be received, unless there is a legal relationship whereby a portion of risk has been externalized as a result of which the Company is not liable, in which case, reimbursement will be taken into consideration in estimating the amount of any provisions.

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 the end of the 2018 financial year, there were no events that could be considered as a provision or contingent liabilities in the Company.

4.6 Environmental assets and liabilities

Environmental assets are considered to be those used by the Company on an ongoing basis, the main aim of which is to minimize environmental impact and to protect and improve the environment, including the reduction or elimination of future pollution.

The costs incurred in the acquisition of systems, equipment and facilities, whose purpose is the elimination, limitation or control of the possible impacts of the normal development of gas activity on the environment are considered investments in fixed assets.

The remaining expenses related to the environment, other than those incurred for the acquisition of fixed assets, are considered expenses for the financial year.

With regard to possible environmental contingencies, the Company considers that these are sufficiently covered by the civil liability insurance policies that it has taken out.

4.7 Related party transactions

The Company carries out all its transactions with related parties at market value. Transfer prices are adequately supported and consequently the Company's Directors consider that no significant risks exist in this respect from which significant liabilities could arise in the future.

4.8 Current and non-current classification

Assets classified as current assets are all those related to the Company's normal operating cycle, generally one year, and other assets expected to mature, or to be sold or realized in the short term from the end of the reporting period, financial assets held for trading, with the exception of financial derivatives whose settlement term exceeds one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Current liabilities are those associated with the normal operating cycle, financial liabilities held for trading, with the exception of those financial derivatives whose settlement period exceeds one year and, in general, all obligations that mature or expire in the short term. All other liabilities are classified as non-current.

4.9 Share-based payments

The Company classifies its share-based settlement plan for executive directors and senior management according to the manner of settling the transaction:

a) In shares in the parent company of the Enagás Group which passes the cost on to the Company: 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 in Note 14.2.1 with a credit to "Other equity instruments" in the accompanying balance sheet.

b) In cash: Personnel expenses is determined based on the fair value of the liability at the date that recognition requirements are met. This expense is recognized over the stipulated period during which employee services are rendered in Note 14.2.1 with a credit to "Long-term 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.

4.10 Pension commitments

Enagás Financiaciones, S.A.U. makes contributions, in accordance with the approved pension plan adapted to the provisions of the Spanish Pension Plans and Funds Act, to a defined contribution plan called "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and its custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Company's obligations with respect to serving employees. It recognizes certain consolidated rights for past service and undertakes to make monthly contributions averaging 3.91% (3.46% in 2017) of eligible salary. It is a mixed plan covering retirement benefits, disability and death. The total number of people adhered to the plan at December 31, 2018 totalled two participants (three participants at December 31, 2017) (See Note 14.2).

Contributions in each year under this item are recorded in the "Personnel Expenses" chapter of the Income Statement, on the accruals basis. At December 31, 2018 there were no amounts pending payment with respect to this item. At the end of the financial year, unpaid accrued contributions are recorded in the Personnel line under the "Trade creditors and other accounts payable" liabilities item on the Balance Sheet.

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.

5.- Financial assets

5.1 Financial investments (short- and long-term)

Long-term financial investments

The breakdown of "Long-term financial investments" at year-end 2018 and 2017 is as follows:

Classes / Categories	Long-term financial instruments					
	Equity instruments		Loans, derivatives, and other		**Total**	
	2018	2017	2018	2017	**2018**	**2017**
Loans and receivables	-	-	3,767,658	2,950,651	**3,767,658**	**2,950,651**
Financial assets available for sale	7,822	4,478	-	-	**7,822**	**4,478**
Total	**7,822**	**4,478**	**3,767,658**	**2,950,651**	**3,775,480**	**2,955,129**

Loans and receivables

The items included in this item are related to loans granted by Enagás Financiaciones S.A.U, net of commissions, to certain companies belonging to the Enagás Group.

The variation of these credits corresponds basically to:

- As a result of what is stated in Note 9, the Company, in its new position as a lender in accordance with the Assignment Agreements signed on February 9 and November 7, 2018, had a greater volume of loans with Group companies. amounting to 1,056,515 thousands of euros (151,742 thousands of euros classified in the short term), of which during the year 2018, an amount of 90,000 thousands of euros was amortized.

- Additionally, on December 31, 2018, the Company signed certain Assignment Agreements for some existing intra-group loans with the borrowing companies Enagás Transporte, S.A.U. (including those discussed above) and Enagás Internacional, S.L.U. Under said agreements, Enagás, S.A. takes over the position of lender from the Company in the amount of 1,749,474 thousands of euros (144,102 thousands of euros classified as short-term).

In this way, and based on the above, as of December 31, 2018, the following credits are recorded:

- Credit granted to the company Enagás, S.A. amounting to 3,276,534 thousands of euros (1,389,921 thousands of euros as of December 31, 2017).
- Credit granted to the Enagás Transporte, S.A.U. amounting to 238,415 thousands of euros (845,303 thousands of euros as of December 31, 2017).
- Credit granted to the company Enagás Internacional, S.L.U. amounting to 237,499 thousands of euros (690,627 thousands of euros as of December 31, 2017).
- Credit granted to the company Enagás GTS, S.A.U. amounting to 15,210 thousands of euros (24,800 thousands of euros as of December 31, 2017).

These loans are subject to market interest rates.

Financial assets available for sale

The "Available-for-sale financial assets" item includes the investment in sixteen Economic Interest Groupings (hereinafter "AIE") as of December 31, 2018 (sixteen AIE as of December 31, 2017), whose activity is leasing assets directed by another entity not related to the Company, which retains both the majority of the benefits and the risks of the activity, with the Company taking only tax incentives regulated by Spanish legislation. The Company attributes the tax loss carry forwards generated by these AIEs against shares and takes account of the debt registered with the Tax Authorities, recognizing the corresponding financial income (see note 13.1).

On November 28, 2018, the Company acquired 49% of the share capital of a new Company, Puerto de Alcanar, A.I.E., for an amount of 490 euros.

On September 13, 2017, the Company acquired 45% of the capital stock of five new AIEs.: Mar de Botos, A.I.E., Mar de Ferreiros, A.I.E., Puerto de Tamariu, A.I.E., Mar de Fofe, A.I.E. and Puerto de Aiguafreda, A.I.E., for 2,250 thousands of euros.

