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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 5)

To the shareholders of Enagás, S.A.:

Report on the financial statements

Opinion

We have audited the financial statements of Enagás, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, 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, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 1.2 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.

Recovery of financial assets related to the investment in Gasoducto del Sur Peruano, S.A.

Description On January 24, 2017, the Directorate General for Hydrocarbons of the Ministry for Energy and Mines terminated the “Improvements to the National Energy Security and Development of the South Peruvian Pipeline” concession agreement and on December 4, 2017, the National Institute for the Defense of Competition and Intellectual Property published in the Official Gazette, El Peruano, that Gasoducto del Sur Peruano, S.A. had filed for bankruptcy, as explained in Note 1.4.c to the accompanying financial statements.

Enagás maintains a financial asset amounting to 275.3 million American dollars related to the investment in Gasoducto del Sur Peruano, S.A. and receivable accounts related to executed guarantees totaling 226,8 million American dollars and interest amounting to 1.9 million American dollars, which represent assets registered as of December 31, 2018 amounting to 402.6 million euros (note 1.4.c of the accompanying financial statements).

As a result of termination of the concession agreement, and as explained in the aforementioned note to the financial statements, there is an ongoing controversy between the Group and the Peruvian Government regarding the recovery of the investment in Gasoducto del Sur Peruano. Following the required six months of direct contact between Enagás and the Peruvian Government during which no agreement was reached, on July 2, 2018, the Group filed a request to begin arbitration proceedings against the Peruvian Government with the International Center for Settlement of Investment Disputes (CIADI) in connection with their investment in Gasoducto Sur Peruano, S.A.

We determined this to be a key audit matter due to the significance of the related amounts and the uncertainty surrounding the final outcome in this type of issue, which are often drawn out and complex from a legal, technical, and economic standpoint for all parties involved.

Our response In this regard, our audit procedures included the following:

- ▶ Evaluation of compliance with the terms of the contracts and agreements between shareholders of Gasoducto Sur Peruano, S.A.
- ▶ Reading of the new correspondence between official Peruvian government bodies and the investee Gasoducto del Sur Peruano, S.A.
- ▶ Meetings with external independent experts in both Peruvian and international law engaged by the Company.
- ▶ Review of the analysis reports prepared by various Peruvian and international law experts (bankruptcy, criminal and administrative law, inter alia) and Enagás' internal legal consultants.

- ▶ Review of the Enagás' accounting estimate processes used to analyze the recovery of financial assets and the report prepared by an external accounting expert, in addition to the report prepared by an independent expert to determine the net carrying amount that will be applied in resolving the arbitration proceedings.
- ▶ Evaluation of the financial asset recovery analysis prepared by management based on various scenarios (sensitivity analysis).
- ▶ Review of the disclosures included in the accompanying financial statements in accordance with the applicable financial reporting framework.

Significant estimates

Description Enagás, S.A. makes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability from investments in Group Companies

The main amounts and the criteria and assumptions used for the valuation of these assets are described in notes 1.4, to the accompanying financial statements.

We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, small changes in the hypotheses could have a material impact on the Enagás, S.A. financial statements.

Our response Our audit procedures primarily included:

- ▶ Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each associate, focusing particularly on the discount rate and long-term growth rate applied.
- ▶ Review of projected financial information shown in the business plan, for each investee and each cash-generating unit, by analyzing historical financial and budgetary information, current market conditions, and our own projections of potential changes, as well as public information provided by other companies in the industry.
- ▶ In addition, we checked the adequacy of the information disclosed by the Entity related to the estimates in Note 1.4.a in accordance with the applicable financial reporting framework.

Other information: management report

Other information refers exclusively to the 2018 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.

Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report, and if not, disclose this fact.

- b) A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Entity obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the management report includes a reference that the non-financial information in paragraph a) above is provided in the consolidated management report of the Enagás Group to which the company belongs and that the information in the Annual Corporate Governance Report referred to in said paragraph is included in the consolidated management report and that the remaining information contained therein is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

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 1.2 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 February 25, 2019.



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Term of engagement

The ordinary general shareholders' meeting held on March 18, 2016 appointed us as auditors for 3 years, commencing on December 31, 2016.

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)

February 25, 2019



ENAGÁS, S.A.

Translation of financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain. In the event of a discrepancy, the Spanish-language version prevails.”



ENAGÁS, S.A.

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ENAGÁS, S.A.
BALANCE SHEET AT DECEMBER 31, 2018
 (In thousands of euros)

ASSETS	Notes	12.31.2018	12.31.2017
NON-CURRENT ASSETS		5,328,700	4,501,044
Intangible assets	2.5	12,007	11,570
Research and Development		153	119
IT applications		11,854	11,440
Other intangible assets		-	11
Property, plant, and equipment	2.4	22,277	23,130
Land and buildings		17,237	15,649
Technical facilities and other PP&E		4,835	5,455
Prepayments and work in progress		205	2,026
Property investments	4.1	19,610	19,610
Land		19,610	19,610
Long-term investments in group and multigroup companies.	1.4	5,262,439	4,433,775
Equity instruments		4,459,513	2,347,456
Loans to companies		400,291	1,704,306
Other financial assets		402,635	382,013
Long-term financial investments		752	800
Loans to thirds parties		56	63
Other financial assets		696	737
Deferred tax assets	4.2.g	11,615	12,159
CURRENT ASSETS		753,594	628,229
Inventories		8	10
Raw materials and other procurements		8	10
Trade and other receivables		16,370	19,279
Customer receivables for sales and services rendered		10	
Customers, Group companies and associates	2.2	13,490	17,826
Other receivables		123	1,265
Personnel		291	175
Current income tax assets	4.2.a	1,799	-
Other credits with the Public Administrations	4.2.a	657	13
Short-term investments in group and multigroup companies	1.4	278,974	555,684
Loans to companies		151,374	315,684
Other financial assets		127,600	240,000
Short-term accruals		1,082	127
Cash and cash equivalents	3.6	457,160	53,129
Treasury		457,160	53,129
TOTAL		6,082,294	5,129,273

The accompanying Notes 1 to 5 constitute an integral part of the Balance Sheet at December 31, 2018

LIABILITIES	Notes	12.31.2018	12.31.2017
EQUITY		2,133,566	2,114,095
SHAREHOLDERS' EQUITY		2,133,566	2,115,187
Capital	3.1.a	358,101	358,101
Subscribed capital		358,101	358,101
Reserves		1,552,278	1,550,927
Legal and statutory	3.1.c	71,620	71,620
Other reserves		1,480,658	1,479,307
Treasury shares	3.1.b	(8,219)	(8,219)
Profit /(loss) for the year		371,222	349,454
Interim dividend	1.5.a	(145,917)	(139,241)
Other equity instruments		6,101	4,165
ADJUSTMENTS FOR CHANGES IN VALUE	3.1.d	-	(1,092)
Hedging transactions		-	(1,092)
NON-CURRENT LIABILITIES		3,694,247	2,744,193
Long-term provisions	2.8.a	466	3,992
Obligations for long-term employee benefits		-	2,992
Other provisions		466	1,000
Long-term debts	3.2.a	195,946	1,139,622
Debts with credit institutions		195,819	1,138,050
Derivatives		-	1,433
Other financial liabilities		127	139
Long-term borrowings from group companies and associates	3.2.c	3,494,955	1,597,024
Deferred tax liabilities	4.2.g	2,880	3,555
CURRENT LIABILITIES		254,481	270,985
Short-term provisions		3,293	-
Current financial liabilities	3.2.b	4,897	157,564
Debts with credit institutions		112	152,560
Derivatives		-	1,306
Other financial liabilities		4,785	3,698
Short-term borrowings from group companies and associates	3.2.c	195,584	52,411
Trade and other payables	2.3	50,707	61,010
Suppliers		11,159	12,748
Suppliers, Group companies and associates		2,185	220
Personnel		10,078	5,154
Current tax liabilities		-	15,648
Other debts with the Public Administrations		27,285	27,240
TOTAL		6,082,294	5,129,273

The accompanying Notes 1 to 5 constitute an integral part of the Balance Sheet at December 31, 2018

ENAGÁS, S.A.
INCOME STATEMENT AT DECEMBER 31, 2018
 (In thousands of euros)

	Notes	12.31.2018	12.31.2017
CONTINUING OPERATIONS		404,630	409,635
Revenue	2.1.a	502,018	514,906
Provision of services		93,418	124,906
Dividend income of group and multigroup companies		408,600	390,000
Work done by the company for its assets	2.4	291	644
Procurements		(4)	(21)
Consumption of raw materials and other consumables		(4)	(21)
Other operating income		1,788	1,563
Accessory income and other current management income		1,788	1,563
Personnel expenses	2.1.b	(45,527)	(49,279)
Wages, salaries and similar		(35,035)	(37,274)
Social contributions		(10,492)	(12,005)
Other operating expenses	2.1.c	(46,037)	(43,148)
External services		(44,681)	(43,144)
Taxes		(1,356)	(158)
Losses, impairment and variation of provisions for commercial operations		-	154
Amortisation of fixed assets	2.4 and 2.5	(7,899)	(9,740)
Impairment and gains /(losses) on disposal of assets	4.1.a	-	(5,290)
OPERATING PROFIT		404,630	409,635
Financial income	3.3	5,153	8,620
From marketable securities and other financial instruments		5,153	8,620
- For borrowings from group companies and associates		3,296	8,619
- For borrowings from third parties		1,857	1
Financial expenses	3.3	(49,809)	(83,563)
For borrowings from group companies and associates		(35,421)	(65,903)
For borrowings from third parties		(14,388)	(17,660)
Exchange gains (losses)	3.3 and 4.1.b	(1,047)	1,657
FINANCIAL RESULT		(45,703)	(73,286)
PROFIT /(LOSS) BEFORE TAX		358,927	336,349
Income tax	4.2.e	12,295	13,105
PROFIT /(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		371,222	349,454
DISCONTINUED OPERATIONS		-	-
PROFIT /(LOSS) FOR THE YEAR		371,222	349,454

The accompanying Notes 1 to 5 constitute an integral part of the Income Statement at December 31, 2018

ENAGÁS, S.A.
STATEMENT OF RECOGNISED INCOME AND EXPENSES AT DECEMBER 31, 2018
 (In thousands of euros)

	Notes	12.31.2018	12.31.2017
RESULTS TO THE INCOME STATEMENT		371,222	349,454
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		195	(253)
From cash flow hedges	3.1.d	260	(337)
Tax effect	3.1.d	(65)	84
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		897	1,915
From cash flow hedges	3.1.d	1,196	2,553
Tax effect	3.1.d	(299)	(638)
TOTAL RECOGNISED INCOME AND EXPENSES		372,314	351,116

The accompanying Notes 1 to 5 constitute an integral part of the Recognized Income and Expenses Statement at December 31, 2018

ENAGÁS, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY AT DECEMBER 31, 2018

(In thousands of euros)

