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, 2019

Building a better
working world

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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 (See Note 18)

To the sole shareholder of ENAGÁS FINANCIACIONES, S.A.U.:

Report on the financial statements

Opinion

We have audited the financial statements of Enagás Financiaciones, S.A.U. (the Company), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of other comprehensive income, the statement of total 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, 2019 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 standards 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters 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 matters.

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 2,997,430 thousand 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 3,842,765 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

Matter-of-emphasis paragraphs

We call attention to Note 14 to the accompanying financial statements, which indicates that the Entity carries out a significant part of its operations with its sole shareholder, Enagás, S.A. as well as other group companies. Our opinion is not modified in respect of this matter.

We call attention to Note 17 to the accompanying financial statements, related to the impact on the company on the current Global Sanitary Emergency, originated by Coronavirus (COVID-19). Our opinion is not modified in respect of this matter.

Other information: management report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the Company’s directors 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 2019 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the directors and the audit committee for the financial statements

The directors are 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 directors are 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 directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company’s financial reporting process.

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 audit committee 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.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on April 20, 2020.

Term of engagement

The sole shareholder's meeting held on April 20, 2019 appointed us as auditors for 3 years, commencing on December 31, 2019.

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 20, 2020

ENAGÁS FINANCIACIONES, S.A.U.

Annual Accounts
at December 31, 2019

Translation of annual accounts 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, 2019

(Thousands of euros)

ASSETS	Notes to the Annual Accounts	Year 2019	Year 2018	EQUITY AND LIABILITIES	Notes to the Annual Accounts	Year 2019	Year 2018
NON-CURRENT ASSETS		**3,677,881**	**3,775,885**	**EQUITY**	Note 8	**35,661**	**19,470**
				SHAREHOLDERS' EQUITY		**35,732**	**20,521**
Long-term investments in group companies and associates	Note 5.1	**3,674,977**	**3,767,658**	**Capital**		**890**	**890**
Loans to companies		3,674,977	3,767,658	Subscribed capital		890	890
				Share premium		**7,270**	**7,270**
Long-term financial investments	Note 5.1	**2,834**	**7,822**	**Reserves**		**12,315**	**6,009**
Equity instruments		2,834	7,822	Legal and statutory		178	178
				Other reserves		12,137	5,831
Deferred tax assets	Note 12.8	**70**	**405**	**Other contributions from partners**		**68**	**53**
				Negative results from previous years		**-**	**-**
				Profit /(loss) for the year	Note 3	**15,189**	**6,299**
				ADJUSTMENTS FOR CHANGES IN VALUE		**(71)**	**(1,051)**
				Hedging transactions		(71)	(1,051)
CURRENT ASSETS		**178,009**	**192,780**	**NON-CURRENT LIABILITIES**		**3,655,921**	**3,768,442**
				Long-term provisions		**17**	**-**
Trade and other receivables	Note 6	**105**	**34**	Obligations for long-term employee benefits		17	-
Customers, group companies and associates		18	2	**Long-term debts**	Note 9	**3,655,904**	**3,768,442**
Other receivables		16	22	Debentures and other marketable securities		2,966,136	2,956,934
Other loans from the Public Administrations	Note 12.2	71	10	Debts with credit institutions		689,768	811,395
				Derivatives		-	113
Short-term investments in group companies and associates	Note 5.1	**167,788**	**187,155**				
Loans to companies		167,788	187,155	**CURRENT LIABILITIES**		**164,308**	**180,753**
				Short-term debts	Note 9	**164,107**	**180,589**
Short-term accruals		**5**	**7**	Debentures and other marketable securities		31,294	31,357
				Debts with credit institutions		122,203	142,262
Cash and cash equivalents	Note 7	**10,112**	**5,584**	Derivatives	Note 10	269	1,474
Treasury		10,112	5,584	Other financial liabilities	Note 5.1	10,341	5,496
				Short-term borrowings from group companies and associates		**7**	**7**
				Trade and other payables	Note 11	**194**	**157**
				Suppliers		56	9
				Suppliers, group companies and associates		62	31
				Other payables		-	-
				Staff (wages pending payment)		64	108
				Other debts with the Public Administrations	Note 12.2	12	9
TOTAL ASSETS		**3,855,890**	**3,968,665**	**TOTAL EQUITY AND LIABILITIES**		**3,855,890**	**3,968,665**

The accompanying Notes 1 to 18 constitute an integral part of the Balance Sheet at December 31, 2019.

ENAGÁS FINANCIACIONES, S.A.U.

INCOME STATEMENT AT DECEMBER 31, 2019
(Thousands of euros)

	Notes to the Annual Accounts	Year 2019	Year 2018
CONTINUING OPERATIONS		**79,768**	**63,857**
Revenue	Note 13.1	**81,329**	**65,726**
Rendering of services		81,329	65,726
Personnel expenses		**(428)**	**(409)**
Wages, salaries and similar		(333)	(324)
Social contributions		(95)	(85)
Other operating expenses		**(1,133)**	**(1,460)**
External services		(1,130)	(1,457)
Taxes		(3)	(3)
OPERATING PROFIT		**79,768**	**63,857**
Financial expenses		**(59,522)**	**(55,450)**
- For borrowings from group companies and associates		-	(94)
- For borrowings from third parties		(59,522)	(55,356)
Exchange gains (losses)		**1**	**-**
FINANCIAL RESULT	Note 13.2	**(59,522)**	**(55,450)**
PROFIT /(LOSS) BEFORE TAX		**20,246**	**8,407**
Income tax	Note 12.6	(5,057)	(2,108)
PROFIT /(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**15,189**	**6,299**
PROFIT /(LOSS) FOR THE YEAR		**15,189**	**6,299**

The accompanying Notes 1 to 18 constitute an integral part of the Income Statement at December 31, 2019.

ENAGÁS FINANCIACIONES, S.A.U.

STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2019
A) STATEMENT OF RECOGNISED INCOME AND EXPENSES

(Thousands of euros)

	Year 2019	Year 2018
RESULTS OF THE INCOME STATEMENT	**15,189**	**6,299**
Income and expenses recognised directly in equity		
- From cash flow hedges	(135)	(1,968)
- Tax effect	34	492
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY (II)	**(101)**	**(1,476)**
Amounts transferred to the income statement		
- From cash flow hedges	1,441	567
- Tax effect	(360)	(142)
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	**1,081**	**425**
TOTAL RECOGNISED INCOME AND EXPENSES	**16,169**	**5,248**

The accompanying Notes 1 to 18 constitute an integral part of the Statement of Recognised Income and Expenses at December 31, 2019.

ENAGÁS FINANCIACIONES, S.A.U.

STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2019
B) STATEMENT OF TOTAL CHANGES IN EQUITY
(Thousands of euros)

	Capital	Share 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 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**
Adjustment for criteria changes 2018	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**
Adjustments for errors 2018	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**
BALANCE ADJUSTED AT THE BEGINNING OF 2019	**890**	**7,270**	**178**	**5,831**	**-**	**53**	**6,299**	**(1,051)**	**19,470**
Total recognised income and expenses							**15,189**	**980**	**16,169**
Transactions with shareholders				**7**		**15**			**22**
- Other transactions				7		15			**22**
Other changes in equity				**6,299**			**(6,299)**		**-**
BALANCE AT DECEMBER 31, 2019	**890**	**7,270**	**178**	**12,137**	**-**	**68**	**15,189**	**(71)**	**35,661**

The accompanying Notes 1 to 18 constitute an integral part of the statement of total changes in equity at December 31, 2019.

ENAGÁS FINANCIACIONES, S.A.U.

CASH FLOW STATEMENT FOR 2019
(Thousands of euros)

	Notes to the Annual Accounts	Year 2019	Year 2018
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**25,975**	**(1,371)**
Profit /(loss) for the year before taxes		**20,246**	**8,407**
Adjustments to profit:		**(21,601)**	**(9,676)**
- Variation of provisions		33	(19)
- Financial expenses	Note 13.2	59,522	55,450
- Financial income	Note 13.1 and 14.1	(78,424)	(63,065)
- Other income and expenses	Note 5.1	(2,732)	(2,042)
Changes in working capital		**(10,024)**	**(25,467)**
- Trade and other receivables		(71)	26
- Trade and other payables		37	(550)
- Other current liabilities		(9,990)	(24,943)
Other cash flows from operating activities		**37,354**	**25,365**
- Interest paid		(50,749)	(48,530)
- Interest received		69,790	58,891
- Income tax paid (received)	Note 13.1	18,313	15,004
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**120,295**	**106,997**
Payments for investments		**(100,103)**	**(925,291)**
- Group companies and associates	Note 5.1	(100,103)	(925,291)
Proceeds from divestments		**220,398**	**1,032,288**
- Group companies and associates	Note 5.1	220,398	1,032,288
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(141,742)**	**(102,500)**
Proceeds from and payments on financial liabilities	Note 9	**(141,742)**	**(102,500)**
- Issue of borrowings from credit entities			
- Issue of debentures and other marketable securities		2,500,628	2,256,569
- Repayment and amortisation of borrowings from credit entities		(141,742)	(102,500)
- Return and amortisation of debentures and other marketable securities		(2,500,628)	(2,256,569)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I + II + III)		**4,528**	**3,126**
Cash and cash equivalents at beginning of the year		5,584	2,458
Cash and cash equivalents at year-end		10,112	5,584

The accompanying Notes 1 to 18 constitute an integral part of the Cash Flow Statement at December 31, 2019.

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 Annual Accounts of Enagás S.A. and its Consolidated Group at December 31, 2019, were prepared by its Directors at the Board of Directors meeting held on February 17, 2020. The 2018 Annual Accounts of Enagás S.A. and its Consolidated Group were approved at the Enagás, S.A. General Shareholders' Meeting held on March 29, 2019 and duly filed at the Madrid Companies Registry.

The Annual Accounts of Enagás Financiaciones, S.A.U. for 2019 were likewise prepared by the Directors on April 20, 2020. In this regard, since the Company forms part of the Enagás Group, whose parent company, Enagás, S.A., presents consolidated Annual Accounts, it is exempt from the obligation of preparing consolidated Annual Accounts in accordance with Royal Decree 1159/2010, of September 17, establishing the standards for the preparation of consolidated Annual Accounts.

2.- Basis of presentation of the Annual Accounts

2.1 Regulatory financial reporting framework applicable to the Company

The Annual Accounts have been prepared in accordance with Spanish National Chart 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 Annual Accounts 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 2018 Annual Accounts were approved by the Sole Shareholder on June 28, 2019.

With regard to the Resolution of March 5, 2019 of the Accounting and Audit Institute, which implements the criteria for the presentation of financial instruments and other accounting aspects related to the commercial regulation of corporate enterprises, applicable for the years beginning on or after January 1, 2020, the company has not decided to apply it in advance.

These Annual Accounts 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 Annual Accounts, 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 authorised these Annual Accounts for issue in due consideration of all compulsory accounting principles and standards with a significant effect on the Annual Accounts.

2.4 Critical issues regarding measurement and estimation of uncertainty

The results and determination of equity disclosed in the Annual Accounts 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, 2019 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, 2019, there were no significant changes to the estimates made at 2018 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 2018 is presented solely and exclusively for purposes of comparison with the information relating to 2019.

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 annual accounts.

2.7 Going concern

The annual accounts have been prepared on a going concern basis.

3.- Allocation of profit

The proposed allocation of profit for 2019 as drawn up by Company's Directors to be submitted for approval by the Sole Shareholder is as follows:

	2019
Dividends	15,189
Total	**15,189**

4.-Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company in preparing its Annual Accounts for 2019, 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 recognised under “Loans and receivables” are initially recognised at fair value which, unless there is evidence to the contrary, is the price of the transaction, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs.