The detail of the shares of each of the A.I.E. discussed above, as of December 31, 2018 and 2017 is as follows.

2018

Company	Disbursements in the year	Pending disbursements	BIN applied (see Note 12.6)	Financial investment available for sale	Short-term financial liabilities (see Note 9)	Other income (see Note 13.1 and 14.1)
Mar de Gedrez, A.I.E.	-	-	381	-	-	22
Mar de Grullos, A.I.E.	-	-	375	-	-	21
Mar de Godos, A.I.E.	-	-	404	-	-	21
Mar de Gillón, A.I.E.	-	-	327	-	-	20
Mar de Zalla, A.I.E.	-	-	390	-	-	47
Mar de Zubero, A.I.E.	-	-	364	-	-	47
Mar de Arzúa, A.I.E.	-	-	538	-	-	62
Mar de Argolada, A.I.E.	-	-	594	-	-	67
Puerto de Calella, A.I.E.	-	-	1,659	-	-	247
Puerto de Llafranc, A.I.E.	4,870	-	1,758	1,342	-	202
Mar de Botos, A.I.E.	5,827	-	2,190	2,321	-	291
Mar de Ferreiros, A.I.E.	4,841	-	1,862	1,518	-	279
Puerto de Tamariu, A.I.E.	5,044	-	1,869	2,108	-	229
Mar de Fofe, A.I.E.	-	4,990	1,926	-	3,065	211
Puerto de Aiguafreda, A.I.E.	-	4,989	1,904	-	2,431	212
Puerto de Alcanar, A.I.E.	4,361	12,618	3,892	533	-	64
Total	**24,943**	**22,597**	**20,433**	**7,822**	**5,496**	**2,042**

2017

Company	Disbursements in the year	Pending disbursements	BIN applied (see Note 12.6)	Financial investment available for sale	Short-term financial liabilities (see Note 9)	Other income (see Note 13.1 and 14.1)
Mar de Godán, A.I.E.	-	-	869	-	-	155
Mar de Gedrez, A.I.E.	2,227	-	807	359	-	89
Mar de Grullos, A.I.E.	2,245	-	813	354	-	83
Mar de Godos, A.I.E.	2,244	-	815	383	-	85
Mar de Gillón, A.I.E.	1,982	-	667	307	-	79
Mar de Zalla, A.I.E.	1,545	-	465	343	-	66
Mar de Zubero, A.I.E.	1,546	-	460	317	-	67
Mar de Arzúa, A.I.E.	2,137	-	711	476	-	88
Mar de Argolada, A.I.E.	2,138	-	679	527	-	84
Puerto de Calella, A.I.E.	4,768	-	1,885	1,412	-	269
Puerto de Llafranc, A.I.E.	-	4,870	1,815	-	1,972	202
Mar de Botos, A.I.E.	0.45	5,826	1,679	-	1,604	75
Mar de Ferreiros, A.I.E.	0.45	4,841	1,811	-	1,741	70
Puerto de Tamariu, A.I.E.	0.45	5,043	1,353	-	1,295	57
Mar de Fofe, A.I.E.	0.45	4,989	1,405	-	1,351	53
Puerto de Aiguafreda, A.I.E.	0.45	4,989	794	-	741	53
Total	**20,834**	**30,558**	**17,028**	**4,478**	**8,704**	**1,575**

Short-term financial investments

The breakdown of "Short-term financial investments" at year-end 2018 and 2017 is as follows:

Categories \ Classes	Short-term financial instruments			
	Loans, derivatives, and other		**Total**	
	2018	2017	**2018**	**2017**
Loans and receivables	187,155	45,052	187,155	45,052
Total	**187,155**	**45,052**	**187,155**	**45,052**

The most significant facts in 2018 under "Short-term loans and receivables" of the accompanying Balance Sheet were as follows:

- Assignment agreements signed during 2018 by which the Company acquires the right to collect from Enagás S.A. of certain intra-group credits, as explained above.

The following items were also recorded at December 31, 2018 under "Short-term loans and receivables" of the accompanying Balance Sheet:

- Interest accrued on loans pending collection and receivables from group companies amounting to 27,093 thousands of euros.
- Credit with Tax Group companies for the account receivable for Corporation Tax in the amount of 18,314 thousands of euros.

The gross average rate for 2018 and 2017 corresponding to the loans granted to the Group companies was 1.8% and 2.2%, respectively.

The detail by maturity of the loans and receivables in the Credits heading, derivatives and others is as follows:

<u>2018</u>

	2019	2020	2021	2022	2023 and later years	Valuation adjustments and/or other transaction costs	Total
Loans and receivables	187,155	121,742	419,527	1,067,861	2,194,456	(35,928)	**3,954,813**
Total	**187,155**	**121,742**	**419,527**	**1,067,861**	**2,194,456**	**(35,928)**	**3,954,813**

<u>2017</u>

	2018	2019	2020	2021	2022 and later years	Valuation adjustments and/or other transaction costs	Total
Loans and receivables	45,052	-	-	370,675	2,623,012	(43,036)	**2,995,703**
Total	**45,052**	**-**	**-**	**370,675**	**2,623,012**	**(43,036)**	**2,995,703**

5.2 Information on the type and level of risk associated with financial instruments and capital

5.2.1. Qualitative information

The Company Enagás Financiaciones S.A.U. is exposed to certain risks which it manages with a risk control and management model, established at Enagás Group level, 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 Company'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.
- Separation and independence of risk control and management functions articulated in three lines of "defence".
- The existence of governing bodies responsible for matters relating to risk exposure.
- Establishing a risk appetite framework which defines the risk levels considered acceptable and that are in line with business objectives and the market environment in which the activities are carried out.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The integral analysis of all risks permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. The Enagás Group has established a regulatory framework through the 'Risk Control and Management Policy' and the 'General Regulations for Risk Control and Management', which define the basic principles governing risk function and identifies the responsibilities of different departments of the company.

The risk control and management function is articulated around three lines of defence, each presenting different responsibilities:

- First line of defence: constituted by the organisational units that assume risks in the ordinary development of their activities. The organizational units are responsible for identifying and measuring their respective risk exposure.

- Second 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.

- Third line of defence: constituted by the Internal Audit Department, responsible for the efficiency of the risk controls established.