	Note	Capital	Share premium and reserves	Treasury shares	Profit / (loss) for the year	Interim dividend	Other equity instruments	Adjustments for changes in value	Total equity
BALANCE ADJUSTED AT THE BEGINNING OF 2017		358,101	1,540,034	(8,219)	342,306	(132,565)	1,959	(2,754)	2,098,862
Total recognised income and expenses		-	-	-	349,454	-	-	1,662	351,116
Transactions with shareholders		-	-	-	(198,848)	(139,241)	2,206	-	(335,883)
- Distribution of dividends	1.5	-	-	-	(198,848)	(139,241)	-	-	(338,089)
- Other transactions		-	-	-	-	-	2,206	-	2,206
Other changes in equity		-	10,893	-	(143,458)	132,565	-	-	-
BALANCE AT DECEMBER 31, 2017		358,101	1,550,927	(8,219)	349,454	(139,241)	4,165	(1,092)	2,114,095
BALANCE ADJUSTED AT THE BEGINNING OF 2018		358,101	1,550,927	(8,219)	349,454	(139,241)	4,165	(1,092)	2,114,095
Total recognised income and expenses		-	-	-	371,222	-	-	1,092	372,314
Transactions with shareholders		-	-	-	(208,862)	(145,917)	1,936	-	(352,843)
- Distribution of dividends	1.5	-	-	-	(208,862)	(145,917)	-	-	(354,779)
- Other transactions		-	-	-	-	-	1,936	-	1,936
Other changes in equity		-	1,351	-	(140,592)	139,241	-	-	-
BALANCE AT DECEMBER 31, 2018		358,101	1,552,278	(8,219)	371,222	(145,917)	6,101	-	2,133,566

The accompanying Notes 1 to 5 constitute an integral part of the Statement of Total Changes in Equity at December 31, 2018

ENAGÁS, S.A.
CASH FLOW STATEMENT AT DECEMBER 31, 2018
 (In thousands of euros)

	Notes	12.31.2018	12.31.2017
CASH FLOWS FROM OPERATING ACTIVITIES (I)		496,729	146,273
Profit /(loss) for the year before taxes		358,927	336,349
Adjustments to profit		(375,346)	(337,357)
- Amortisation of fixed assets	2.4 and 2.5	7,899	9,740
- Value adjustments for impairment	4.1.a	-	5,290
- Variation of provisions		(549)	3,413
- Financial income and dividends		(433,552)	(437,552)
- Financial expenses	3.3	49,809	83,563
- Other income and expenses		1,047	(1,811)
Changes in working capital		6,463	(255)
- Inventories		2	1
- Trade and other receivables		3,357	(4,382)
- Other current assets		(956)	1,910
- Trade and other payables		3,047	2,213
- Other current liabilities		1,087	-
- Other non-current assets and liabilities		(1)	3
Other cash flows from operating activities		506,685	147,536
- Interest paid		(42,801)	(66,612)
- Dividends received		521,000	150,000
- Interest received		17,744	45,030
- Income tax paid (received)		10,742	19,118
CASH FLOWS FROM INVESTING ACTIVITIES (II)		31,094	670,696
Payments for investments		(18,148)	(223,746)
- Group companies and associates		(10,738)	(2,206)
- Intangible assets and property, plant and equipment	2.4 and 2.5	(7,483)	(8,569)
- Other financial assets		-	(212,971)
Proceeds from sale of investments		49,242	894,442
- Group companies and associates		49,242	894,442
CASH FLOWS FROM FINANCING ACTIVITIES (III)		(123,495)	(780,805)
Proceeds from and payments on financial liabilities		231,284	(442,716)
- Issue of debentures and other marketable securities		-	88,921
- Issue of borrowings from credit entities		2,324,495	2,268,329
- Issue of borrowings from group companies and associates		475,187	449,038
- Return and amortisation of debentures and other marketable securities		-	(89,686)
- Repayment and amortisation of borrowings from credit entities		(2,372,498)	(2,490,141)
- Repayment and amortisation of borrowings from group companies and associates		(195,900)	(669,177)
Dividends paid and remuneration on other equity instruments		(354,779)	(338,089)
- Dividends	1.5	(354,779)	(338,089)
EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)		(297)	(275)
NET INCREASE/DECREASE IN CASH AND EQUIVALENTS (I + II + III + IV)		404,031	35,889
Cash and cash equivalents at beginning of the year		53,129	17,240
Cash and cash equivalents at year-end		457,160	53,129

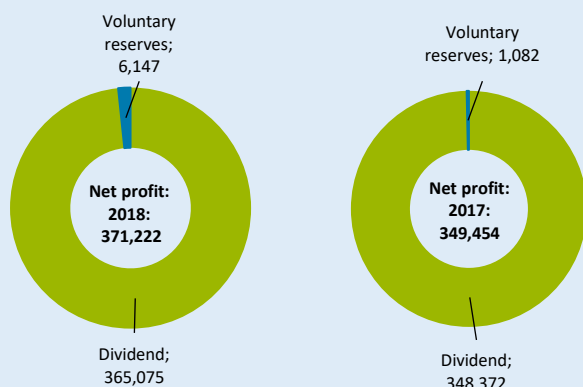
The accompanying Notes 1 to 5 constitute an integral part of the Cash Flow Statement at December 31, 2018.

1. Company activities and presentation bases

Relevant aspects

Results

- Net profit attributed to the Company increased by 6.2% with respect to 2017, amounting to 371 million euros.
- Net earnings per share increased to 1.557 euros per share as compared to 1.466 euros per share in 2017.
- The proposed dividend payment per share for 2018 amounts to 1.53 euros per share (1.46 euros per share in 2017) **(Note 1.5)**.
- The Board of Directors proposed the following appropriation of net profit corresponding to 2018 for the Parent, Enagás, S.A. **(Note 1.5)**:



Positive working capital

At 31 December 2018, the Balance Sheet records a positive working capital of 499 million euros.

Investments in group and multigroup companies

At December 31, 2018, Enagás, S.A. held financial instruments through which it develops some of its activities, both in current and non-current assets on the attached Balance Sheet, in the total amount of 5,541 million euros. The breakdown of these investments is as follows:

- Equity Instruments in the amount of 4,460 million euros **(Note 1.4.a)**.
- Loans to companies in the amount of 551 million euros **(Note 1.4)**.
- Other financial assets in the amount of 530 million euros **(Note 1.4)**.

Gasoducto Sur Peruano, S.A. ("GSP")

- With respect to the situation arising in connection with the investment in GSP as a consequence of the termination of the concession agreement on January 24, 2017, there is currently a disagreement between the Peruvian authorities and Enagás with respect to applying the investment recovery mechanism established in the GSP concession contract. This entailed the beginning of an international arbitration by virtue of the Reciprocal Investment Promotion and Protection Agreement (hereinafter 'APPRI') between Spain and Peru as indicated in **Note 1.4.c** presented to the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2018.
- The total amount to be recovered at December 31, 2018 registered in the Balance Sheet is 402,635 thousands of euros corresponding to the recovery of the financial investment in said company and the recovery of the Company executed guarantees as a result of the termination of the concession contract in GSP, both amounts are updated and are expected to be recovered by December 31, 2021 **(Note 1.4.c)**.

Guarantees

At December 31, 2018 Enagás, S.A. has granted guarantees in the amount of 4,289 million euros **(Note 1.6)**.

1.1 Company activity

Enagás, S.A, a company incorporated in Spain on July 13, 1972 in accordance with the Corporate Enterprises Act, is the parent company of a group of entities including interests in subsidiaries, associated companies, joint operations and joint ventures, which are engaged in various activities and, together with Enagás, S.A., the Enagás Group (hereinafter the Group), with corporate purpose of the transmission, storage and regasification of natural gas, as well as all related functions with the technical management of the gas system.

a) Corporate purpose

- Regasification, basic and secondary transmission as well as storage of natural gas, via the corresponding gas infrastructure or facilities, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.
- Design, construction, start up, exploitation, operation, and maintenance of all types of complementary gas infrastructure and facilities, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties.

- iii. Development of all functions relating to technical management of the gas system.
- iv. Transmission and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding facilities, of its own or of third parties, as well as the design, construction, start up, exploitation, operation, and maintenance of all types of complementary infrastructure and facilities necessary for said activities.
- v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them.
- vi. Rendering of services of a diverse nature, among them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas markets management activities to the extent they are compatible with the activities permitted for the Company by law.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transmission and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Consequently, the corporate purpose includes:

- vii. Management of the corporate group comprised by the interest held in share capital of companies belonging to the group.

1.2 Basis of presentation

These Financial Statements have been prepared by the Directors in accordance with the financial information regulatory framework applicable to the Company, which is established in:

- i. Commercial Code and remaining mercantile legislation.
- ii. Spanish National Charts of Accounts enacted by Royal Decree 1514/2007 of November 16, modified in 2016 by Royal Decree 602/2016 of December 2, and prevailing mercantile law.
- iii. Compulsory regulations approved by the Institute of Accounting and Audit of Accounts, in development of the General Accounting Plan and its complementary standards.
- iv. The other Spanish accounting regulations to be applied.

No non-compulsory accounting principles have been applied.

Also, the Directors authorized these Financial Statements for issue in due consideration of all compulsory accounting principles and standards with a significant effect on the Financial Statements.

- viii. Rendering of assistance or support services to affiliates, including the provision of appropriate guarantees and reinforcement for them.

b) Other information

Its registered address is located at Paseo de los Olmos, 19, 28005, Madrid. At its website www.enagas.es and at its registered address, its by-laws and other public information on the Company and its Group can be consulted.

In addition to the operations carried out directly, Enagás, S.A., as the parent company of the Enagás Group and in accordance with current legislation, is obliged to separately prepare consolidated accounts of the Group, which also include interests in subsidiaries, associates, joint operations and joint ventures.

The main figures of the consolidated Financial Statements of the Enagás Group for 2018 and 2017 are the following:

	12.31.2018	12.31.2017
Total assets	9,526,202	9,572,636
Equity	3,039,371	2,941,284
Revenue	1,294,660	1,360,170
Net profit	442,626	490,837

The Financial Statements of Enagás, S.A. and its Consolidated Group for financial year 2018 were prepared by its Directors at the Board of Directors meeting held on February 22, 2019. The 2017 Financial Statements of Enagás, S.A. and its consolidated Group were approved at the Enagás, S.A. General Shareholders' Meeting held on March 22, 2018 and duly filed at the Madrid Mercantile Registry.

These Financial Statements are presented in thousands of euros (unless otherwise stated).

a) Materiality criteria

The accompanying Financial Statements do not include the information or disclosures which the Group did not consider of material significance or important relative to the concept of materiality as defined in the conceptual framework of the National Charts of Accounts, taking into account the Financial Statements as a whole.

b) True and fair view

The accompanying Financial Statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and criteria set out therein and, accordingly, provide a true and fair view of the Company's equity, financial position, results of operations, the statement of changes in equity and cash flows during the year. These Financial Statements have been prepared by the Directors of the Company and will be submitted for approval by the General Shareholders Meeting. It is expected that they will be approved without modification.

c) Comparison of information

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

1.3 Estimates and accounting judgements used

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

In the 2018 Financial Statements, the Company's Directors have occasionally used estimates, subsequently ratified by the Directors, in order to quantify certain assets, liabilities, income, expenses and commitments recognized therein. These estimates related basically to the following:

- The useful life of intangible assets and PP&E (Notes 2.4 and 2.5).
- The measurement of assets to determine the possible existence of impairment losses (Note 2.6).
- Provisions of bills pending formalization (Notes 2.2 and 2.3).
- The calculation of provisions and contingencies (Note 2.8).
- The calculation of income tax and deferred tax assets (Note 4.2).
- The market value of certain financial instruments (Note 3.4).