Trade receivables maturing in no more than one year and not bearing a contractual interest rate, as well as advances and loans to employees, dividends receivable and disbursements on equity instruments, the amount of which is expected to be received in the short-term, may be measured at their face value when the effect of not discounting the cash flows is not significant.

Financial assets recognised under “Investments in group companies and multigroup” are initially recognised at cost, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs.

Subsequent measurement

Loans and receivables are measured at amortised cost, and the interest earned is recognised in the income statement at the effective interest rate.

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 recognised in the Income Statement.

Receivables which do not bear explicit interest are recognised 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 amortised 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 recognised 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 amortised 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 recognised. The reversal is recognised in the income statement for the year.

The Company derecognises 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 securitisations of financial assets 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 derecognise those financial assets and instead recognises 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 securitisations of financial assets in which the company 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 to be derivative financial instruments.

Debits and payables are initially measured at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortised cost and the interest accrued is recognised in the Income Statement at the effective interest rate.

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

The Company derecognises 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 recognised 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 to 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 recognised 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 recognised 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.

Particularly, 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 maximise the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS (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 recognised by applying the prevailing exchange rates at the dates of the operations.

At year-end, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing at the Balance Sheet date. 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 income or expense comprises the current tax income or expense 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 carry-forward tax losses 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 recognised 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 does not affect taxable profit or accounting profit and is not a business combination.

Deferred tax assets are only recognised to the extent that it is considered likely that 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 items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, to equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Deferred tax assets not recognised on the balance sheet are also reassessed at the end of each reporting period and are recognised 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 recognised 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 Revenue

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 recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

4.4.2 Expenses

Expenses are recognised 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 recognised simultaneously with the recognition of the increase in the liability or the reduction of the asset.

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

4.5 Provisions and contingencies

While drawing up the Company's Annual Accounts, 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 Annual Accounts 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 recognised in the Annual Accounts but are disclosed in the Notes to the Annual Accounts, 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 recognised as finance costs as they are accrued.

The compensation to be received from a third party when an obligation is settled is recognised 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 externalised 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 recognise the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or obligations, sureties and similar guarantees. They are recognised upon emergence of the liability or obligation determining the indemnity or payment.

At the end of the 2019 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 minimise 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, and are recognised in the Income Statement.

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 realised in the short-term from the end of the reporting period, financial assets held for trading, with the exception of financial derivatives whose settlement term exceeds one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current 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 recognised over the stipulated period during which employee services are rendered in Note 14.2.1 with a credit to “Other contributions from partners” in the accompanying Balance Sheet.

b) In cash: personnel expenses are determined based on the fair value of the liability at the date recognition requirements are met. This expense is recognised 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 recognised 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 recognises certain consolidated rights for past service and undertakes to make monthly contributions averaging 3.96% (3.91% in 2018) of eligible salary. It is a mixed plan covering retirement benefits, disability and death. At December 31, 2019, a total of 2 persons had joined the plan (2 at December 31, 2018) (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, 2019 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 investments

5.1 Financial investments (short and long-term)

Long-term financial investments

The breakdown of "Long-term financial investments" at year-end 2019 and 2018 is as follows:

Class / Categories	Long-term financial instruments					
	Equity instruments		Loans, derivatives and other		**Total**	
	2019	2018	2019	2018	**2019**	**2018**
Loans and receivables	-	-	3,703,798	3,803,587	**3,703,798**	**3,803,587**
Valuation adjustments	-	-	(28,821)	(35,929)	**(28,821)**	**(35,928)**
Financial assets available for sale	2,834	7,822	-	-	**2,834**	**7,822**
Total	**2,834**	**7,822**	**3,674,977**	**3,767,658**	**3,677,811**	**3,775,480**

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.

In this way, and based on the above, at December 31, 2019, the following credits are recorded:

- Credit granted to the company Enagás, S.A. amounting to 3,184,042 thousands of euros (3,276,534 thousands of euros at December 31, 2018).
- Credit granted to Enagás Transporte, S.A.U. amounting to 241,347 thousands of euros (238,415 thousands of euros at December 31, 2018).
- Credit granted to Enagás Internacional, S.L.U. amounting to 243,974 thousands of euros (237,499 thousands of euros at December 31, 2018).
- Credit granted to Enagás GTS, S.A.U. amounting to 4,210 thousands of euros (15,210 thousands of euros at December 31, 2018).
- Credit granted to Enagás Emprende, S.L.U. amounting to 1,404 thousands of euros.

These loans are subject to market interest rates.

Financial assets available for sale

The "Available-for-sale financial assets" item includes the investment in ten Economic Interest Groupings (hereinafter "A.I.E.") at December 31, 2019 (sixteen A.I.E. at December 31, 2018), 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 carry-forward tax losses generated by these A.I.E.s against shares and takes account of the debt registered with the Tax Authorities, recognising the corresponding financial income (see Note 13.1).

On July 17, 2019, the Company acquired 40% of the share capital of two new A.I.E.s: Mar de Basauri, A.I.E. and Mar de Forcarei, A.I.E. for a total amount of 800 euros.

Likewise, on July 2, 2019, the Company acquired 45% of the share capital of a new Company, Puerto de Fondarella, A.I.E., for an amount of 450 euros.

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.

The detail of the shares of each of the A.I.E. discussed above, at December 31, 2019 and 2018 is as follows.