The governing bodies responsible for risk control and management are the following:

- Board of Directors: responsible for approving the risk control and management policy. Its other responsibilities relating to risk have been delegated to the Audit and Compliance Committee.

- Audit and Compliance Committee: whose main functions are to supervise the efficiency of the risk systems and evaluate the risks to the company (identification, measurement and establishment of measures for their management).

- Risks Committee: whose main functions are to establish the overall strategy for risks, establish the limits of global risk for the company, review the level of exposure to risk and the corrective actions should there be any non-compliance.

The main risks of a financial and tax nature to which the Company is exposed are as follows:

<u>Credit risk</u>

Generally, the Company maintains its cash and equivalent liquid assets in financial institutions with a high credit rating. As the transactions are carried out almost entirely with Group shareholder companies, there is no significant third party credit risk.

<u>Interest rate risk</u>

Interest rate fluctuations affect the fair value of those assets and liabilities that accrue interest at fixed rates, and the future cash flows from assets and liabilities that accrue interest at floating 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. For this purpose, hedging transactions are performed through the contracting of derivatives.

<u>Liquidity risk</u>

In order to ensure liquidity and be able to meet all the payment commitments deriving from its activity, the Company has the cash and equivalents shown its balance sheet, as well as the financial support of its shareholders with whom it maintains its main debtor and creditor positions.

Tax risk

The Company 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 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 Company.

5.2.2. Capital Management

The Company carries out capital management at corporate level and its objectives are to ensure financial stability and obtain sufficient financing from investments, optimizing the cost of capital in order to maximize the value created 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).

Financial leverage of the Enagás Group at December 31, 2018 and 2017 was as follows (consolidated figures in thousands of euros):

	2018	**2017**
Debts with credit institutions	1,363,035	1,582,119
Debentures and other marketable securities	4,089,530	4,050,526
- Adjustment to show the amortized cost of the Aflac Bonus	(10,300)	(1,587)
Loans from the General Secretariat of Industry, General Secretariat of Energy and Omán Oil.	3,931	4,509
Gross financial debt	**5,446,196**	**5,635,567**
Cash and cash equivalents	(1,171,543)	(627,864)
Net financial debt	**4,274,653**	**5,007,703**
Shareholders' equity	2,658,758	2,585,639
Financial leverage	**61.7%**	**65.9%**

6.- Trade and other receivables

As of December 31, 2018 and 2017, the balance of 34 thousands of euros and 60 thousands of euros, respectively, corresponds mainly to various debtors as well as debit accounts with the respective tax authorities for the VAT settlement.

7.- Cash and cash equivalents

The detail of this heading at December 31, 2018 and 2017 is as follows:

	2018	**2017**
Treasury	5,584	2,458
Total	**5,584**	**2,458**

Generally, the banked cash accrues interest at rates similar to daily market rates.

In this regard, available funds at December 31, 2018 and 2017 are as follows:

	2018	2017
Treasury	5,584	2,458
Other funds available	-	300,000
Total	**5,584**	**302,458**

As of December 31, 2018, the Company has no financial resources available, having been cancelled on October 25, 2018 (300,000 thousands of euros as of December 31, 2017) (see Note 9).

There are no significant restrictions on the availability of cash and bank balances.

8 - Equity and Shareholders' equity

8.1 Share capital and Issue premium

At December 31, 2018 and 2017, the Company's share capital was 890 thousands of euros, represented by 8,900 shares with a nominal value of 100 euros each, all of the same class and fully subscribed and paid in by the Sole Shareholder, Enagás, S.A.

8.2 Legal reserve

Pursuant to article 274 of the Spanish Corporate Enterprises Act, 10% of the profits for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital. The reserve cannot be distributed and, if used to offset losses, should no other reserves be available for this purpose, must be replenished with future profits.

At year-end 2018 the legal reserve was fully allocated.

8.3 Treasury shares

At year-end 2018, the Company held no treasury shares.

8.4 Other contributions from partners

This heading includes balances related to the long-term incentive plan (ILP) payable in shares (see Note 14.2.1), as well as those contributions made by Enagás, S.A to its subsidiaries with beneficiaries in accordance with Consultation 7 published in BOICAC No.75/2008.

8.5 Adjustments for changes in value

Hedging transactions

Corresponds to the derivatives designated as cash flow hedges associated with the debt acquired by the Company through the agreements of assignment of contractual position signed during the year 2018 (see Note 9).

The changes in 2018 in these operations were as follows:

	Thousands of euros			
	Opening balance	**Change in market value**	**Taken to profit and loss**	**Closing balance**
Cash flow hedges	-	(1,968)	567	(1,401)
Taxes recognised in equity (see Note 12.5)	-	492	(142)	350
Total	**-**	**(1,476)**	**425**	**(1,051)**

9.- Financial liabilities (short- and long-term)

Long-term financial liabilities

The breakdown of "Long-term debts" at year-end 2018 and 2017 is as follows:

	Thousands of euros							
Classes / **Categories**	Long-term debts							
	Financial liabilities with credit institutions		Debentures and other marketable securities		Derivatives and other financial liabilities		**Total**	
	2018	2017	2018	2017	2018	2017	**2018**	**2017**
Payables	811,395	-	2,956,934	2,947,732	-	-	**3,768,329**	**2,947,732**
Derivatives	-	-	-	-	113	-	**113**	**-**
Total	811,395	-	2,956,934	2,947,732	113	-	**3,768,442**	**2,947,732**

The "Debit and long-term payables" caption of the accompanying Balance Sheet includes mainly the following financial instruments, as well as their associated fees:

Financial liabilities with credit institutions

- On February 9, 2018, the Company signed a contract for the assignment of the contractual position of the existing credit agreements between Enagás S.A. (assignor entity and former borrower entity) and El Instituto de Crédito Oficial "ICO" (lending entity). After signing this contract, the Company acquires the obligation to pay a total amount of 395,000 thousands of euros to the credit institution (90,000 thousands of euros classified to short-term).

  During financial year 2018, short-term reclassifications of ICO were made amounting to 80,000 thousands of euros.

- On November 7, 2018, the Company signed a contract for the assignment of the contractual position of the existing credit agreements between Enagás S.A. (assignor entity and former borrower entity) and the European Investment Bank or "EIB" (lending entity). After signing this contract, the Company acquires the obligation to pay a total amount of 661,515 thousands of euros to the credit institution (61,742 thousands of euros classified to short-term).