1.4 Investments in group and multigroup companies

Accounting policies

Equity instruments

- Investments in equity of group and multigroup companies are measured at cost, less, where applicable, any accumulated impairment losses. Said impairment losses are calculated as the difference between an asset's carrying amount and its recoverable amount, understood as being either fair value less cost of sale or the present value of future cash flows arising from the investment, whichever is greater.

d) Grouping of items

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

e) Changes in accounting policies

In 2018 there were no significant changes in accounting policies with respect to those applied in 2017.

- The fair value of equity instruments granted under the Long-Term Incentive Plan ("ILP") (Note 4.4).

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

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

for any unreleased gains at the date of measurement (including any goodwill).

In the absence of better evidence of a recoverable amount, the equity of the affiliate is taken into account, after adjusting

Credits and receivables

- This heading comprises financial assets arising from the sale of goods or the rendering of services in the course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.

Significant estimates and judgements

- At the closure of each financial year, or when there are indications of loss of value, the Company analyses the recoverability of the equity investments in group and multigroup companies, in order to verify that the recoverable amount of these investments is greater than the value recognized in the Company's accounting records.
- In order to calculate the recoverable amount of the Group companies, an analysis of the updated cash flows is prepared, based on detailed future projections for these investments.
- With regard to the impairment analysis relating to group and multigroup companies, the net profit discount rate applied to Spanish companies in 2018 was between 3.44% and 6.00% in according to business that it is allocated to. Investments in international companies ranges from 8.29% to 8.76%, after-tax rates, depending on the business and the country in which they operate. Both intervals correspond to both the 2018 and 2017 rates. The sensitivity test of the discount rate of 0.5% and -0.5% carried out at 2018 year-end indicates that the Company shows no sign of significant risks associated with potential reasonable variations. Thus, the Company's Management considers that, within the specified ranges, there would be no changes in the impairment calculation.

The breakdown of accounts under the heading "Investments in Group and multigroup companies", both short- and long-term at year-end 2018 and 2017 is as follows:

	2018	2017
Long-term financial instruments	5,262,439	4,433,775
Equity investments in group and multigroup companies (Note 1.4.a)	4,459,513	2,347,456
Credits and receivables	802,926	2,086,319
Loans to group companies (Note 1.4.b)	400,291	1,704,306
Other financial assets (Note 1.4.c)	402,635	382,013
Short-term financial instruments	278,974	555,684
Credits and receivables (Note 1.4.b)	7,266	160,085
Credits to group companies for tax effect (1)	144,108	155,599
Dividends receivable (2)	127,600	240,000

(1) As mentioned in Note 4.2.b, Enagás, S.A. is the parent company of Consolidated Tax Group 493/12 for corporate income tax, and this amount matches the accounts receivable from the different companies belonging to the group in respect of their contribution to the group's taxable income.

(2) This amount relates to the dividends receivable at December 31, 2018 which were distributed by Enagás Transporte, S.A.U. in 2018.

a) Equity instruments

Name / Address / Activity	% Stake		Thousands of euros								
	Direct	Indirect	Capital	Result		Remaining Equity	Total Equity	Dividends		Carrying amount	
				Operating Income	Net			Received	Cost	Impairment of the financial year	Accumulated impairment
2018	4,459,513										
Enagás Transporte, S.A.U.	100	-	532,089	518,286	397,729	1,566,299	2,496,117	387,600	3,815,407	-	-
Enagás GTS, S.A.U.	100	-	5,914	1,705	1,160	(1,350)	5,725	-	33,838	-	-
Enagás Financiaciones, S.A.U.	100	-	890	63,857	6,299	12,291	19,480	-	8,213	-	-
Enagás Internacional, S.L.U.	100	-	99,508	95,534	83,431	530,885	713,824	11,000	578,070	-	-
Estación de Compresión Soto la Marina, S.A.P.I. de C.V.	50	-	21,881	5,701	5,701	22,111	49,693	-	12,248	-	-
Enagás Peru SAC	-	100	6,474	(730)	(990)	(943)	4,540	-	1	-	-
Enagás México SA de C.V.	-	100	2,313	(346)	(364)	(1,455)	494	-	-	-	-
Enagás Emprende, S.L.U.	100	-	2,008	(1,270)	(954)	4,654	5,708	-	6,694	-	-
Enagás Services Solutions, S.L.U.	100	-	1,484	1,518	(1,139)	3,460	3,805	-	4,945	-	-
Mibgas Derivatives, S.A.	19	9	757	-	-	-	757	-	97	-	-
2017	2,347,456										
Enagás Transporte, S.A.U.	100	-	532,089	585,882	462,275	1,509,735	2,504,099	390,000	1,961,832	-	-
Enagás GTS, S.A.U.	100	-	5,914	(647)	(623)	5,691	4,421	-	33,694	-	-
Enagás Financiaciones, S.A.U.	100	-	890	76,497	6,018	7,293	14,201	-	8,192	-	-
Enagás Internacional, S.L.U.	100	-	99,508	70,212	34,260	261,602	380,393	-	331,781	-	-
Estación de Compresión Soto la Marina, S.A.P.I. de C.V.	50	-	19,815	26,828	27,157	(34,836)	12,136	-	9,932	-	-
Enagás Peru SAC	-	100	6,365	(441)	(977)	(751)	4,637	-	1	-	-
Enagás México SA de C.V.	-	100	2,313	(198)	(252)	(1,378)	683	-	-	-	-
Enagás Emprende, S.L.U.	100	-	600	(39)	(29)	1,397	1,968	-	2,000	-	-
Mibgas Derivatives, S.A.	19	9	500	-	-	-	500	-	24	-	-

These Group companies are not listed on the Securities Markets.

In 2018 the following changes were made to the Company's equity instruments:

- As a consequence of the approval of the Long-Term Incentive Plan ("ILP") on March 18, 2016 at the General Shareholders' Meeting of Enagás, S.A. (**Note 4.4**), and pursuant to BOICAC No. 75/2008, in query No.7, the Company increased the value of the equity instruments of each of the subsidiaries with beneficiaries assigned to the Plan, i.e. Enagás Transporte, S.A.U, Enagás GTS, S.A.U, Enagás Financiaciones, S.A.U. and Enagás Internacional S.L.U., for a total amount in 2018 of 392 thousands of euros (368 thousands of euros in 2017). The counterparty of this contribution is included under the heading "Other equity instruments" of the net equity of the Balance Sheet at December 31, 2018, as a result of the cost assumed by the Company in each of the aforementioned subsidiaries.
- On April 3, 2018, Enagás Services Solutions, S.L. was incorporated for 1,245 thousands of euros of which 374 thousands of euros were contributed as shares and 871 thousands of euros as a premium on said shares.

Additionally at September 25, 2018, Enagás Services Solutions, S.L. performed a capital increase by issuing 1,110,000 shares with a nominal value of one euro each, with a total premium of 2,590 thousands of euros.

- On June 26, 2018, Estación de Compresión Soto La Marina, S.A.P.I de C.V. carried out a capital increase through a fully paid-up monetary contribution and the capitalisation of promissory notes amounting to 1,026 thousands of euros and 1,290 thousands of euros, respectively.
- At July 23, 2018, Enagás Emprende, S.L.U. performed a capital increase by issuing 1,018,125 new shares with a nominal value of one euro each, with a total premium of 2,376 thousands of euros, through a fully disbursed monetary contribution.

Additionally at November 30, 2018, Enagás Emprende, S.L.U. performed a capital increase by issuing 390,000 new shares with a nominal value of one euro each, with a total premium of 910 thousands of euros.

- At December 31, 2018, the Company made a non-monetary members' contribution to Enagás Transporte, S.A.U. and Enagás Internacional, S.L.U. in the amount of 1,853,390 thousands of euros and 246,247 thousands of euros respectively (**Note 1.4.b**).

At December 31, 2018 and 2017, the Company had not made any valuation adjustments for impairment of the value of direct investments in Group companies.

b) Loans to companies

	Long-term balances		Short-term balances	
	2018	2017	2018	2017
Enagás Transporte, S.A.U.	-	1,304,015	-	152,819
Enagás Internacional, S.L.U.	400,291	400,291	7,259	7,266
Enagás Financiaciones, S.A.U.	-	-	7	-
Total	400,291	1,704,306	7,266	160,085

The main changes during the financial year 2018 in the loans granted are the following:

- As a result of the foregoing in **Notes 3.2.a. and 3.2.c.**, the Company, in its new lending position under the Assignment Contracts signed on December 31, 2018, had a greater volume of loans with Group companies amounting to 794,613 thousands of euros.
- Furthermore, also on December 31, 2018, the Company, as Sole Shareholder of Enagás Transporte, S.A.U., and Sole

Shareholder of Enagás Internacional, S.L.U., and as a result of its new position as lender, as described in the above paragraph, made a non-monetary contribution of the credits held to date with both companies in the amount of 1,853,390 thousands of euros and 246,247 thousands of euros, respectively (**Note 1.4.a**).

Loans to group companies are subject to the market interest rate, with the average rate for 2018 and 2017 being 1.4% and 1.7% respectively.

The breakdown per maturity of these loans at year-end 2018 and 2017 is as follows:

2018	2019	2020	2021	2022	2023 and later years	Total
Loans and receivables	7,266	-	-	400,291	-	407,557
Total	7,266	-	-	400,291	-	407,557

2017	2018	2019	2020	2021	2022 and later years	Total
Loans and receivables	160,085	491,742	121,742	121,742	969,080	1,864,391
Total	160,085	491,742	121,742	121,742	969,080	1,864,391

c) Other financial assets

The "Other financial assets" heading includes the different accounts receivable from the investment in Gasoducto del Sur Peruano (hereinafter "GSP"), a company directly owned by Enagás Internacional, S.L.U. In relation to this investment, on January 24, 2017, the Directorate General of Hydrocarbons of the Peruvian Government's Ministry of Energy and Mines (hereinafter the 'State of Peru') sent an official letter to GSP stating 'the termination of the concession agreement owing to causes attributable to the concession holder', in accordance with the terms of Clause 6.7 of the 'Improvements to the Energy Security of the Country and the Development of the Gasoducto Sur Peruano' (hereinafter "the Project") concession agreement, because the financial close had not been evidenced within the period established in the agreement (January 23, 2017), and proceeded to the immediate enforcement of the totality of the guarantee for full compliance given by GSP (262.5 million dollars), to ensure fulfilment of the obligations relating to the concession, which in the case of Enagás generated a payment of 65.6 million dollars. Also in January 2017, they paid bank financing sureties to Enagás amounting to 162 million dollars, including both principal and interest pending payment. In

December 2017, the process for delivering the Concession Assets held by GSP was substantially completed with the Peruvian State assuming control over them.

As a result of the termination of the concession contract, the Peruvian State had the obligation to apply clause 20 of the Concession Contract, calculating the Net Carrying Amount (hereinafter NCA) of the Concession Assets, calling three auctions to award the Concession, with the auction result being to pay GSP the NCA, based on the opinion of the external and internal legal advisors of Enagás. With the amount that GSP would have received for the NCA of the Concession Assets, it would have been able to settle its obligations to third parties and, if possible, reimburse the capital contributions made by its shareholders, as explained in the Consolidated Financial Statements of the Enagás Group for 2016 and 2017.