2019

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)
Puerto de Llafranc, A.I.E.	-	-	1,527	-	-	185
Mar de Botos, A.I.E.	-	-	1,877	734	-	291
Mar de Ferreiros, A.I.E.	-	-	1,750	-	-	233
Puerto de Tamariu, A.I.E.	-	-	1,636	702	-	229
Mar de Fofe, A.I.E.	4,989	-	1,701	434	-	211
Puerto de Aiguafreda, A.I.E.	4,989	-	1,804	963	-	212
Puerto de Alcanar, A.I.E.	-	12,618	6,006	-	4,706	767
Mar de Basauri, A.I.E.	0.40	3,344	685	-	596	87
Mar de Forcarei, A.I.E.	0.40	4,948	1,120	-	1,017	117
Puerto de Fondarella, A.I.E.	0.45	17,163	4,366	-	4,022	401
Total	**9,979**	**38,073**	**22,473**	**2,834**	**10,341**	**2,732**

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**

Short-term financial investments

The breakdown of "Short-term financial investments" at year-end 2019 and 2018 is as follows:

Class / Categories	Short-term financial instruments			
	Loans, derivatives and other		**Total**	
	2019	2018	**2019**	**2018**
Loans and receivables	139,163	160,056	139,163	160,056
Interest and commissions pending collection	28,625	27,099	28,625	27,099
Total	**167,788**	**187,155**	**167,788**	**187,155**

The heading "Short-term loans and receivables" in the accompanying Balance Sheet at December 31, 2019 consists mainly of the following items:

- Credit with companies amounting to 139,163 thousands of euros (160,056 thousands of euros at December 31, 2018), corresponding to:
    - Credit to the Tax Group for the account receivable for Corporation Tax in the amount of 17,420 thousands of euros (18,314 thousands of euros at December 31, 2018).

- Other loans and credits with group companies amounting to 121,743 thousands of euros (141,742 thousands of euros in 2018).

- Interest and commissions accrued on loans pending collection and receivables from group companies amounting to 28,625 thousands of euros (27,099 thousands of euros at December 31, 2018).

The gross average rate for 2019 and 2018 corresponding to the loans granted to the Group companies was 2.0% and 1.8%, respectively.

The breakdown by maturity of the loans, net of interest and commissions, recorded at year-end 2019 and 2018 is as follows:

2019

	2020	2021	2022	2023	2024 and later years	Total
Loans and receivables	139,163	131,742	889,936	1,625,752	1,056,368	**3,842,961**
Total	**139,163**	**131,742**	**889,936**	**1,625,752**	**1,056,368**	**3,842,961**

2018

	2019	2020	2021	2022	2023 and later years	Total
Loans and receivables	160,056	121,742	419,527	1,067,861	2,194,456	**3,963,643**
Total	**160,056**	**121,742**	**419,527**	**1,067,861**	**2,194,456**	**3,963,643**

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 allows it to adapt to the complexity of its business activity in a globalised competitive environment, in a complex economic context, where the materialisation of a risk is more rapid and with an evident contagion effect.

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 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 allows 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: made up from the organisational units which assume the risks in the ordinary course of their activities. The organisational 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 supervising 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. Other responsibilities with respect to risks are delegated in the Audit and Compliance Committee.

- Audit and Compliance Committee: whose main functions are to supervise the efficiency of the risk control and management 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 credit and counterparty risks of a financial and tax nature to which the Company is exposed are as follows:

<u>Credit and counterparty risks</u>

Generally, the Company maintains its cash and equivalent liquid assets in financial institutions with a high credit rating. The transactions, which are mainly credit transactions, are carried out almost entirely with Group entities. 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 minimises 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.

Liquidity risk

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 in 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. The Enagás Group has a Board-approved tax strategy, which includes the policies governing compliance with tax obligations, attempting to avoid risks and tax inefficiencies.

Other risks

Given the dynamic nature of the business and its risks, and despite having a risk control and management 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 Enagás Group carries out capital management at corporate level and its objectives are to ensure financial stability and obtain sufficient financing for investments, optimising the cost of capital in order to maximise 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, 2019 and 2018 was as follows (consolidated figures in thousands of euros):

	2019	**2018**
Debts with credit institutions	1,534,100	1,363,035
Debentures and other marketable securities	2,961,126	4,089,530
- Adjustment to show the amortised cost of the Aflac Bonus	-	(10,300)
Loans from the General Secretariat of Industry, General Secretariat of Energy and Oman Oil	3,379	3,931
Financial debt from leases (IFRS 16)	355,349	-
Gross financial debt	**4,853,954**	**5,446,196**
Cash and cash equivalents	(1,098,985)	(1,171,543)
Net financial debt	**3,754,969**	**4,274,653**
Shareholders' equity	3,170,142	2,658,758
Financial leverage	**54.2%**	**61.7%**

6.- Trade and other receivables

At December 31, 2019 and 2018, the balance of 105 thousands of euros and 34 thousands of euros, respectively, corresponds mainly to customers of group companies and associates, various debtors as well as debit accounts with the respective tax authorities for the VAT settlement.

7.- Cash and cash equivalents

The breakdown of this heading at December 31, 2019 and 2018 is as follows:

	2019	2018
Treasury	10,112	5,584
Total	**10,112**	**5,584**

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

8.- Equity and Shareholders' equity

8.1 Share capital and Issue premium

At December 31, 2019 and 2018, the Company's share capital was 890 thousands of euros, represented by 8,900 shares with a face value of 100 euros each, all of the same class and series, and fully subscribed and paid up 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 2019 the legal reserve was fully allocated.