  During financial year 2018, short-term reclassifications of EIB loans were made amounting to 12,500 thousands of euros.

Debentures and other marketable securities

- On March 27, 2014 Enagás Financiaciones, S.A.U. issued 8-year bonds for an amount of 750,000 thousands of euros with an annual coupon of 2.50%, guaranteed by Enagás, S.A. The disbursement date was April 11, 2014.

- On January 23, 2015, Enagás Financiaciones, S.A.U. carried out a 10-year bond issue amounting to 600,000 thousands of euros with an annual coupon of 1.25%, guaranteed by Enagás, S.A., whose funds were disbursed on February 6, 2015.

  Part of this bond, 259,200 thousands of euros, was used to partially pay 282,300 thousands of euros of a previous bond issue amounting to 750,000 thousands of euros with a coupon of 4.25%, maturing on October 5, 2017, and the amount not subject to such exchange being fully paid as of December 31, 2017.

- On March 10, 2015, Enagás Financiaciones S.A.U. carried out an issue of 8-year bonds for 400,000 thousands of euros with an annual coupon of 1.00%, guaranteed by Enagás, S.A. The bonds were exchanged in their entirety for bonds issued previously for the same amount at a variable rate and maturing in 2016. The funds for this issue were disbursed on March 25, 2015.

- On April 26, 2016, Enagás Financiaciones, S.A.U. carried out a 12-year bond issue amounting to 750,000 thousands of euros with an annual coupon of 1.375%, guaranteed by Enagás, S.A., the funds for which were disbursed on May 5, 2016.

- On October 19, 2016, Enagás Financiaciones, S.A.U. carried out a 10-year bond issue amounting to 500,000 thousands of euros with an annual coupon of 0.75%, guaranteed by Enagás, S.A., the funds for which were disbursed on October 27, 2016.

Derivatives and other financial liabilities

- On February 9, 2018 and November 7, 2018, Enagás Financiaciones, S.A.U. signed a contract to novate its contractual position through which it took over the position of Enagás S.A. with Santander, BBVA and Societe Generale in relation to the cash flow hedging transactions entered into to cover the risks of the ICO and EIB loans, transferred on the same date as indicated above.

At December 31, 2017, the Company had granted a line of credit with a limit of 300,000 thousands of euros, which had not been disposed of at the end of the year, and was cancelled during financial year the 2018 (see Note 7).

On May 9, 2018, the company renewed the Euro Medium Term Note (EMTN) programme for the amount of 4,000,000 thousands of euros, registered in the Luxembourg Stock Exchange in 2012, with Enagás, S.A. as guarantor.

The average rate of net debt contracted by the Company in euros at the end of financial year 2018 was 1.6% (2% in financial year 2017), there being no debt in foreign currency.

Short-term financial liabilities

The balance of the "Short-term debt" caption at December 31, 2018 and December 31, 2017 is as follows:

Classes / Categories	Thousands of euros							
	Short term debts							
	Debts with credit institutions		Debentures and other marketable securities		Derivatives and other financial liabilities		**Total**	
	2018	2017	2018	2017	2018	2017	**2018**	**2017**
Payables	142,262	-	31,357	31,354	5,496	8,704	**179,115**	**40,058**
Derivatives	-	-	-	-	1,474	-	**1,474**	**-**
Total	142,262	-	31,357	31,354	6,970	8,704	**180,589**	**40,058**

The most significant facts in 2018 under "Short-term debts and payables" of the accompanying Balance Sheet were:

- The change in financial year 2018 in the "Debts to credit institutions" and "Derivatives and other financial liabilities" captions relates mainly to the transfer of the contractual position of the ICO and EIB loans, as well as the cash flow hedging transactions associated with said debts, by Enagás, S.A. to the Company, as explained above.
- Amortization of debt with credit institutions amounting to 102,500 thousands of euros.
- Reclassifications of debt with credit institutions amounting to 92,500 thousands of euros.

Additionally, the "Short-term debts and payables" of the accompanying Balance Sheet recorded 37,499 thousands of euros corresponding to:

- Financial liabilities held by the Company at December 31, 2018 as a result of the holdings in the various A.I.E.'s, amounting to 5,496 thousands of euros (8,704 thousands of euros in 2017) (see Note 5.1). Said debt will be compensated through the imputation of the taxable negative bases that these A.I.E.'s are generating.
- Interest on fixed-rate bonds for an amount of 31,354 thousands of euros, which will be paid in the following year (31,354 thousands of euros at the end of 2017).
- Interest on debts with credit institutions in the amount of 649 thousands of euros, which will be subject to payment in the following year (arising as a result of the loan assignments discussed above).

In relation to debentures and other marketable securities, although at December 31, 2018, Enagás Financiaciones, S.A.U. had no balances under these items, under this heading, the Company records the Euro Commercial Paper (ECP) programme, in a maximum amount of 1,000,000 thousands of euros, registered on the Irish Stock Exchange in 2017 and renewed on May 10, 2018. Banco Santander, S.A. is the arranger (coordinator of the operation) of the programme, an entity that together with 9 other banks, acts as a designated dealer (broker). During financial year 2018, issues and returns were made that amounted to 2,256,569 thousands of euros.

The breakdown by maturity of these debts, excluding the debt corresponding to the A.I.E.'s, is shown in the following table:

<u>**2018**</u>

	2019	2020	2021	2022	2023 and later years	Valuation adjustments and/or other transaction costs	Total
Debentures and other marketable securities	31,357	-	10,000	750,000	2,250,000	(53,066)	**2,988,291**
Debts with credit institutions	142,392	121,742	121,742	111,742	457,045	(1,006)	**953,657**
Derivatives	1,474	113	-	-	-	-	**1,587**
Total	**175,223**	**121,855**	**131,742**	**861,742**	**2,707,045**	**(54,072)**	**3,943,535**

2017

	2018	2019	2020	2021	2022 and later years	Valuation adjustments and/or other transaction costs	Total
Debentures and other marketable securities	31,354	-	-	10,000	3,000,000	(62,268)	**2,979,086**
Total	**31,354**	**-**	**-**	**10,000**	**3,000,000**	**(62,268)**	**2,979,086**

10. - Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to future business, operating and cash flow risks. Under these operations, the Company has interest rate swaps (IRS) under market conditions (see Note 9).