As a result of inaction by the State of Peru in relation to the aforementioned procedure, on December 19, 2017, Enagás notified the Peruvian State about the existence of a dispute relating to the investment in GSP with a view to reaching an

amicable agreement on the terms of article 9.1 of the Agreement for the Reciprocal Promotion and Protection of APPRI in Spanish signed by the Republic of Peru and the Kingdom of Spain. This notification represented the beginning of the six-month period for direct contact prior to initiating international arbitration in which the APPRI acts as the mechanism for recovering the investment in GSP.

Once the six months permitted for the direct dealing between Enagás and the State of Peru has elapsed without it being possible to reach an amicable arrangement over the foregoing controversy, on July 2, 2018 an application for arbitration proceedings was submitted to the ICSID against the Peruvian State with regard to the investment in GSP.

Through this arbitration procedure, it is expected that the State of Peru will reimburse Enagás for its investment in GSP, as this is the mechanism used to recover the financial assets registered on the accompanying Balance Sheet. Accordingly, the Arbitration Court that rules on the arbitration procedure at the ICSID will deal with the arguments of Enagás, and hand down an award recognising that the State of Peru has failed to protect the investment of Enagás in accordance with the APPRI and, therefore, must compensate it by paying the value of this investment.

The ICSID procedure is currently at the stage of being constituted at the Arbitration Court. Once it has been constituted, the stage for written and verbal actions will commence, which is scheduled for the second quarter of 2019.

Enagás' core argument is that, if the State of Peru had complied with its obligation under the Concession Agreement, it would have calculated the NCA and would have announced the three auctions to which it was obliged in order to award the Concession, the results of the auction would have been handed to GSP, who would have applied the amount surrendered to paying off its creditors and reimbursing the capital to its shareholders. The source of the payments waterfall is 100% as a consequence of the NCA, given that on January 24, 2018 one year had elapsed without the auctions being announced. The absence of the auction means that the legal advisers of Enagás believe that GSP should be considered to have received 100% of the NCA, as it was deprived of the possibility of receiving it as a consequence of not calling the auctions. Therefore, based on the NCA considered, a certain payments waterfall would have applied.

Enagás considers that, taking into account the NCA of the Concession Assets determined by an independent expert, and also taking into account the payment waterfall as per the terms of the insolvency legislation, as well as the contracts between Enagás and the members of GSP relating to subordination and credit agreements, if the State had satisfied their obligations, and thus paid GSP, Enagás would have recovered its investment.

With regard to the amount of the NCA, on December 12, 2018 GSP and the Consorcio Constructor Ductos del Sur (hereinafter CCDS), in charge of construction of the GSP project, signed the termination of the lump-sum EPC-Turnkey contract for the engineering, procurement and construction of the Project's transmission system signed by both parties. By virtue of this termination, and also considering the value of the assets that have not been delivered to date to the State of Peru, in December 2018 a new appraisal was carried out by firm of independent experts contracted by Enagás, determining an updated NCA value of 1,977 million dollars.

Taking into account this updated NCA, if the payment waterfall were to be applied to it as per the terms of the insolvency laws, the subordination and the assignment of credit agreements entered into by Enagás and its aforementioned partners in GSP, Enagás would recover the total value of its investment.

With regard to the aforementioned subordination and the assignment of credit agreements, their efficacy and method of application has been questioned successively by the partners of Enagás at GSP through different arbitration procedures. In this regard, the arbitration applications filed by Odebrecht have been the object of withdrawal in December 2018, although Graña y Montero has filed new claims and a new application for arbitration also in December 2018. With respect to these arbitration proceedings, the Peruvian legal advisors consider that, according to the arguments raised to date, the possibility of their effectiveness and application being different from that envisaged by Enagás is remote, considering that the aforementioned agreements are fully valid and applicable.

As regards the arbitration proceedings against the State of Peru, based on the conclusions determined by the external and internal legal advisers, the recoverability of the totality of the Enagás investment in GSP, consisting of receivables in relation to the aforementioned enforced guarantees to the total of 226.8 million dollars, interests of 1.8 million dollars, various invoices for professional services provided to the amount of 7.6 million dollars and the share capital contributed to GSP for the amount of 275.3 million dollars, is considered likely.

With regard to the recovery period, considering the time it takes to resolve a dispute of this complexity in international arbitration proceedings, the estimated date for the recovery of the investment made by Enagás in GSP is thought to be December 31, 2021 from the lodging of the request to the commencement of arbitration proceedings. Based on this, the amounts outlined in the preceding paragraph are recorded at their updated value in the Consolidated Balance Sheet dated December 31, 2018 for a total amount of 402,635 thousands of euros (382,013 thousands of euros at December 31, 2017).

Other related matters

On March 12, 2018, Law No. 30737 was published guaranteeing immediate payment to the Peruvian government to repair civil damage caused by corruption and related crimes. On May 9, 2018, Supreme Decree 096-2018-EF was published, enacting the regulations of the aforementioned law.

In accordance with Article 9 of Law no. 30737, legal persons and legal entities in the form of partnerships, consortiums and joint ventures who may have benefited from the awarding of contracts, or subsequent to it, jointly with persons who have been convicted or who may have acknowledged having committed crimes against the public administration, asset laundering or related crimes, or their equivalents against the State of Peru, in Peru or abroad are classified as Category 2, and therefore fall within its scope of application.

Even without evidence of a criminal conviction or a confession of the commission of crimes, as required under Article 9 of Law No. 30737, on June 28, 2018, the State of Peru classified Enagás Internacional on the "List of Contracts and Subjects of Category 2 indicating the legal person or legal entity included under Section II of Law No.30737" in relation to the concession contract awarded to GSP. The application of the mentioned standard involves different measures such as setting up an escrow account, reporting information, the limitation of transfers to other countries or the preparation of a compliance programme.

According to different communications media in Peru and news items that have arisen during December 2018, the Odebrecht Group would have signed, in February 2019, a collaboration agreement with the Attorney General's Office of Peru in which the GSP project would not be included as one of the projects affected. There is currently nothing that exists or is known that in any consistent or evidential way that suggests that GSP is involved in

corruption and there should therefore be no reasons to enforce that Trust.

The total amount of the Trust, estimated at 50% of the total average net equity, corresponding to its participation in GSP, will be communicated by the Ministry of Justice, given that the amount is estimated to be less than 65 million dollars. The Ministry of Justice has recently been notified of necessary information for the estimation of the amount, and the company is presently awaiting confirmation to implement the Trust at a later date.

Moreover, Law no. 30737 also imposes a ban on companies included on the list from making transfers to outside of Peru, which, based on the conclusions of the external and internal legal advisers, would only be application to investment in GSP, notwithstanding a restriction on dividends to pay for the COGA and TGP societies, also considering that investment in the latter is protected by the Legal Stability Agreement in Peru. It should be noted that Enagás, S.A. holds an indirect stake in these companies through its holding in Enagás Internacional, S.L.U.

In light of the above, is still maintained at the present date that these regulations do not have a negative effect on the recovery of accounts receivable through the arbitration process indicated above.

Notwithstanding the foregoing regarding the signing of the Effective Collaboration Agreement between Odebrecht and the Public Prosecutor's Office of Peru, there have been no new developments to date regarding the actions of the Peruvian Public Prosecutor's Office regarding the investigation of Odebrecht's activities in Peru and other investigations carried out by various organs of the Peruvian Public Prosecutor's Office for alleged crimes that could in any way be related to the awarding of the project "Improvements to the country's energy security and development of the South Peruvian Gas Pipeline", and the situation described in

Note 1.4.c of the Financial Statements of Enagás, S.A. for fiscal year 2017, has been maintained. The above-mentioned note states that two investigations are ongoing: (i) the first, File 321-2014, related to aggravated collusion between a former Odebrecht employee and a public official, whose stage of control and disencumbrance was left without effect until the Supreme Court ruling on the appeal filed by the Peruvian Ad Hoc Prosecutor's Office in order to include one of Odebrecht's subsidiaries as a civil third party. At this stage it is expected that a decision on the opening of oral proceedings will be made, foreseeable during the second half of 2019.

Based on the opinions of Enagás external legal advisors for the Peruvian criminal code, the possibility of sentencing Odebrecht's former employee is considered to be remote. In this same case, the preparatory investigative court has declared the incorporation of GSP as a liable third party as wrongful. The second investigation underway, identified by File 12-2017, is in its preliminary stage at the level of the Attorney General's office and involves the investigation of an Enagás employee. Based on the opinions of our external legal advisors for the Peruvian criminal code, there are no indications that these investigations may conclude negatively for Enagás.

Based on all the above, the directors of Enagás, in accordance with the opinions of its external and internal legal advisers, as well as an independent expert and an independent expert accountant, consider that these circumstances will not have an impact on the estimated recoverable amount of the investment in GSP and the aforementioned receivable balances totalling 402,635 thousands of euros.

1.5 Dividends distributed and proposed

a) Proposed distribution of profit attributable to the company

The appropriation of 2018 profit corresponding to the Company proposed by the Board of Directors and which will be submitted for approval by the General Shareholders' Meeting is as follows:

	12.31.2018	12.31.2017
Dividend	365,075	348,372
Voluntary reserves	6,147	1,082
TOTAL	371,222	349,454

At a meeting held on November 19, 2018, the Board of Directors of Enagás, S.A. agreed to distribute an interim dividend charged against 2018 profit, based on the necessary liquidity statement, expressed in thousands of euros, amounting to 145,917 thousands of euros (0.612 euros gross per share), in accordance with article 277 of the Spanish Corporate Enterprises Act.

The provisional accounting records prepared by the Company, in accordance with legal requirements and which presented balances sufficient for the distribution of the interim dividend in 2018, were as follows:

Provisional accounting records at October 31, 2018	
Net accounting result	23,787
Interim dividend received from Group companies	358,600
Profit "available" for distribution	382,387
Forecast dividend payment on account	(145,917)
Forecast cash balance for the period from October 31 to December 31:	
-Cash balance	29,304
-Payments projected for the period under consideration	261,253
-Credit lines and loans granted by financial entities	1,500,000
-Payments projected for the period under consideration (including the payment on account)	(112,556)
Estimated available financing before dividend distribution	1,678,001

The payment of the aforementioned interim dividend was made on December 19, 2018.

The gross complementary dividend proposed (0.918 euros per share) is subject to approval by the ordinary General Shareholders' Meeting and is not included as a liability in these Financial Statements. Thus, this gross complementary dividend will total up to a maximum amount of 219,158 thousands of euros.

b) Total dividends paid

In addition to the aforementioned interim dividend for 2018, during 2018 Enagás, S.A. distributed the gross complementary dividend for 2017.

Said dividend amounted to 208,862 thousands of euros (0.876 euros per share) and was paid on July 5, 2018.

1.6 Commitments assumed and guarantees granted

Accounting policies

- A financial guarantee contract is a contract which requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor does not fulfil payment obligations at maturity, in accordance with the original or modified conditions of a debt instrument. The rights and obligations associated with a financial guarantee will be considered as financial assets and financial liabilities. For subsequent valuation, a contract will be recognized as the greater amount of a) the amount resulting from standards relating to provisions or b) accumulated amortisation of the initial measurement and possible accrued income.
- An investment commitment corresponds to that obligation contracted with a related party which can give rise to outflows of funds or other resources in the future. The following is included amongst these: commitments not recognized in connection with contributing funds or resources as a consequence of incorporation agreements, capital intensive projects carried out by a business combination, commitments not recognized in connection with providing loans or other financial support to the business combination, or commitments not recognized in connection with acquiring a stake, regardless of whether a specific future event occurs or not.