8.3 Treasury shares

At year-end 2019, 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 2019 and 2018 in these transactions were as follows:

2019

	Thousands of euros			
	Opening balance	**Change in market value**	**Taken to profit and loss**	**Balance at year-end**
Cash flow hedges	(1,401)	(135)	1,441	(95)
Taxes recognised in equity (see Note 12.5)	350	34	(360)	24
Total	**(1,051)**	**(101)**	**1,080**	**(71)**

2018

	Thousands of euros			
	Opening balance	**Change in market value**	**Taken to profit and loss**	**Balance at year-end**
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.- Debts (short and long-term)

The breakdown of “Long-term debts” and “Short-term debts “at December 31, 2019 and 2018 is as follows:

	Thousands of euros							
Class / **Categories**	**Long-term debts**							
	Debts with credit institutions		Debentures and other marketable securities		Derivatives and other financial liabilities		**Total**	
	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Payables	690,531	812,273	3,010,000	3,010,000	-	-	**3,700,530**	**3,822,273**
Valuation adjustments and other	(763)	(878)	(43,864)	(53,066)	-	-	**(44,626)**	**(53,944)**
Derivatives	-	-	-	-	-	113	**-**	**113**
Total	689,768	811,395	2,966,136	2,956,934	-	113	**3,655,904**	**3,768,442**

Class / Categories	Short-term debts							
	Debts with credit institutions		Debentures and other marketable securities		Derivatives and other financial liabilities		**Total**	
	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Payables	121,742	141,742	-	-	10,341	5,496	**132,083**	**147,238**
Settlement expenses	(101)	(129)	5	2	-	-	**(96)**	**(127)**
Interest pending payment	562	649	31,289	31,355	-	-	**31,851**	**32,004**
Derivatives	-	-	-	-	269	1,474	**269**	**1,474**
Total	122,203	142,262	31,294	31,357	10,610	6,970	**164,107**	**180,589**

Within the above categories, there are mainly the following financial instruments, as well as their associated fees:

Debts 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 the Instituto de Crédito Oficial "ICO" (lending entity). After signing this contract, the Company acquired 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 2019, short-term reclassifications of ICO credits were made amounting to 70,000 thousands of euros (80,000 thousands of euros in 2018).

- 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 2019, short-term reclassifications of EIB credits were made amounting to 51,742 thousands of euros (12,500 thousands of euros in 2018).
- Amortisation of debt with credit institutions amounting to 141,742 thousands of euros (102,500 thousands of euros in 2018).

- Reclassifications of debt with credit institutions amounting to 121,742 thousands of euros (92,500 thousands of euros in 2019).

- Finally, it includes interest on debts with credit institutions in the amount of 562 thousands of euros (649 thousands of euros in 2018), which will be subject to payment in the following year (arising as a result of the loan assignments discussed above).

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.

- On May 17, 2019, 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.

- Finally, short-term maturities include interest on fixed-rate bonds for an amount of 31,289 thousands of euros, which will be paid in the following year (31,354 thousands of euros at 2018 year-end).

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 Société Générale 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.

- Financial liabilities held by the Company at December 31, 2019 as a result of the holdings in the various A.I.E.'s, amounting to 10,341 thousands of euros (5,496 thousands of euros in 2018) (see Note 5.1). Said debt will be compensated through the imputation of the carry-forward tax losses that these A.I.E.'s are generating.

The average rate of gross debt contracted by the Company in euros at the end of financial year 2019 was 1.6% (1.5% in financial year 2018), there being no debt in foreign currency.

In relation to debentures and other short-term marketable securities, although at December 31, 2019, 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 20, 2019. 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 2019, issues and returns were made that amounted to 2,500,000 thousands of euros (2,256,569 thousands of euros in 2018).

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

2019

	2020	2021	2022	2023	2024 and later years	Total
Debentures and other marketable securities	-	10,000	750,000	400,000	1,850,000	**3,010,000**
Debts with credit institutions	121,742	121,742	111,742	76,742	380,303	**812,273**
Total	**121,742**	**131,742**	**861,742**	**476,742**	**2,230,3030**	**3,822,273**

2018

	2019	2020	2021	2022	2023 and later years	Total
Debentures and other marketable securities	-	-	10,000	750,000	2,250,000	**3,010,000**
Debts with credit institutions	141,742	121,742	121,742	111,742	457,045	**954,015**
Total	**141,742**	**121,742**	**131,742**	**861,742**	**2,707,045**	**3,964,015**

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, 2019 for all the Company's instruments.

The fair value of the derivative financial instruments of the Company at December 31, 2019 and 2018 is presented below:

2019

					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	Jan-2020	-	82
Interest rate swap	Cash flow hedges	Floating to fixed	65,000	Mar-2020	-	187
Total			**365,000**		**-**	**269**

2018

Category	Classification	Type	Contracted amount (thousands of euros)	Maturity	Fair value (thousands of euros) 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:

2019

Contracted amount (thousands of euros)	Currency	Maturity	Total	2020	2021
150,000	Euros	January-2020	82	82	-
65,000	Euros	March-2020	187	187	-
365,000			**269**	**269**	**-**

2018

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 2019, no new hedging transactions were contracted.

11.- Trade and other payables

The detail of “Trade and other payables” at year-end 2019 and 2018 is as follows (in thousands of euros):

	2019	2018
Suppliers	56	9
Suppliers, group companies and associates	62	31
Personnel	64	108
Tax Authorities, creditor (see Note 12.2)	12	9
Total	**194**	**157**

The balance of “Suppliers” relates to advisory and audit services pending payment amounting to 56 thousands of euros (9 thousands of euros at December 31, 2018).

The balance of 62 thousands of euros recognised under “Suppliers, group companies and associates” relates to corporate services initially assumed by the Parent, Enagás, S.A., which, due to their nature, are re-invoiced (31 thousands of euros at December 31, 2018).

Under the heading “Personnel”, the change mainly corresponds to the payment for the cash portion of the 2016-2018 Long-Term Incentive Plan (see Note 14.2) as well as the three-year bonus plan for contribution to results aimed at the remaining staff of the Company, which have been paid during the second quarter of 2019. At December 31, 2018, the amount of the provision for these items was 63 thousands of euros.

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 Annual Accounts in relation to the average payment period to suppliers in commercial transactions.