The Company has met the requirements set out in Note 4.1.3 regarding the measurement bases for financial instruments to qualify as hedges. Specifically, they have been formally designated as such and it has been verified that the hedge was effective at December 31, 2018 for all the Company's instruments.

The fair value of the derivative financial instruments of the Company as of December 31, 2018 is presented below:

2018

					Fair value (Thousands of euros)	
Category	**Classification**	**Type**	**Contracted amount (thousands of euros)**	**Maturity**	**Assets**	**Liabilities**
Interest rate swap	Cash flow hedges	Floating to fixed	150,000	Dec-2019	-	696
Interest rate swap	Cash flow hedges	Floating to fixed	150,000	Jan-2020	-	412
Interest rate swap	Cash flow hedges	Floating to fixed	65,000	Mar-2020	-	479
Total			**365,000**		**-**	**1,587**

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)	Currency	Maturity	Total	2019	2020
150,000	Euros	December-2019	696	696	-
150,000	Euros	January-2020	412	396	16
65,000	Euros	March-2020	479	382	97
365,000			**1,587**	**1,474**	**113**

During financial year 2018, no new hedging transactions were contracted.

11.- Trade and other payables

The detail "Trade and other payables" at year-end 2018 and 2017 was as follows (in thousands of euros):

	2018	2017
Suppliers	9	11
Suppliers, group companies and associates	31	611
Other payables	-	31
Personnel	108	44
Tax Authorities, creditor (see Note 12.2)	9	10
Total	**157**	**707**

As of December 31, 2018 and 2017, the balance of the "Trade and other payables" caption in the accompanying Balance Sheet mainly includes the debt to suppliers of the group's companies for management support services in a total amount of 31 thousands of euros in financial year 2018 (611 thousands of euros in financial year 2017) and debt to staff in the amount of 108 thousands of euros (44 thousands of euros at the end of 2017), which basically corresponds to the Long Term Incentive Plan described in Note 14.2.1.

11.1 Information on average payment period. Additional provision three. "Disclosure requirement" set out in Law 15/2010, of July 5.

Below follows the information required by Additional provision three of Law 15/2010, of July 5, (amended by Final provision two of Law 31/2014, of December 3), prepared in accordance with the ICAC Resolution of January 29, 2016 regarding information to be included in the Notes to the Financial Statements in relation to the average payment period to suppliers in commercial transactions.

The detail of the information required by the third additional provision of Law 15/2010 of December 5, is as follows:

	2018	2017
	Days	**Days**
Average payment period to suppliers	43	28
Ratio of paid operations	43	32
Ratio of operations pending payment	48	11

	2018	2017
	Amount (Thousands of euros)	**Amount (Thousands of euros)**
Total payments made	1,799	1,506
Total pending payments	7	360

In accordance with the ICAC Resolution, the calculation of the average payment period to suppliers takes into consideration the commercial transactions corresponding to the delivery of goods or rendering of services accrued since the date of the entry into force of Law 31/2014, of December 3.

For the exclusive purposes of providing the information set forth in this resolution, payable to suppliers are considered to be trade payables owed to suppliers of goods or services included in "Suppliers" under current liabilities in the balance sheet.

"Average payment period to suppliers" is understood to be the time that passes between the delivery of the goods or rendering of the service by the supplier and the material payment for the transaction.

The maximum payment term applicable to the Company in 2018 under Law 3/2004, of December 29, establishing measures to combat late payments in commercial transactions, is 60 days. In order to obtain the foregoing information, payment obligations that have been the object of withholdings as a result of embargoes, enforcement orders, administrative compensation proceedings, or other similar acts handed down by legal or administrative bodies were excluded.

12.- Public Administrations and Tax situation

12.1 Tax framework applicable

As a result of the entry into force of the new Corporation Tax Law (Law 27/2014, of November 27) on January 1, 2015, the corporate income tax rate for financial year 2018 was lowered to 25%.

12.2 Current balances with the Public Administrations

The breakdown of current balances with the Public Administrations is as follows:

Credit balances:

	2018	2017
Accounts payable by the Tax Authorities for VAT	10	43
Total credit balances	**10**	**43**

Debit balances:

	2018	2017
Accounts payable to the Tax Authorities for withholdings	9	10
Total debit balances (see Note 11)	**9**	**10**

Enagás Financiaciones, S.A.U. mainly engages in operations of a financial nature, operations that are declared subject to and exempt from Value Added Tax pursuant to article 20.1.18 of the Law on Value Added Tax. Accordingly, it will not be able to deduct the VAT quotas borne and it will therefore be a higher cost for the Company (which can be deducted via the Corporate Tax expense).

12.3 Income tax

The Company has filed consolidated tax returns since January 1, 2013 with several Group companies (see Note 4.3), which means that the results of the tax group and the tax credits and tax relief are calculated on an aggregate basis.

Corporate income tax is calculated on the basis of the Group's accounting profit/loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the Group's taxable profit/tax loss.

12.4 Reconciliation of accounting profit and taxable income

The reconciliation between the accounting result and the corporate income tax base is as follows:

	2018			2017		
	Income statement			Income statement		
	Increases	Decreases	Total	Increases	Decreases	Total
Accounting profit before tax	8,407	-	**8,407**	8,024	-	**8,024**
Charging of A.I.E. tax bases.	-	(81,730)	**(81,730)**	-	(68,114)	**(68,114)**
Provisions for personnel remuneration	69	-	**69**	76	-	**76**
Taxable income	8,476	(81,730)	**(73,254)**	8,100	(68,114)	**(60,014)**

During 2018 and 2017, adjustments were made to the Tax Base charging the negative tax bases of the AIEs in which the Company has an interest (see Note 5.1), amounting to 81,730 thousands of euros in the financial year 2018 and 68,114 thousands of euros in the financial year 2017.

12.5 Tax recognized in equity

The breakdown of taxes recognized directly in equity during 2018 is as follows:

	Thousands of euros		
	Increases	Decreases	Total
Current tax liabilities:			
Total current tax	-	-	-
For deferred tax:			
Originating in the financial year (Note 8.5):			
Valuation of other financial assets	492	(142)	350
Total deferred tax	**492**	**(142)**	**350**
Total income tax recognized directly in equity	**492**	**(142)**	**350**

At December 31, 2017, the Company had no derivative financial instruments (see Notes 9 and 10).