At December 31, 2018 and 2017, the detail of the Company's commitments and guarantees is as follows:

Commitments assumed and guarantees granted	Group employees, companies or entities (Note 4.3)	Other related parties (Note 4.3)	Third parties	Total
2018				
Guarantees for related party debts	3,823,466	-	-	3,823,466
Guarantees and sureties granted - Other	89,291	22,895	353,018	465,204
2017				
Guarantees for related party debts	3,473,179	-	-	3,473,179
Guarantees and sureties granted - other	55,445	130,212	285,552	471,209

a) Guarantees for related party debts

	Thousands of euros	
	2018	2017
E. Financiaciones debt guarantee	3,010,000	3,010,000
E. Transporte debt guarantee	147,514	147,514
E. Internacional debt guarantee in the financing of the purchase of Swedegas	70,536	77,706
E. Internacional debt guarantee on the line of credit with Banco Santander	142,827	213,828
Swedegas guarantee commitment.	-	24,131
Guarantee on the TAP debt	452,589	-
Total	3,823,466	3,473,179

The guarantees outlined above mainly correspond to:

- The guarantees provided by Enagás, S.A. in bond issues made by the company Enagás Financiaciones, S.A.U. in the amount of 3,010,000 thousands of euros.
- The "Guarantees on related party debts" caption includes the corporate guarantee granted by Enagás, S.A. on behalf of the financial entities of Trans Adriatic Pipeline, AG (TAP), in accordance with the Financing Agreement signed by this company on November 30, 2018. This guarantee basically covers the following items:
 - Principal and interests of the Financing Contract drawn by TAP;
 - Market value of the hedging instrument over the interest rate. At the close of financial year 2018, the instrument had not yet been signed by TAP.

The corporate guarantee was granted by Enagás, S.A. jointly with TAP's other partners, so Enagás will only be liable, hypothetically, for the amount corresponding to its holding the share capital of TAP.

At December 31, 2018 the amount guaranteed by Enagás to the creditors of TAP amounts to 452,589 thousands of euros.

This guarantee will be released subject to compliance with certain conditions agreed with TAP's creditors, essentially related to the commissioning of the project.

Following commissioning and until the maturity of the loan, there will also be a shareholders' support mechanism, which in the case of the Enagás Group is Enagás Internacional S.L.U., for the repayment of the TAP loan through capital contributions or direct payments to the creditors (Debt Payment Undertaking), to be activated under certain extraordinary circumstances.

Both the guarantee during the construction period and this support mechanism during the operating period are contractually limited by a cap in force throughout the life of the financing arrangement, so that the amounts claimed from Enagás may never exceed a total amount of 903,322 thousands of euros, regardless of the market value of the derivative or any other contingency.

- At December 31, 2017, the commitment acquired in the existing Financing Agreement with the company Knubbsäl Topholding AB (Swedegas Group) in the amount of 24,131 thousands of euros was included, through which the Enagás Group undertook to grant a corporate guarantee in favour of the financing entities if the Financing Agreement currently existing has not been cancelled or refinanced six months before its expiration, which is established for the month of July 2022.

In this respect, at November 21, 2018, the entire stake of Enagás Internacional S.L.U. in the Swedegas Group was sold to FS Gas Transport AB, so that, at December 31, 2018, Enagás, S.A. did not have this guarantee.

Furthermore, Enagás, S.A. guarantees the amount drawn down by Enagás Financiaciones, S.A.U. in the Euro Commercial Paper Programme (ECP) (Note 3.2.b). At December 31, 2018, Enagás Financiaciones, S.A.U. had not drawn down any amounts.

b) Guarantees and sureties granted - other

This caption records the guarantee agreed by Enagás, S.A. regarding the obligations of Enagás Internacional, S.L.U. towards Hellenic Republic Asset Development Fund S.A. for its participation in the sale of 66% of Hellenic Gas Transmission System Operator, S.A. (hereinafter 'DESFA'), for the amount of 21,400 thousands of euros. Said guarantee was cancelled on January 9, 2019 when the transaction was closed on December 20, 2018.

At December 31, 2017, guarantees for full compliance granted to Group entities in connection with obligations acquired under concessions, counter-guaranteed by Enagás, S.A. in the amount of 8,376 thousands of euros; cancelled during 2018.

Lastly, the guarantees and sureties granted to group companies at December 31, 2018 include the technical sureties granted to third parties by Enagás Transporte, S.A.U. in the amount of 5,123 thousands of euros (5,123 thousands of euros at December 31, 2017) and Gas to Move Transport Solutions S.L., in the amount of 1,469 thousands of euros, both counter-guaranteed by Enagás, S.A.

- Also, guarantees and sureties granted to other related parties at December 31, 2018 include the guarantees granted to the Federal Electricity Commission ("CFE") for service contracts related to the Gasoducto de Morelos and Estación de Compresión Soto de la Marina projects, in the amount of 8,738 and 7,746 thousands of euros, respectively, granted by the related entity Banco Santander (8,376 and 7,425 thousands of euros at December 31, 2017).
- Financial guarantees granted as collateral in the loans granted by the European Investment Bank to Enagás Financiaciones S.A.U, in the amount of 323,333 thousands of euros (366,667 thousands of euros in 2017, of which 108,000 thousands of euros were granted by the related entity Banco Santander).
- Technical guarantees granted to third parties to cover certain liabilities that may arise from the execution of the contracts that constitute their activity, in the amount of 36,096 thousands of euros at December 31, 2018 (33,296 thousands

of euros in financial year 2017), of which 6,411 thousands of euros correspond to guarantees formalized with Banco Santander (6,411 thousands of euros at December 31, 2017), an entity that, as defined in **(Note 4.3)** meets the definition of a related party.

Also, Enagás, S.A. guarantees the hedging transactions arranged by Enagás Financiaciones, S.A.U. and Enagás Internacional, S.L.U., the fair value of which amounted to 61,299 thousands of euros at 31 December 2018 (41,946 thousands of euros at 31 December 2017).

2. Operational performance of the company

Relevant aspects

Operating profit

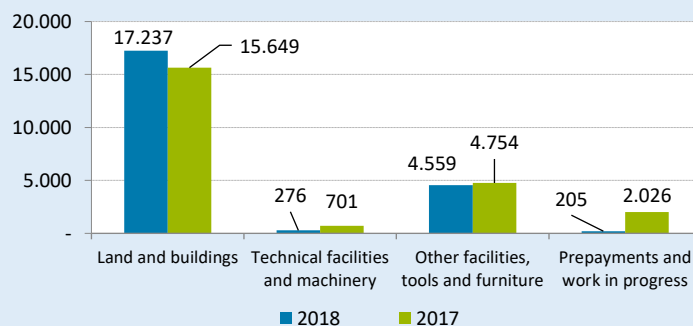
- Operating profit decreased by 1.2% with respect to 2017, amounting to 404,630 thousands of euros **(Note 2.1)**.
- The main income that makes up the Revenue is the income for dividends received from Group Companies that has increased with respect to the income received in 2017 under the same item at 4.8%, amounting to 408,600 thousands of euros **(Note 2.1)**.

Trade receivables

- "Trade debtors and other current accounts receivable" mainly includes accounts receivable from the different Group companies to which the Company provides holding services. **(Note 2.2)**.

Property, plant, and equipment (PP&E)

- The net carrying amount of the tangible fixed assets at December 31, 2018, is as follows:



2.1 Operating profit

Accounting policies

Recognition of income

- In applying the criteria of Spanish Institute of Accountants and Auditors through BOICAC 79, on the classification for accounting purposes in separate accounts of the income and expenses of holding companies that apply the Spanish National Chart of Accounts, approved by Royal Decree 1514/2007, and on the calculation of the Company's revenue, the dividends and interest on loans received from its investees are included as an integral part of the Company's revenue.
- Also, income and expenses are also recognized on an accruals basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Income is measured at the fair value of the consideration received, net of discounts and tax.
- Ordinary revenue from the rendering of services is recognized by reference to the stage of completion of the transaction at the Balance Sheet date, provided the result of the transaction can be estimated reliably.

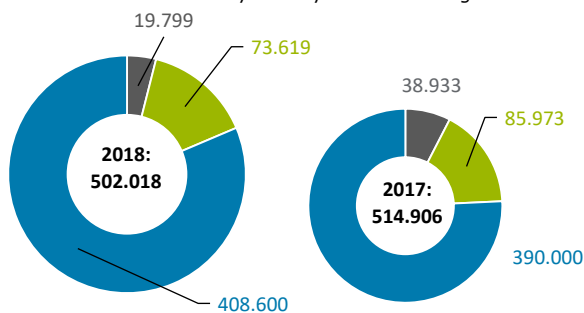
- Interest income from financial assets is recognized using the effective interest method and dividend income is recognized when the shareholder's right to receive payment is established. Interest and dividends from financial assets accrued after the date of acquisition are in any case recognized as income in the Income Statement.

Recognition of expenses

- Expenses are recognized in the Income Statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that an expense is recognized simultaneously with the recognition of the increase in the liability or the reduction of the asset.
- An expense is recognized immediately when a payment does not generate future economic benefits or when the prerequisites for capitalization as an asset are not met.

a) Revenue

The breakdown of revenue by activity is the following:



- Rendering of services: Income from credit to group companies and jointly controlled entities
- Rendering of services to group companies and jointly controlled entities
- Income from dividends received from group companies and jointly controlled entities

The amount of dividends received in financial year 2018 in the amount of 408,600 thousands of euros corresponds to the following distribution of dividends in the year 2018:

- In financial year 2018, Enagás Transporte, S.A.U. distributed an additional dividend amounting to 50,000 thousands of euros, as well as an interim dividend for financial year 2018 amounting to 347,600 thousand of euros (while in financial year 2017 it distributed an interim dividend for the financial year in the amount of 387,000 thousands of euros and an extraordinary dividend charged to reserves amounting to 3,000 thousands of euros).
- In financial year 2018, Enagás Internacional, S.L.U. distributed an interim dividend amounting to 11,000 thousands of euros.

The breakdown of revenue in 2018 and 2017 by geographical markets is provided below:

	12.31.2018	12.31.2017
Spain	500,242	514,649
Latin America	1,776	257
Total	502,018	514,906

b) Personnel expenses and social contributions

	12.31.2018	12.31.2017
Wages and salaries	33,241	35,610
Termination benefits	1,794	1,664
Social Security	4,812	5,541
Other personnel expenses	4,872	5,643
Contributions to external pension funds (defined contribution plan)	808	821
Total	45,527	49,279

It should be noted that in 2018 a staff restructuring plan was implemented culminating in the voluntary redundancy of seven professionals that will leave during the first quarter of 2019, although, at the end of 2018 they already fulfilled the necessary requirements for their provision (in 2017, ten professionals were made redundant).