The detail of the information required by the Additional provision three of Law 15/2010 of July 5, is as follows:

	2019	**2018**
	Days	**Days**
Average payment period to suppliers	29	43
Ratio of paid operations	29	43
Ratio of operations pending payment	24	48

	2019	**2018**
	Amount (in thousands of euros)	**Amount (in thousands of euros)**
Total payments made	1,084	1,799
Total pending payments	44	7

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 legal payment term applicable to the Company in 2019 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 Corporate Income Tax Law (Law 27/2014, of November 27) on January 1, 2015, the corporate income tax rate for financial year 2019 was lowered to 25%.

12.2 Current balances with the Public Administrations

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

Debit balances:

	2019	2018
Accounts payable by the Tax Authorities for VAT	71	10
Total debit balances	**71**	**10**

Credit balances:

	2019	2018
Accounts payable to the Tax Authorities for withholdings	12	9
Total credit balances (see Note 11)	**12**	**9**

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 Income 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 profit and the Corporate Income Tax base is as follows:

	2019			2018		
	Income Statement			Income Statement		
	Increases	Decreases	**Total**	Increases	Decreases	**Total**
Accounting profit before tax	20,246	-	**20,246**	8,407	-	**8,407**
Charging of A.I.E. tax bases	-	(89,893)	**(89,893)**	-	(81,730)	**(81,730)**
Provisions for personnel remuneration	81	(116)	**(35)**	69	-	**69**
Taxable income	20,327	(90,009)	**(69,682)**	8,476	(81,730)	**(73,254)**

During 2019 and 2018, adjustments were made to the Tax Base charging the carry-forward tax losses of the A.I.E.s in which the Company has an interest (see Note 5.1), amounting to 89,893 thousands of euros in the financial year 2019 and 81,730 thousands of euros in the financial year 2018.

12.5 Tax recognised in equity

The breakdown of taxes recognised directly in equity in 2019 and 2018 is as follows:

2019

	Thousands of euros		
	Increases	Decreases	Total
For current tax:			
Total current tax			
For deferred tax:			
Originating in the financial year (Note 8.5):			
Valuation of other financial assets	34	(360)	(326)
Total deferred tax	**34**	**(360)**	**(326)**
Total income tax recognised directly in equity	**34**	**(360)**	**(326)**

2018

	Thousands of euros		
	Increases	Decreases	Total
For current tax:			
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 recognised directly in equity	**492**	**(142)**	**350**

12.6 Reconciliation between Accounting result and corporate income tax expense

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

	Thousands of euros	
	2019	**2018**
Accounting profit before tax	**20,426**	**8,407**
Rate at 25%	5,062	2,102
Charging of carry-forward tax losses	**(22,473)**	**(20,433)**
Adjustments to income tax rate:	**22,469**	**20,439**
Negative adjustments in taxation without benefits	-	6
Positive adjustments in taxation without benefits (Note 5.1)	22,469	20,433
Total expense / (income) for tax recognised in the Income Statement	**5,057**	**2,108**

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

12.7 Breakdown of corporate income tax expense

The breakdown of Corporate Income Tax expense is as follows:

	2019	2018
Current tax:		
For continuing operations	(17,421)	(18,313)
For discontinued operations		-
Deferred tax:		
For continuing operations	9	(18)
For discontinued operations		-
Adjustments to income tax rate:		
For continuing operations	22,469	20,439
For discontinued operations		-
Total expense / (income) for tax	**5,057**	**2,108**

12.8 Deferred tax assets registered

The breakdown of this heading at year-end 2019 and 2018 was as follows:

	2019	2018
Carry-forward tax losses	10	10
Provision for remuneration	36	45
Temporary differences derivatives	24	350
Total deferred tax assets	**70**	**405**

These deferred tax assets were recognised 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 recognised 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 Tax Consolidation 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. In 2019, these actions were completed without any standardisation of Enagás Financiaciones S.A.U. by the Tax Authorities.

Finally, at 2019 year-end, Enagás Financiaciones, S.A.U. has the years 2015 to 2019 open for tax inspection for the taxes applicable to the company, except for Corporate Income Tax, which is pending review for the years 2016 to 2019. 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 Annual Accounts.

13.- Income and expenses

13.1 Revenue

The revenue in financial year 2019 and 2018 amounts to 81,329 thousands of euros and 65,726 thousands of euros, respectively. These revenues correspond mainly to the interest generated during financial years 2019 and 2018 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 78,424 thousands of euros and 63,065 thousands of euros, respectively, as well as the provision of financing management services to Group companies amounting to 173 thousands of euros and 619 thousands of euros, respectively.

Activities	2019	2018
Rendering of services	**173**	**619**
Services to group companies and other related parties (see Note 14.1)	173	619
Income from long-term loans to group companies and associates (see Note 14.1)	**78,424**	**63,065**
Other income (see Notes 5.1 and 14.1)	**2,732**	**2,042**
Revenue	**81,329**	**65,726**

Likewise, during financial years 2019 and 2018, the "Other income" heading includes the income from the investments in the A.I.E.s, amounting to 2,732 thousands of euros and 2,042 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 carry-forward tax losses in the determination of the account payable of the Corporate Income Tax (see Note 12.4).

13.2 Income and financial expenses

The breakdown of the financial result for 2019 and 2018 is as follows:

Thousands of euros	2019	2018
Financial income (*)	-	-
Financial income	**-**	**-**
Financial and similar expenses	(1,455)	(582)
Loan interest	(58,067)	(54,868)
Financial expenses	**(59,522)**	**(55,450)**
Net financial gain (loss)	**(59,522)**	**(55,450)**

(*) As indicated in Note 4.4.1, income from financial activities is presented under revenue (Note 13.1) as it relates to ordinary activity.

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 transactions

In addition to subsidiaries, associates, and multigroup, 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 2019 and 2018 with parties related to Enagás Financiaciones, S.A.U. It distinguishes between the Sole Shareholder, members of the Board of Directors and Company Executives and other related parties. The terms of transactions with related parties are equivalent to those made on an arm's length basis and the corresponding remuneration in kind has been recorded.