12.6 Reconciliation between Accounting result and corporate tax expense

The reconciliation between the Company's accounting result and its Corporate income tax expense is as follows:

	Thousands of euros	
	2018	**2017**
Accounting profit before tax	**8,407**	**8,024**
Rate at 25%	2,102	2,006
Charging of negative tax bases	**(20,433)**	**(17,028)**
Adjustments to income tax rate:	**20,439**	**17,028**
Negative adjustments in taxation without benefits	6	
Positive adjustments in taxation without benefits (Note 5.1)	20,433	17,028
Total expense / (income) for tax recognized in the Income Statement	**2,108**	**2,006**

Additionally, we must indicate that no tax expenses directly attributable to equity have been generated.

12.7 Breakdown of corporation tax expense

The breakdown of corporation tax expense is as follows:

	2018	2017
Current tax:		
For continuing operations	(18,313)	(15,003)
For discontinued operations	-	-
Deferred tax:		
For continuing operations	(18)	(19)
For discontinued operations	-	-
Adjustments to income tax rate:		
For continuing operations	20,439	17,028
For discontinued operations	-	-
Total expense / (income) for tax	**2,108**	**2,006**

12.8 Deferred tax assets registered

The breakdown of this heading at year-end 2018 and 2017 was as follows:

	2018	2017
Tax loss carry forwards	10	10
Provision for remuneration	45	28
Temporary differences derivatives	350	-
Total deferred tax assets	**405**	**38**

These deferred tax assets were recognized in the balance sheet since the Company's Directors consider that, based on the best estimates of future results, it is likely that these assets will be recovered.

The Company does not hold any deferred tax assets that are not recognized in the accompanying balance sheet.

12.9 Years open to tax verification and inspections

In conformity with current legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.
As stated in Note 4.3, the Company was a member of consolidated Corporation Tax group 493/12. In March 2017, general verification activities were initiated by the State Tax Administration Agency for the consolidated group in the Corporate income tax, covering the years 2013 to 2015. Said notification was sent to Enagás S.A. as the parent company of the tax group and at the close of the financial year the proceedings are still ongoing.

At year-end 2018, Enagás Financiaciones S.A.U. had financial years 2014 to 2018 open for inspection with respect to applicable taxes. The Company's Directors consider that all taxes mentioned have been duly paid so that the resulting potential tax liabilities, if any, would not have a material impact on the accompanying Financial Statements.

13.- Income and expenses

13.1 Revenue

The net amount of turnover in financial year 2018 and 2017 amounts to 65,726 thousands of euros and 78,653 thousands of euros, respectively. These revenues correspond mainly to the interest generated during financial years 2018 and 2017 for the loan granted to Enagás, S.A., Enagás Transporte, S.A.U., Enagás Internacional, S.L.U. and Enagás GTS, S.A.U., for an amount of 63,065 thousands of euros and 76,286 thousands of euros, respectively, as well as the provision of financing management services to Group companies amounting to 619 thousands of euros and 792 thousands of euros, respectively.

Activities	2018	2017
Provision of services	**619**	**792**
Services to group companies and other related parties (see Note 14.1)	619	792
Income from long-term loans to group companies and associates (see Note 14.1)	**63,065**	**76,286**
Other income (see Notes 5.1 and 14.1)	**2,042**	**1,575**
Revenue	**65,726**	**78,653**

Likewise, during financial years 2018 and 2017, the "Other income" caption includes the income from the investments in the AIEs, amounting to 2,042 thousands of euros and 1,575 thousands of euros respectively (see Notes 5.1 and 14.1). This corresponds to the difference between the contributions made and the profit obtained from the charging of its negative tax bases in the determination of the account payable of the Corporation Tax (see Note 12.4).

13.2 Income and expenses

The breakdown of the financial result for 2018 and 2017 is as follows:

Thousands of euros	**2018**	**2017**
Financial income	-	-
Financial income	**-**	**-**
Finance and similar expenses	(582)	(3)
Loan interest	(54,868)	(68,470)
Financial expenses	**(55,450)**	**(68,473)**
Net financial gain (loss)	**(55,450)**	**(68,473)**

Financial expenses mainly relate to the interest and commissions associated with the financing received through bond issues (see Note 9).

It should be noted that expenses for interest on loans were calculated by using the effective interest rate method.

14.- Related parties transactions and balances

14.1 Related party operations

In addition to subsidiaries, associates, and joint ventures, the Company'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 following presents the transactions during financial years 2018 and 2017 with parties related to Enagás Financiaciones, S.A.U. It distinguishes between the Sole Shareholder, members of the Board of Directors and Directors of the Company and other related parties. The terms of transactions with related parties are equivalent to those made on an arm's length basis and the corresponding remuneration in kind has been recorded.

The table below includes the transactions carried out by the Company with related parties in 2018 and 2017:

Revenue	Parent Company (Enagás S.A.)		Other related parties		Total	
	2018	2017	2018	2017	2018	2017
Income:						
Loan income (see Note 13.1)	33,528	48,198	29,537	28,088	63,065	76,286
Provision of services (see Note 13.1)	-	-	619	792	619	792
Other income (see Notes 5.1 and 13.1)	-	-	2,042	1,575	2,042	1,575
Total income	**33,528**	**48,198**	**32,198**	**30,455**	**65,726**	**78,653**

It should be noted that "Other related parties" includes, among others, the commissions and interest accrued by Enagás Financiaciones, S.A.U. based on the financing granted to other Enagás Group companies in which the Company does not have a direct interest (see Notes 5 and 13.1), as well as the income from the investments in the A.I.E. (see Note 5.1).

These loans granted amounted to 3,954,813 thousands of euros at December 31, 2018 (2,995,703 thousands of euros as of December 31, 2017) and are recorded as investments in group companies and long and short-term associates (see Note 5), including the credit with Enagás, S.A. for belonging to the Tax Group in the amount of 18,314 thousands of euros (15,004 thousands of euros as of December 31, 2017).

The heading "Trade debtors and other accounts receivable" includes an amount of 2 thousands of euros corresponding to group company customers at December 31, 2018, with no amount recorded at the end of the previous year.

Additionally, at December 31, 2018 and 2017, the Company had granted lines of credit to other group companies in the amount of 300,000 thousands of euros, with no disbursals at the close of both years.