	12.31.2018	12.31.2017
Social contributions:		
-Social Security	4,812	5,541
-Contributions to pension schemes	2,131	2,170
-Other social contributions	3,549	4,294
Total	10,492	12,005

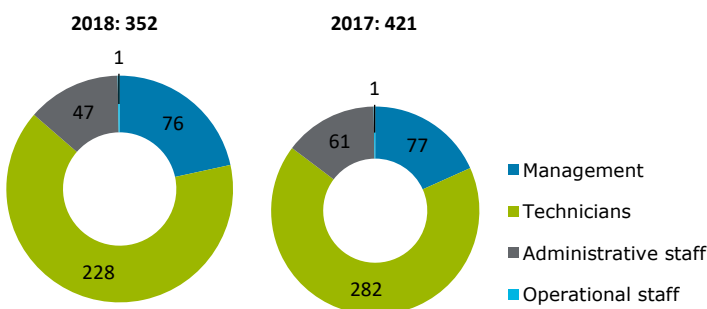
Company contributions to the pension plan amounted to 808 thousands of euros in financial year 2018 (821 thousands of euros in financial year 2017) and are recorded under the heading "Social contributions", included under the heading "Personnel Expenses" of the attached Income Statement. Furthermore, it includes the Directors' Savings Plan in the amount of 1,323 thousands of euros (1,349 thousands of euros in 2017).

The Company 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. The aforesaid plan recognizes certain vested rights for past service and undertakes to make monthly contributions averaging 3.99% of eligible salary (3.92% in 2017). It is a mixed plan covering retirement benefits, disability and death. The total number of people adhered to the plan at December 31, 2018 totalled 328 participants (299 participants at December 31, 2017).

The contributions made by the Company each year in this connection are recognized under "Personnel expenses" in the Income Statement. At year-end 2018 and 2017, there were no contributions payable in this connection.

The Company has outsourced its pension commitments with its executives by means of a mixed group insurance policy for pension commitments, including benefits in the event of survival, death and employment disability.

The average number of employees at Enagás, S.A. by professional category is as follows:



At December 31, 2018, the Company's workforce consisted of 364 employees (338 employees in 2017).

The distribution of the professional categories by gender is as follows:

Categories	2018		2017	
	Men	Women	Men	Women
Management	56	23	49	20
Technicians	113	124	106	114
Administrative staff	6	41	7	41
Operational staff	1	-	1	-
Total	176	188	163	175

"Management" includes senior executive management of Enagás, S.A., comprising eight persons (six men and two women). During 2018 and 2017, the average number of staff with disabilities greater than or equal to 33% employed by the Company, broken down by categories, is as follows:

	2018	2017
Management	-	-
Technicians	2	2
Administrative staff	1	1
Operational staff	1	1
Total	4	4

c) Other operating expenses

	12.31.2018	12.31.2017
External services	44,681	43,144
Taxes	1,356	158
Losses, impairment and variation of provisions for commercial operations	-	154
Total	46,037	43,148

The most significant expenses under the heading "External services" correspond to repair and maintenance services amounting to 12,094 thousands of euros at December 31, 2018 (12,857 thousands of euros at December 31, 2017) as well as for the services of independent professionals for the amount of 10,506 thousands of euros at December 31, 2018 (7,358 thousands of euros at December 31, 2017).

2.2. Trade and other receivables

Accounting policies

- Financial assets are recognized in the Balance Sheet at the transaction date when the Company becomes party to the contractual terms of the instrument.

Loans and receivables

- This heading comprises financial assets arising from the sale of goods or the rendering of services in the course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.
- The said financial assets are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost.
- The Company derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies transferring substantially all the risks and rewards inherent in ownership of

the financial asset; this is the case in firm asset sales, trade receivable factoring transactions in which the Group retains neither credit risk nor interest rate risk, sales of financial assets with an agreement to repurchase them at their fair value, and securitizations in which the granting company neither retains subordinated financing, grants any form of guarantee nor assumes any other type of risk.

- However, the Company does not derecognize those financial assets and instead recognizes a financial liability equal to the consideration received of financial assets in which it retains substantially all the risks and rewards incidental to ownership, such as discounted bills, recourse factoring, disposals of financial assets under repurchase agreements at fixed prices or at the sales price plus interest, and securitizations of financial assets in which the Group retains subordinate liability or grants other types of guarantees which would substantially absorb all possible losses.

Significant estimates and judgements

- At least at each year end, the Company performs an impairment test on financial assets not measured at fair value. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognized in the Income Statement.
- Specifically, the criterion employed by the Company to calculate any adjustments is to recognize impairment provisions at the difference between the recoverable amount of the receivables and their carrying amount. The recoverable amount of receivables is calculated

by discounting estimated future cash flows using the effective interest rate at the outset of the transaction.

- If, in subsequent periods, the value of the financial asset measured at amortised cost recovers, then the impairment loss is reversed. The reversal will not result in a carrying amount of the financial asset that exceeds the carrying amount had the impairment not been recognized. The reversal is recognized in the Income Statement of the year.

The balance recorded under "Clients, Group companies and associates" at December 31, 2018 and 2017 has the following breakdown (**Note 4.3**):

	12.31.2018	12.31.2017
Enagás Internacional, S.L.U.	194	1,652
Gasoducto Morelos S.A.P.I. de CV	269	2,914
Enagás GTS, S.A.U.	1,306	1,384
Enagás Transporte, S.A.U.	7,038	10,308
Enagás Services Solutions, S.L.U.	2,408	-
Enagás Emprende, S.L.U.	1,398	-
Other	877	1,568
Total	13,490	17,826

These balances relate primarily to the provision of corporate services by Enagás, S.A. with due dates after 31 December 2018, so they have not been charged at the date of authorizing these Financial Statements.

2.3 Trade and other payables

Accounting policies

- Trade and other payables are financial liabilities that do not accrue explicit interest and are recognized at their nominal value provided the effect of financial discounting is not significant.
- These payables are initially recognized at the fair value of the consideration received, adjusted by directly attributable transaction costs. These liabilities are subsequently measured at their amortised cost.
- 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 and services included in "Payable to suppliers", "Payable to suppliers - Group companies and associates" and "Other payables" under current liabilities in the Balance Sheet.
- "Average payment period to suppliers" is understood to be the time that passes between the delivery of the goods or rendering of the service by the supplier and the material payment for the transaction.
- The maximum payment term applicable to the Company in 2018 under Law 3/2004, of December 29, establishing measures to combat late payments in commercial transactions, is 60 days. In order to obtain the foregoing information, payment obligations that have been the object of withholdings as a result of embargoes, enforcement orders, administrative compensation proceedings, or other similar acts handed down by legal or administrative bodies were excluded.

Trade and other payables

Trade and other payables	12.31.2018	12.31.2017
Suppliers	11,159	12,748
Suppliers, Group companies and associates	2,185	220
Personnel	10,078	5,154
Liabilities for current tax (Note 4.2.a)	-	15,648
Other debts with the Public Administrations (Note 4.2.a)	27,285	27,240
Total	50,707	61,010

The balance of the "Suppliers" heading is mainly the purchases of materials and services provided to Enagás, S.A. whose counterpart is recorded in "external services" and "fixed assets" captions of the Income Statement and the Balance Sheet, respectively.

The "Personnel" heading includes the outstanding payment for the cash portion of the Long-Term Incentive Plan (Note 4.4) as well as the three-year bonus plan for contribution to results aimed at the remaining staff of the Company, which has been reclassified to long-term in 2018. At December 31, 2018, these items amounted to a total of 4,144 thousands of euros (at December 31, 2017, they were recorded in Provisions for long-term personnel benefits in the amount of 2,992 thousands of euros) (Note 2.8).

In addition, this heading includes the accrual of the variable remuneration corresponding to the current year, which is paid during the first quarter of 2019.

Information on average payment periods

The disclosures required in the second additional provision of Law 31/2014, of December 3, prepared in accordance with the ICAC Resolution of January 29, 2016, are as follows:

Days	2018	2017
Average payment period to suppliers	41	39
Ratio of paid operations	42	39
Ratio of operations pending payment	28	38

Amount	2018	2017
Total payments made	52,041	49,952
Total pending payments	4,958	1,730

2.4 Property, plant, and equipment

Accounting policies

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated depreciation and any impairment losses.
- Acquisition or production cost includes:
 - Finance expenses relating to the financing of infrastructure projects accrued only during the construction period, when the building work lasts for more than one year.
 - Personnel expenses directly related to work in progress, lowering personnel expenses (**Note 2.1**).
- The costs of renovation, extension or improvement are incorporated into the asset as the greatest value of the asset exclusively when they imply an increase in its capacity, productivity or prolongation of its useful life, with deduction of the net carrying amount of the substituted goods, if any. Conversely, the periodic expenses of maintenance, conservation and repair are charged to income for the year in which they are incurred.

Amortisation entered on a linear basis once the assets are ready for use, in accordance with the following useful lives:

	Annual rate	Useful life (years)
Buildings	3%-2%	33.33-50
Other technical facilities and machinery	12%-5%	8.33-20
Equipment and tools	30%	3.33
Furniture and fixtures	10%	10
Information technology equipment	25%	4
Transport equipment	16%	6.25

Significant estimates and judgements

- The amortisation of assets recorded as property, plant and equipment follows the straight-line method, applying annual amortisation percentages calculated based on the years of estimated useful life of the respective assets.
- The Directors consider that the carrying amount of the assets does not exceed their recoverable value, which is calculated based on the discounted future cash flows generated by the assets based on the remuneration provided for them in the current regulation.

2018	Opening balance	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Closing balance
Land and buildings	31,973	661	1,979	-	34,613
Technical facilities and machinery	4,733	11	-	-	4,744
Other facilities, tools, and furniture	36,592	1,136	14	-	37,742
Prepayments and work in progress	2,026	172	(1,993)	-	205
Total cost	75,324	1,980	-	-	77,304
Land and buildings	(16,324)	(1,052)	-	-	(17,376)
Technical facilities and machinery	(4,032)	(436)	-	-	(4,468)
Other facilities, tools, and furniture	(31,838)	(1,345)	-	-	(33,183)
Prepayments and work in progress	-	-	-	-	-
Total amortisation	(52,194)	(2,833)	-	-	(55,027)
Land and buildings	15,649	(391)	1,979	-	17,237
Technical facilities and machinery	701	(425)	-	-	276
Other facilities, tools, and furniture	4,754	(209)	14	-	4,559
Prepayments and work in progress	2,026	172	(1,993)	-	205
Net Carrying Amount of Property, plant, and equipment	23,130	(853)	-	-	22,277

2017	Opening balance	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Closing balance
Land and buildings	28,309	322	3,342	-	31,973
Technical facilities and machinery	4,715	18	-	-	4,733
Other facilities, tools, and furniture	35,005	1,557	30	-	36,592
Prepayments and work in progress	3,148	2,250	(3,372)	-	2,026
Total cost	71,177	4,147	-	-	75,324
Land and buildings	(15,417)	(907)	-	-	(16,324)
Technical facilities and machinery	(3,592)	(440)	-	-	(4,032)
Other facilities, tools, and furniture	(30,553)	(1,285)	-	-	(31,838)
Prepayments and work in progress	-	-	-	-	-
Total amortisation	(49,562)	(2,632)	-	-	(52,194)
Land and buildings	12,892	(585)	3,342	-	15,649
Technical facilities and machinery	1,123	(422)	-	-	701
Other facilities, tools, and furniture	4,452	272	30	-	4,754
Prepayments and work in progress	3,148	2,250	(3,372)	-	2,026
Net Carrying Amount of Property, plant, and equipment	21,615	1,515	-	-	23,130

The entries recorded under the "Other facilities, tools and furniture" caption at December 31, 2018 relate to the acquisition of computer equipment necessary for certain corporate projects, in a total amount of 1,136 thousands of euros, while the entries and transfers recorded under "Land and buildings" relate to the start-up of different remodellings of the offices at Headquarters.