The table below includes the transactions carried out by the Company with related parties in 2019 and 2018:

Revenue	Parent Company (Enagás S.A.)		Other related parties		Total	
	2019	2018	2019	2018	2019	2018
Income:						
Loan income (see Note 13.1)	68,174	33,528	10,250	29,537	78,424	63,065
Provision of services (see Note 13.1)	-	-	173	619	173	619
Other income (see Notes 5.1 and 13.1)	-	-	2,732	2,042	2,732	2,042
Total income	**68,174**	**33,528**	**13,155**	**32,198**	**81,329**	**65,726**

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.s. (see Note 5.1).

These loans granted amounted to 3,842,765 thousands of euros at December 31, 2019 (3,954,813 thousands of euros at December 31, 2018) 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 17,420 thousands of euros (18,314 thousands of euros at December 31, 2018).

The heading “Trade debtors and other accounts receivable” includes an amount of 17 thousands of euros corresponding to group company customers at December 31, 2019 (2 thousands of euros at December 31, 2018).

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 2019 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 2019 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	313	69	8	1	28
Total	**313**	**69**	**8**	**1**	**28**

Senior Management members are beneficiaries of the Long-Term Incentive Plan (ILP), which is detailed below.

14.2.1 Share-based payments

As reported in the Annual Accounts since 2016, on March 18, 2016, the General Shareholders' Meeting of the Parent of the group, Enagás S.A,. approved a Long-Term Incentive Plan aimed at executive directors and senior management of the Company and its Group, with a view to maximising motivation and loyalty as well as promoting the good results achieved by the Enagás Group, aligning its interests with the long-term value of shareholders. In this regard, and as previously reported in Note 11, the aforementioned programme has been definitively settled during the first half of 2019.

In addition, on March 29, 2019, the Enagás, S.A. General Shareholders' Meeting approved the second cycle of the Long-Term Incentive Plan aimed at executive directors and senior management of the Company and its Group. The objective of the Plan is to (i) encourage the sustainable achievement of the objectives of the Group's Strategic Plan, (ii) give the opportunity to share the creation of value with participants, (iii) foster a sense of belonging to the Company, (iv) be competitive, and (v) align with the requirements of institutional investors, proxy advisors, and Best Corporate Governance practices and, especially, those resulting from the recommendations of the CNMV's new Good Governance Code.

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 501,946 shares are deliverable, all of which will come from the parent company, 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 payment of approximately 3.5 million euros should all the objectives be fully met.

This Plan is aimed at persons who, due to their level of responsibility or their position in the Enagás Group, contribute decisively to achieving the Company's objectives. The Plan initially designated 48 beneficiaries, notwithstanding the possibility that due to new recruitments or 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. This takes into account both the EBITDA of the regulated business and the dividends received from the subsidiaries that are not controlled by Enagás. It is a benchmark indicator for investors. Fulfilling this objective will satisfy the Company's forecasts for the distribution of Group, investment and debt amortisation dividends. It accounts for 25% of the total objectives.

- Accumulated cash flows received from affiliates (“Dividend”). This shows the focus on international growth and a realistic and profitable investment plan as the cornerstones of the Strategic Plan. It measures the profitability of the international business compared with the annual remuneration objective which measures the year's international investment volume. It accounts for 35% of the total objectives.

- Total shareholder return (“TSR”). Ensures appropriate, competitive shareholder remuneration. It takes into account share performance and the dividend policy. This objective comprises two components, each with a relative importance of 15% of the total objectives:

    - The absolute TSR is measured as the acquisition of a target share price at the end of 2021. The target price has been established by investing estimated share dividends and is based on profitability and market parameters.

    - Relative TSR: relative 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. It reflects the company's commitment to creating long-term value responsibly in the social and environmental context. Its weight in the total of the objectives will be 10%, and it will consist of three indicators:

- Average reduction in CO_2 emissions in the 2019–2021 period vs. 2018.
- Increase in the percentage of women on the Board of Directors, in the management team and in the staff; and
- Investment associated with the increased presence of renewable gases in the energy mix.

The Regulations also establish a period of time required for the consolidation of the remuneration, which has been considered a condition of service and, therefore, taken into account together with the period for measuring the objectives (January 1, 2019 to December 31, 2021) when estimating the fair value of the equity instruments granted. In this regard, the aforementioned service condition is based on the obligation for the beneficiaries to continue providing their services to the Company until the first payment date (set at four months from the end of the target measurement period to receive 50% of the incentive), and an additional period of one year from that last date to receive the remaining 50%).

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, 2019 in the amount of 22 thousands of euros, with its counterpart being the “Personnel Expenses” item in the accompanying Income Statement (see Note 15.3). Also, the impact on the heading “Other contributions from partners” related to the final settlement in 2019 of the 2016-2018 cycle of the aforementioned ILP has an impact on the heading “Other contributions from partners” amounting to 46 thousands of euros.

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 of the shares and the fair value at the granting date of the ILP of the Enagás Group are as follows:

	2019–2021
Total shares at the concession date(1)	501,946
Fair value of the equity instruments at the granting date (EUR)	25.94
Dividend yield	4.77%
Expected volatility	16.86%
Discount rate	0.62%

(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 rendering of services corresponding to this incentive as a personnel expense in the Income Statement at December 31, 2019 in the amount of 15 thousands of euros with payment to the Personnel line under “Provisions for long-term benefits to personnel” of the non-current liabilities of the accompanying Balance Sheet, since its settlement is estimated at longer than one year. As in the case of the share-settled plan, the Company accrues the estimated fair value of the cash-settled amount over the term of the plan, taking into account the aforementioned service conditions.

At December 31, 2019, the estimate is made assuming that all the objectives relating to the plan have been 100% achieved.

14.3 Information relating to situations of Directors' conflict of interest

In compliance with Article 229 and subsequent 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 annual accounts 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 2019, 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 2019 or 2018 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 2019 or 2018 as a result of its activities relating to the environment.