14.2 Remuneration for the Board of Directors and Senior Management

The Company did not pay any of its Directors any remuneration for Board membership during the 2018 financial year, nor does it have loans or obligations in respect of pensions or insurance payments for its members. One of the above-mentioned directors is also part of the Company's Senior Management, a position for which he is paid.

The remuneration received during financial year 2018 by the Senior Management of Enagás Financiaciones, S.A.U., (consisting of two people, one belonging to the Board of Directors) and classified by item, was as follows:

	Salaries	Other items	Pension plans	Insurance premiums	Savings Insurance
Senior Management	249	12	8	1	24
Total	**249**	**12**	**8**	**1**	**24**

The members of Senior Management are beneficiaries of the Long-Term Incentive Plan ("ILP"), broken down as follows:

14.2.1 Share-based payments

On March 18, 2016, the Enagás, S.A. General Shareholders' Meeting approved a Long-Term Incentive Plan (ILP) aimed at executive directors and senior management of the Company and its group of companies, 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 of an extraordinary mixed multi-year incentive which will permit the beneficiaries to receive, after a certain period of time, a bonus payable in (i) Enagás, S.A. shares and (ii) cash; provided that certain strategic objectives of the Enagás Group are met.

With respect to the portion payable in shares, a maximum of 307,643 shares are deliverable, all of which will come from the Enagás S.A.'s treasury shares. Furthermore, the beneficiaries of the plan are not guaranteed any minimum value for the assigned shares. The cash part of the plan is limited to an estimated maximum payment of 2.5 million euros should all the objectives be fully met.

This plan is aimed at persons who, due to their level of responsibility on their position in the Enagás Group, contribute decisively to achieving the Company's objectives. The Plan initially designated 43 beneficiaries, notwithstanding the possibility that new recruitments due to mobility or professional level changes may include new beneficiaries during the measurement period.

The objectives set for the evaluation of the achievement of the Plan consist of:

- Accumulated results corresponding to the Funds for Operations ("FFO") of the Enagás Group. This metric shows the financial soundness and net profit growth, which are the cornerstones of the Enagás Group Strategic Plan. It considers both EBITDA and the dividends received from investee companies (considered under the capital method). It is a benchmark indicator for investors. Fulfilling this objective will satisfy the Company forecasts for the distribution of Group, investment and debt amortisation dividends. It is calculated as EBITDA (calculated as operating income minus operating expenses, i.e. "operating profit", plus depreciation and amortisation expenses), plus dividends collected (as defined below), plus charges minus corporate tax payments plus charges less interest payments, plus or minus the applicable adjustments to EBITDA.

- Accumulated cash flow received from affiliates under the capital method ("Dividend"). This shows the focus on international growth and a realistic and profitable investment plan as the cornerstones of the Strategic Plan. It is calculated as the cash flows received from investee companies (considered under the capital method), calculated at a fixed exchange rate.

- Total shareholder return (hereinafter, "TSR"). TSR shall be understood as the difference (expressed as a percentage) between the final value of an investment in ordinary shares and the initial value of that investment, bearing in mind that the calculation of said final value will consider dividends or other similar items (i.e. script dividends) received by the shareholder for said investment during the corresponding period. This metric shall be calculated against the Comparison Group formed by fifteen companies.

- Compliance with the Sustainability Plan. Sustainability understood as a framework for developing Enagás' business. The following aspects of the Company's Sustainability Plan will be assessed: carbon footprint, equality (non-discrimination) and other matters (employee commitment, customer satisfaction, volunteer programmes, sponsorship, etc.).

As established in BOICAC No. 75/2008, consultation no. 7, given that the part settled by actions of the plan is assumed by the parent company Enagás, S.A., this operation is a contribution from the partner. Therefore, in accordance with the provisions of the above-mentioned consultation of the Conceptual Accounting Framework, this amount has been recorded in the "Other contributions from partners" item of the net assets of the Company's Balance Sheet at December 31, 2018 in the amount of 53 thousands of euros, with its counterpart being the "Personnel Expenses" item in the income statement (21 thousands of euros corresponding to 2018). In this regard, the Company 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.

For the valuation of this programme, the parent company Enagás, S.A. used the Monte-Carlo model, widely used in financial practice for the valuation of options, in order to include the effect of market conditions in the valuation of the equity instruments granted. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the 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. The breakdown and fair value of the shares at the granting date of the ILP are as follows:

	ILP 2016
Total shares at the grant date	307,643
Fair value of the equity instruments at the granting date (EUR)	26.37
Dividend yield	4.20%
Expected volatility	19%
Discount rate	0.186%

(1) This number of shares reflects the maximum number of shares to be delivered under the plan, and includes both the possibility of achieving the maximum degree of fulfilment of objectives established in the plan (125%) as well as the possibility that new hiring, staff mobility within the Group, or changes in professional levels, lead to the inclusion of new beneficiaries during the measurement period.

Likewise, and for the cash incentive part, the Company has recorded the provision of services corresponding to this incentive as a personnel expense in the Income Statement as of December 31, 2018 in the amount of 24 thousands of euros with payment to the Personnel line under "Trade and other payables" of the current liability of the Balance Sheet at December 31, 2018, since its settlement is estimated at a time prior to the year. 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, 2018, the estimate is made assuming that all the objectives relating to the plan have been 98.03% achieved.

14.3 Information relating to situations of Directors' conflict of interest

In compliance with article 229 et seq. of the Spanish Corporate Enterprises Act (as amended by sole article 17 of Law 31/2014, of December 3, which amends the Spanish Corporate Enterprises Act for the improvement of corporate governance), it is disclosed in these Notes to the Financial Statements that, as of this date, none of the Company's Joint Directors have reported that they or any parties related to them were involved, in 2018, in a conflict of interest, in particular, in any of the cases set forth in said article.

15.- Environmental information

Given the Company's activities, no environmental measures were taken in 2018 or 2017 and there were no possible contingencies, indemnity payments or other environmental risks that the Company could have incurred in this connection.

The Company did not receive any grants or income in 2018 or 2017 as a result of its activities relating to the environment.