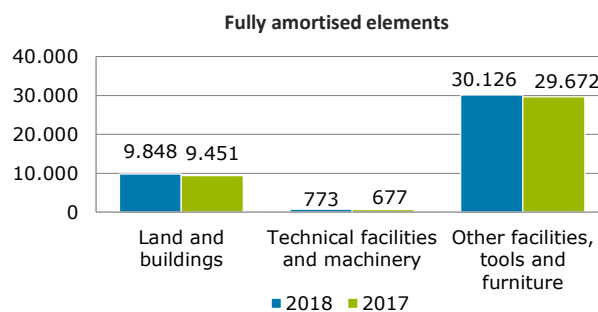
Likewise, the impact of "Work by the company for fixed assets" involved an increase in the investment of 291 thousands of euros in financial year 2018 (644 thousands of euros in financial year 2017).

There are no mortgages or encumbrances of any type on assets recorded as property, plant, and equipment.

It is the Company policy to insure its assets to ensure that there is no significant loss of equity, based on best market practices, given the nature and characteristics of Property, Plant and Equipment.

In addition, the Company has contracted the corresponding insurance policies to cover third party civil liabilities.

Fully depreciated PP&E items recognized by the Enagás Group and still in use at 2018 and 2017 year end are broken down as follows:



2.5 Intangible assets

Accounting policies

- As a general rule, intangible assets are initially measured at acquisition or production cost. They are subsequently measured at cost less accumulated amortisation and impairment losses, if any.

Research and development expenses

- Research costs are activated, with 95% of the cost amortized in the first year and the rest in the following year, provided that they are specifically identified by project, their amount can be clearly established and there are well-founded reasons for trusting in the technical success and in economic-commercial profitability of the project.
- Development costs are capitalized by amortizing on a straight-line basis over the corresponding useful life, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.

IT applications

- Acquisition and development costs incurred with respect to basic IT systems used for management are recognized with a charge to "Intangible assets" in the Balance Sheet. Maintenance costs of IT systems are recognized in the Income Statement for the year in which they are incurred. They are measured at the amount disbursed for ownership or right-of-use of the IT programs, as well as their production cost if they are developed by the Company. They are amortized over a period of four years.
- Intangible fixed assets amortized based on their defined service life, if any, which is equivalent to the following amortisation percentages:

	Annual rate	Useful life
Development costs	5%-50%	20-2
Other intangible assets	20%	5
IT applications	25%	4

2018	Opening balance	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Closing balance
Research and Development	10,783	103	-	-	10,886
IT applications	108,115	5,400	-	-	113,515
Other intangible assets	6,724	-	-	-	6,724
Total cost	125,622	5,503	-	-	131,125
Research and Development	(10,664)	(69)	-	-	(10,733)
IT applications	(96,675)	(4,986)	-	-	(101,661)
Other intangible assets	(6,713)	(11)	-	-	(6,724)
Total amortisation	(114,052)	(5,066)	-	-	(119,118)
Research and Development	119	34	-	-	153
IT applications	11,440	414	-	-	11,854
Other intangible assets	11	(11)	-	-	-
Net carrying amount of intangible assets	11,570	437	-	-	12,007

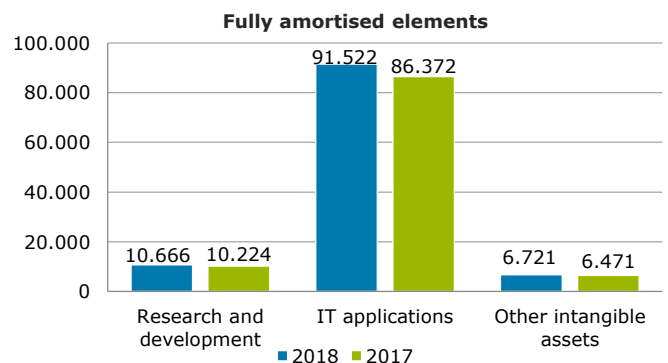
2017	Opening balance	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Closing balance
Research and Development	10,304	479	-	-	10,783
IT applications	104,172	3,943	-	-	108,115
Other intangible assets	6,724	-	-	-	6,724
Total cost	121,200	4,422	-	-	125,622
Research and Development	(10,218)	(446)	-	-	(10,664)
IT applications	(90,063)	(6,612)	-	-	(96,675)
Other intangible assets	(6,663)	(50)	-	-	(6,713)
Total amortisation	(106,944)	(7,108)	-	-	(114,052)
Research and Development	86	33	-	-	119
IT applications	14,109	(2,669)	-	-	11,440
Other intangible assets	61	(50)	-	-	11
Net carrying amount of intangible assets	14,256	(2,686)	-	-	11,570

The additions to "IT applications" in 2018 refer mainly to the following projects:

- SGMM- CORE software in the amount of 896 thousands of euros.
- Software launching of IT services amounting to 622 thousands of euros.
- IT infrastructures software evolution 2018 amounting to 568 thousands of euros.

- Industrial systems security software (LPIC) amounting to 354 thousands of euros.

At December 31, 2018 and 2017, the Company had recorded fully amortised intangible assets that remained in use, based on the following detail:



2.6 Impairment of non-financial assets

Accounting policies

- At each year end, or when there are indications of impairment, the Group analyses the recoverable amounts to determine the possibility of impairment. This recoverable amount is the greater of the market value minus the cost necessary for its sale and the value in use, understood as the current value of the estimated future cash flows. For the calculation of the recovery value of the tangible fixed assets, the value in use is the criterion used by the Company in most cases.
- In the event that the recoverable amount is lower than the net carrying amount of the asset, the corresponding impairment provision is recorded by the difference, charged to "Impairment and gains / (losses) on disposal of assets" in the attached Income Statement.

Significant estimates and judgements

- Determination of impairment losses on non-current assets other than financial assets is based on fulfilment of a series of hypotheses which are described below in this note and are revised annually.
- To estimate value in use, the Company estimates projections regarding future cash flows before taxes based on the most recent budget forecasts approved by the directors. These budgets use the best available income and costs estimates for each element, using sector forecasts, past experience and future expectations.
- These forecasts cover flows for future years, applying reasonable growth rates that, in any case, from the last year are increasing.
- To calculate the current value, these flows are discounted at a rate, before taxes, which includes the cost of business capital. For its calculation, the current value of money is taken into consideration together with the risk premiums generally used by analysts of the business in question.

During the twelve months of financial year 2018, there were no movements with respect to the provisions for impairment losses of assets held by the Company in addition to those mentioned in each note of these Financial Statements.

2.7 Leases

Accounting policies

- Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases

- At December 31, 2018 and 2017 the Company had no finance leases.

Operating leases

- In operating leases in which the Company acts as the lessee, expenses resulting therefrom are charged to the Income Statement for the year in which they are incurred.
- Any proceeds or payments in connection with an operating lease are treated as advance proceeds or payment and recognized in the Income Statement over the term of the lease as the benefits of the leased asset are received or conceded.

At year-end 2018 and 2017, the Company was committed to the following minimum lease payments, pursuant to ongoing contracts, with no consideration taken of the effects of shared service charges, future CPI increases or future adjustments of contractually agreed rents:

Operating leases	Nominal value	
	2018	2017
Minimum fees to pay		
Less than a year	2,866	2,321
Between one and five years	9,827	7,647
More than five years	3,515	5,735
Total	16,208	15,703

The amount of operating lease payments recognized as an expense in 2018 was 3,139 million thousands of euros (3,449 thousand thousands of euros in 2017).

In its position as a tenant, the Company's most significant operating lease agreement at year-end 2018 and 2017 was the lease for the office building where the Company maintains its registered office located in Madrid. In 2018, certain lease contracts maturing in 2018 were renewed until 2022 for an annual amount of 932 thousand euros. In relation to contingent rents, the contract is referenced to annual increases based on CPI.

2.8 Provisions and contingent liabilities

Significant estimates and judgements

- While drawing up the Company's Financial Statements, the Directors made a distinction between the following:
 - a) **Provisions:** credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.
 - b) **Contingent liabilities:** possible obligations that arise from past events, the future emergence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future even if all are beyond the control of the Company.
- The Financial Statements include all provisions for which it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognized in the Financial Statements but are disclosed in the accompanying Notes, unless they are considered to be remote.
- Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences and any adjustments arising from the restatement of these provisions are recognized as finance costs as they are accrued.
- The compensation to be received from a third party when an obligation is settled is recognized as an asset, provided it is certain that reimbursement will be received, unless there is a legal relationship whereby a portion of risk has been externalized as a result of which the Company is not liable, in which case, reimbursement will be taken into consideration in estimating the amount of any provisions. The policy followed with respect to the recognition of provisions for risks and expenses is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or liabilities, sureties and similar guarantees. They are recognized upon emergence of the liability or obligation determining the indemnity or payment.
- At year-end 2018, there were various ongoing legal proceedings and claims against the Company that originated in the normal course of its activities. Both the legal advisors of the Company and its Directors judge that the conclusion of these procedures and claims will not have a significant effect on the Financial Statements of the financial years in which they are finalized that have not been recorded or indicated in these Financial Statements.

a) Provisions

The movements under the heading "Non-current provisions" during 2018 and 2017, are as follows:

Non-current provisions	Opening balance	Provisions	Amounts used	Reclassification	Closing balance
2018					
Personnel remuneration	2,992	623	-	(3,615)	-
Other responsibilities	1,000	-	(534)	-	466
Total non-current provisions	3,992	623	(534)	(3,615)	466
2017					
Personnel remuneration	4,371	1,574	-	(2,953)	2,992
Other responsibilities	1,000	-	-	-	1,000
Total non-current provisions	5,371	1,574	-	(2,953)	3,992

The heading "Personnel remuneration" included the cash portion of the Long-Term Incentive Plan to be settled (**Note 4.4**) as well as the three-year bonus plan for contribution to results aimed at the remaining personnel of the Company, which will be paid in 2019. In 2018, the amount recognised under this heading was reclassified to short-term to "Personnel" (**Note 2.3**).

In January 2018, a provision was applied in the "Other liabilities" caption amounting to 534 thousands of euros corresponding to obligations derived mainly from claims and litigation.

The Directors of the Company consider that the provisions recognized in the accompanying Balance Sheet for litigation and arbitration risk as well as other risks described in this note are adequate and, in this respect, they do not expect any additional liabilities to arise other than those already recorded. Given the nature of the risks covered by these provisions, it is not possible to determine a reasonably reliable schedule of payment dates, if any.

b) Contingent liabilities

At December 31, 2018, there are no significant contingencies that need to be disclosed in the Company's Financial Statements.

3. Capital structure, financing and financial result

Relevant aspects

Credit rating of the Company

- The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative outlook at December 31, 2018. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2018 with a stable outlook.

Equity

- The share capital at December 31, 2018 remains at 358,101 thousands of euros.
- During financial year 2018, there were no variations in treasury shares.

At December 31, 2018, net equity has increased by 19.5 million euros compared to the previous year end, to a total of 2,134 million euros.