16.- Other information

16.1 Personnel

The average number of employees in 2019 and 2018, by professional category, was as follows:

Categories	2019	2018
Management	1	1
Technicians	2	2
Total	**3**	**3**

Also, the distribution of the professional categories by gender at December 31, 2019 and 2018 was as follows:

	2019		2018	
Categories	Men	Women	Men	Women
Management	1	-	1	-
Technicians	1	1	-	1
Total	**2**	**1**	**1**	**1**

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

16.2 Auditors' fees

Fees for financial audit and other services performed in 2019 and 2018 by the Company's auditor, Ernst & Young, S.L., or by a firm in the same group or related to the auditor, were as follows (in thousands of euros):

Categories	2019	2018
	Services rendered by the auditor of accounts and related companies	Services rendered by the auditor of accounts and related companies
Audit services (1)	24	19
Other assurance services (2)	45	45
Total audit and related services	**69**	**64**

(1) Audit Services: this heading includes services rendered for the performance of audits of the Company's Annual Accounts.
(2) Other assurance services related to the audit: 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 11, 2020, the World Health Organization raised the declaration of the public health emergency caused by the coronavirus outbreak (COVID-19) to an international pandemic. The rapid development of events, both nationally and internationally, is an unprecedented health crisis, which will impact the macroeconomic environment and business developments. To address this situation, among other measures, the Spanish Government has declared a state of alarm, publishing Royal Decree 463/2020 of March 14. It has also approved a series of urgent extraordinary measures to address the economic and social impact of COVID-19 by Royal Decree-Law 8/2020 of March 17.

The Company considers that these events do not entail an adjustment to the annual accounts for the year ended December 31, 2019, although they could have a significant impact on its operations and, therefore, on its future results and cash flows.

In view of the complexity of the situation and its rapid evolution, it is not possible at this time to make a reliable quantified estimate of its potential impact on the Company, which will be recorded prospectively in the 2020 annual accounts.

The Company is taking the appropriate measures to address the situation and minimise its impact, considering that this is a temporary situation which, according to the most recent estimates and the cash position to date, does not compromise the application of the going concern principle (Note 2.7).

On March 31, 2020 the Company has arranged a loan of 200,000 thousands of euros with a financial entity and whose maturity will be on March 31, 2021.

Also, on April 1, 2020, the Company has granted its Sole Shareholder, Enagás, S.A., a loan of 198,000 thousands of euros.

Furthermore, on April 3, 2020 the Company has arranged a loan with Enagás Chile SpA of 16,800 thousands of dollars whose maturity will be on April 2, 2021.

Also, on April 8, 2020 the Company has granted a loan to Enagás Internacional, S.L.U. of 16,800 thousands of dollars whose maturity will be on April 2, 2021.

No other events have occurred that significantly affect the results of Enagás Financiaciones, S.A.U. or its equity.

18.- Explanation added for translation to English

The 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. In the event of a discrepancy, the Spanish-language version prevails.

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

I.-Performance of Enagás Financiaciones, S.A.U. in 2019

Revenue is 81,329 thousands of euros.

The result of the financial year was profit of 15,189 thousands of euros.

The share capital is represented by 8.900 shares with a face 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 control and management model aimed at ensuring the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model allows it to adapt to the complexity of its business activity in a globalised competitive environment, in a complex economic context, where the materialisation of a risk is more rapid and with an evident contagion effect.

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 company's activities are carried out.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The integral analysis of all risks allows 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, inter alia, the differences of each type of risk in terms of its nature, handling capacity and risk measurement tools.

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, which are mainly credit transactions, are carried out almost entirely with Group entities, 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 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 achieve a balanced debt structure that minimises the cost of debt over a multi-year horizon with low volatility in the income statement. For this purpose, 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 in 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 Enagás Group has a Board-approved tax strategy, which includes the policies governing compliance with tax obligations, attempting to avoid risks and tax inefficiencies.

The financial risk management policy is described in Note 5.2 of the Annual Accounts.

3. Other risks

Given the dynamic nature of the business and its risks, and despite having a risk control and management 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 centralised with the Parent, Enagás, S.A. In February 2008, the Board of Directors of Enagás 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 2020, by granting loans and credits to Enagás Group companies, a positive result will be achieved in the financial year.

V.-Research and development activities

In view of the Company's activities, no research and development activities were carried out by the Company.

VI.-Transactions with treasury shares

The Company did not carry out any transactions involving treasury shares in 2019.

VII.-Average payment period to suppliers

The Company's average payment period during 2019 was 26 days.

VIII.-Subsequent events

On March 11, 2020, the World Health Organization raised the declaration of the public health emergency caused by the coronavirus outbreak (COVID-19) to an international pandemic. The rapid development of events, both nationally and internationally, is an unprecedented health crisis, which will impact the macroeconomic environment and business developments. To address this situation, among other measures, the Spanish Government has declared a state of alarm, publishing Royal Decree 463/2020 of March 14. It has also approved a series of urgent extraordinary measures to address the economic and social impact of COVID-19 by Royal Decree-Law 8/2020 of March 17.

The Company considers that these events do not entail an adjustment to the annual accounts for the year ended December 31, 2019, although they could have a significant impact on its operations and, therefore, on its future results and cash flows.

In view of the complexity of the situation and its rapid evolution, it is not possible at this time to make a reliable quantified estimate of its potential impact on the Company, which will be recorded prospectively in the 2020 annual accounts.

The Company is taking the appropriate measures to address the situation and minimise its impact, considering that this is a temporary situation which, according to the most recent estimates and the cash position to date, does not compromise the application of the going concern principle (Note 2.7).

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No other events have occurred that significantly affect the results of Enagás Financiaciones, S.A.U. or its equity.

On April 20, 2020 the Joint Directors 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, authorised the Annual Accounts and the Management Report for the financial year ended December 31, 2019, 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 Annual Accounts 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