16. - Other information

16.1 Personnel

The average number of employees in 2018 and 2017, by professional category, was as follows:

Categories	2018	2017
Management	2	2
Technicians	1	1
Total	**3**	**3**

Also, the distribution of the professional categories by gender at December 31, 2018 and 2017 was as follows:

	2018		2017	
Categories	Men	Women	Men	Women
Management	1	1	1	1
Technicians	-	-	1	-
Total	**1**	**1**	**2**	**1**

"Management" includes senior executive management of Enagás Financiaciones S.A.U.

16.2 Auditors' fees

Fees for financial audit and other services performed in 2018 and 2017 by the Company's auditor, Ernst & Young or by a firm in the same group or related to the auditor, were as follows (in thousands of euros):

Categories	2018	2017
	Services rendered by the auditor of accounts and related companies	Services rendered by the auditor of accounts and related companies
Audit services (1)	19	20
Other assurance services (2)	45	45
Total audit and audit-related services	**64**	**65**

(1) Audit Services: This heading includes services rendered for the performance of audits of the Company's Financial Statements.
(2) Other verification services related to auditing: this amount corresponds in its entirety to the verification work performed on the issuance of comfort letters derived from the bond issue.

17 .- Subsequent events

On March 29, 2019, the General Shareholders' Meeting of Enagás, S.A., approved a Long-Term Incentive Plan for the period 2019-2021. The proposed Plan consists of an extraordinary, multi-annual and mixed incentive, payable in cash and shares of Enagás S.A., linked to the achievement of a series of objectives considered strategic, aligning the interests of the Plan's beneficiaries with the achievement of long-term shareholder value. The Plan may not exceed the delivery of a total of 501,946 shares for all beneficiaries at Group level. Its basic characteristics will undergo development in its corresponding regulation, which must also be approved by the Board of Directors.

There have been no significant events with a material effect on the Financial Statements of the company Enagás Financiaciones, S.A.U. from closure at December 31, 2018 until the date of preparation of these Financial Statements.

18.- Explanation added for translation to English

There abridged Financial Statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2.1). Certain accounting practices applied by the Company that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules.

MANAGEMENT REPORT OF ENAGÁS FINANCIACIONES, S.A.U.

I.-Performance of Enagás Financiaciones, S.A.U. in 2018

Revenue is 65,726 thousands of euros.

The result of the financial year was profit of 6,299 thousands of euros.

Share capital is represented by 900 shares with a par value of 100 euros each, all of the same class and series, fully subscribed and paid by the Sole Shareholder, Enagás, S.A.

II. -Main business risks

The Company Enagás Financiaciones, S.A.U. is exposed to the materialisation of various risks intrinsic to the sector, markets in which it operates and the activities it performs, which could prevent it from achieving its objectives and executing its strategies successfully.

The Enagás Group, to which the Company Enagás Financiaciones, S.A.U. belongs, 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 can adapt itself to the complexity of the Company'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 aspects:

- The consideration of some standard types of risk to which the Company is exposed.
- Separation and independence of risk control and management functions articulated by the Company in three lines of "defence".
- 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.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The integral analysis of all risks 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 activities carried out by Enagás Financiaciones, S.A.U. are controlled and managed through this model and include the following:

1. Credit and Counterparty Risks

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Company has granted net credit which is pending settlement or collection. As the transactions are carried out almost entirely with Group shareholder companies, there is no significant third party credit risk.

Enagás Financiaciones, S.A.U. is also exposed to the risk of possible defaults of its counterparties in the investment of cash surpluses. To mitigate this risk, these operations are carried out in a diversified way over highly solvent entities.

2. Financial and Fiscal Risks

The Company is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could 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. 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. For this purpose, hedging transactions are performed through the contracting of derivatives.

In order to ensure liquidity and be able to meet all the payment commitments deriving from its activity, the Company has the cash and equivalents shown its balance sheet, as well as the financial support of its shareholders with whom it maintains its main debtor and creditor positions.

With respect to tax risk, the Company 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 5.2 of the Financial Statements.

3. 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 inventory of the Company.

III.-Use of financial instruments

The Company does not have hedging financial instruments, insofar as the Enagás Group's financial management is centralized with the Parent, Enagás, S.A. In February 2008, the Board of Directors of Enagás, S.A. approved an interest rate hedging policy devised to align the Company's finance costs with the target rate structure set in its Strategic Plan.

IV.-Outlook

It is expected that in 2019, by granting loans and credits to Enagás Group companies, a positive result will be achieved in the financial year.

V.-Research and development

Given the activity carried out by the Company, no research and development activities have been carried out.

VI.-Transactions with treasury shares

The Company did not carry out any transactions involving treasury shares in 2018.

VII.- Average payment period to suppliers

The Company's average payment period during 2018 was 43 days.

VIII.-Subsequent events

On March 29, 2019, the General Shareholders' Meeting of Enagás, S.A., approved a Long-Term Incentive Plan for the period 2019-2021. The proposed Plan consists of an extraordinary, multi-annual and mixed incentive, payable in cash and shares of Enagás S.A., linked to the achievement of a series of objectives considered strategic, aligning the interests of the Plan's beneficiaries with the achievement of long-term shareholder value. The Plan may not exceed the delivery of a total of 501,946 shares for all beneficiaries at Group level. Its basic characteristics will undergo development in its corresponding regulation, which must also be approved by the Board of Directors.

There have been no significant events with a material effect on the Financial Statements of the company Enagás Financiaciones, S.A.U. from closure at December 31, 2018 until the date of preparation of these Financial Statements.

On March 29, 2019 the Joint Administrators of Enagás Financiaciones, S.A.U., in fulfilment of the requirements established in article 253 of the Corporate Enterprises Act and article 37 of the Commercial Code, authorized the Financial Statements and the Management Report for the financial year ended December 31, 2018, consisting of the signature of those signing for identification purposes, as well as the seal of the Company.

DECLARATION OF RESPONSIBILITY: For the purposes of article 8.1.b) of Spanish Royal Decree 1362/2007, of October 19, the undersigned directors state that, to the best of their knowledge, the Financial Statements prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the Company and that the Management Report includes a fair analysis of the performance and results of the businesses and the situation of the Company, together with the description of the main risks and uncertainties faced.

The Directors of the Company will now sign the aforementioned documents.

(Signed the original in Spanish)

Mr Borja García-Alarcón Altamirano

Joint Director

(Signed the original in Spanish)

Mr Luis Ros Arnal

Joint Director