With respect to the Company's share capital, the following should be mentioned:

- The price of the Enagás, S.A. shares amounted to 23.61 euros per share at December 31, 2018.
- No individual or legal entity can invest directly or indirectly in a proportion in excess of 5% of the share capital of Enagás, S.A., nor exercise political rights in this company above 3% (1% for those subjects who, directly or indirectly, perform activities in the gas sector). Said limitations are not applicable to direct or indirect interest held by the public corporate sector (**Note 3.1**).

Financial debt

The average annual interest rate during 2018 for the Group's net financial debt (considering both debt with credit institutions and Group companies) amounted to 2.3% (2.1% in 2017).

The main operations for the year were:

- Extension of the maturity of the credit line with Banco Santander in the amount of 235 million dollars until February 22, 2020 (**Note 3.2.a**).
- Extension of the maturity of the multi-currency financing facility for an amount of 1,500 million euros until December 2023 (**Note 3.2.a**).
- Assignment of the contractual position of the borrower with the Spanish Official Credit Institute "ICO" and the European Investment Bank "EIB" to Enagás Financiaciones, S.A.U. (**Note 3.2.a**).
- Acquisition of the contractual position of the borrower with Enagás Financiaciones, S.A.U., following the assignment of certain intragroup loans. (**Note 3.2.c**).

Available funds

- The Company has available funds in the amount of 1,962.5 million euros (1,559.5 million euros in 2017) (**Note 3.6**).

Derivative financial instruments

- As a result of the assignments of contractual positions in relation to the above-mentioned debts with the EIB and the ICO described in **Note 3.2.a**, the Company proceeded at the same time to sign a contract of novation of contractual position in the associated hedging instruments, through which Enagás Financiaciones, S.A.U takes on the position of the Company before the entities acting as counterparty (Santander, BBVA and Societe Generale).

At December 31, 2018, the Company had no derivatives (**Note 3.4**).

3.1 Equity

a) Share capital

At 2018 and 2017 year end, the Company's share capital amounted to 358,101 thousands of euros, represented by 238,734,260 shares with a nominal value of 1.5 euros each, all of the same class, fully subscribed, and paid in.

All shares of the parent company Enagás, S.A. are listed on the four official Spanish exchanges as well as on the electronic trading market. At the closing of December 31, 2018 the quoted share price was 23.61 euros, having reached a maximum of 25.71 euros per share on December 14.

It is worth noting that, subsequent to publication of Additional Provision 31 of Hydrocarbon Sector Law 34/1998, in force since enactment of Law 12/2011, of May 27, natural or legal person can participate directly or indirectly in the shareholder structure of Enagás, S.A. with a stake exceeding 5% of share capital, nor exercise political rights in said parent company exceeding 3%. These shares cannot be syndicated under any circumstances. Furthermore, it establishes that any party operating within the gas sector, including natural persons or legal entities that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises.

At December 31, 2018 and 2017, the most significant stake held in the share capital of Enagás, S.A. was broken down as follows (data obtained from the National Securities Market Commission-CNMV) ⁽¹⁾ at December 31, 2018):

Company	Interest in share capital (%)	
	12.31.2018	12.31.2017
Sociedad Estatal de Participaciones Industriales	5.000	5.000
Lazard Asset Management ⁽²⁾	-	5.074
Bank of America Corporation	3.614	3.614
BlackRock Inc.	3.383	3.383
Fidelity International Limited ⁽²⁾	-	1.906
State Street Corporation	3.008	3.008
Retail Oeics Aggregate	1.010	1.010

- (1) The information obtained from the CNMV was based on the last notification that each entity thus obliged must send to said body, in connection with the stipulations of Royal Decree 1362/2007, of October 19 and Circular 2/2007, of December 19.
- (2) At December 31, 2018, both Lazard Asset Management and Fidelity International Limited held no significant stake in the share capital of Enagás, S.A.

b) Treasury shares

On May 25, 2016, Enagás, S.A. finalized the process for acquiring 307,643 treasury shares for an amount of 8,219 thousands of euros (including related expenses amounting to 8 thousands of euros) and representing 0.13% of the entire Company share capital. This acquisition took place within the framework of the Temporary Share Buy-Back Scheme, whose exclusive aim was to meet the obligations of delivering shares to the Executive Directors and members of the Enagás management team under the current remuneration scheme according to the terms and conditions of the 2016–2018 Long-Term Incentive Plan and Remuneration Policy approved at the General Shareholders' Meeting on March 18, 2016. The shares were purchased in compliance with the conditions set out in Article 5 of Regulation EC/2273/2003 and subject to the terms authorised at the General Shareholders' Meeting held on March 18, 2016. Management of the Temporary Share Buy-Back Scheme was entrusted to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the transaction on behalf of Enagás, S.A. independently and without exercising influence on the process (**Note 4.4**).

In 2018, there were no acquisitions of treasury shares.

c) Reserves

The Spanish Corporate Enterprises Act stipulates that 10% of profit for the year must be transferred to the legal reserve until it represents at least 20% of share capital. At 2018 and 2017 year end, the legal reserve was fully allocated and totalled 71,620 thousands of euros.

The legal reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase. Except for this purpose, until the legal reserve exceeds the limit of 20% of capital, it can only be used to compensate losses provided that there are no other reserves available.

d) Adjustments for changes in value

Cash flow hedges

At December 31, 2018, the Company had not registered any cash flow derivatives in its Balance Sheet due to the transfer of the related debt to Enagás Financiaciones (Note 3.4.c). The changes in these transactions in 2017 and 2018 were as follows:

	Opening balance	Change in value	Taken to profit and loss	Closing balance
2018				
Cash flow hedges	(1,165)	260	1,196	291
Tax recognized in equity	73	(65)	(299)	(291)
Total	(1,092)	195	897	-
2017				
Cash flow hedges	(3,381)	(337)	2,553	(1,165)
Tax recognized in equity	627	84	(638)	73
Total	(2,754)	(253)	1,915	(1,092)

3.2 Financial debts

Accounting policies

- Financial liabilities include the Company's trade payables that have arisen from the purchase of goods and services in the normal course of its business, or non-trade payables that cannot be considered derivative financial instruments.
- Financial liabilities are initially measured at the fair value of the consideration received, less directly attributable transaction costs.
- Financial liabilities are recorded after initial recognition at amortized cost, except for derivatives.
- Financial liabilities are derecognized when the related contractual obligations are cancelled or expired.

Categories	Class		Financial debts				
			Bank borrowings and finance leases		Derivatives and others		Total
	2018	2017	2018	2017	2018	2017	
Long-term debts							
Payables	195,819	1,138,050	127	139	195,946	1,138,189	
Derivatives	-	-	-	1,433	-	1,433	
Total long-term debts	195,819	1,138,050	127	1,572	195,946	1,139,622	
Short term debts							
Payables	112	152,560	4,785	3,698	4,897	156,258	
Derivatives	-	-	-	1,306	-	1,306	
Total short-term debts	112	152,560	4,785	5,004	4,897	157,564	

The detail by maturity of the debits and items to be paid under "Debts to credit entities and financial leases", and the maturity of derivatives were as follows:

2018	2019	2020	2021	2022	2023 and later years	Valuation adjustments and/or other transaction costs	Total
Payables	112	199,965	-	-	-	(4,146)	195,931
Other	4,785	20	20	20	67	-	4,912
Total	4,897	199,985	20	20	67	(4,146)	200,843

2017	2018	2019	2020	2021	2022 and later years	Valuation adjustments and/or other transaction costs	Total
Payables	152,560	332,178	121,742	121,742	568,789	(6,401)	1,290,610
Derivatives	1,306	636	797	-	-	-	2,739
Other	3,698	7	20	20	92	-	3,837
Total	157,564	332,821	122,559	121,762	568,881	(6,401)	1,297,186

a) Long-term financial liabilities

At December 31, 2018, the Company had credit lines granted up to a limit of 1,705,337 thousands of euros, partially arranged in the amount of 199,965 thousands of euros (in 2017 there were credit lines granted up to a limit of 1,696,826 thousands of euros, partially provided in the amount of 190,435 thousands of euros) (Note 3.6).

In the opinion of the Directors, this situation allows for sufficient funding to meet possible liquidity requirements in the short term considering its current obligations.

The average rate of net debt in euros (considering debt with credit institutions and group companies) in 2018 was 2.3% (2.1% in 2017).

The Directors of the Company estimate that the fair value of the bank debts contracted at December 31, 2018 and December 31, 2017 does not differ significantly from their carrying amounts.

The following are among the most significant events of financial year 2018:

- 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 Instituto de Crédito Oficial "ICO" (lending entity). After signing this contract, Enagás Financiaciones, S.A.U. acquires the obligation to pay a total amount of 395,000 thousands of euros to the credit institution (90,000 thousands of euros classified to short-term).
- 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, Enagás Financiaciones, S.A.U. 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).

- Extension of the maturity of the credit line with Banco Santander in the amount of 235,000 thousands of dollars until February 22, 2020. At December 31, 2018, the amount drawn down in this line was 228,850 thousands of dollars (199,965 thousands of euros at December 31, 2018).
- Extension of the maturity of the multi-currency financing line for an amount of 1,500 million euros until December 2023. At December 31, 2018, no provisions had been made.

b) Short-term financial liabilities

The change in 2018 in the "Bank Borrowings" caption is mainly due to the assignment of the contractual position of the ICO and BEI loans by Enagás, S.A. to Enagás Financiaciones, S.A.U. explained in the previous note.

In relation to debentures and other marketable securities, although at December 31, 2017, Enagás, S.A. 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 2011 and renewed on May 12, 2016. 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). In 2017 issues were made for a nominal value of 88,921 thousands of euros and maturities for a nominal value of 89,686 thousands of euros. At year-end 2017, this programme was not renewed at Enagás, S.A.

On May 10, 2018, Enagás Financiaciones S.A.U. registered the Euro Commercial Paper (ECP) programme on the Irish Stock Exchange in a maximum amount of 1,000,000 thousands of euros, with the company Enagás, S.A. as guarantor, as disclosed in Note 1.6.a.

c) Debts from group companies

	Long term		Short term	
	2018	2017	2018	2017
Enagás Financiaciones, S.A.U.	3,277,100	1,389,922	182,078	34,806
Enagás Internacional, S.L.U.	217,855	207,102	12,469	17,262
Enagás GTS, S.A.U.	-	-	-	183
Enagás Emprende, S.L.U.	-	-	312	-
Enagás Services Solutions, S.L.U.	-	-	380	-
Other	-	-	345	160
Total	3,494,955	1,597,024	195,584	52,411

The average rate for 2018 for loans with group companies was 2.6% (2.8% for 2017).

The main variations in Long-term Debts to Group Companies included the following:

- Loan granted by Enagás Financiaciones, S.A.U. during financial year 2018, amounting to 526,306 thousands of euros.
- Short-term reclassifications (and amortisations from this) amounting to 189,881 thousands of euros.
- Likewise, during financial year 2017, an account payable to Enagás Internacional was recorded for 230,550 thousands of euros (275,265 thousand dollars) as a recovery of the amount of capital invested by it in GSP, as Enagás, S.A. it is the company holding the loans granted by the Odebrecht Group that will enable recovery of the GSP capital investment, as indicated in **Note 1.4.c**. The amount considering the 3-year

The breakdown by maturity is as follows:

2018	2019	2020	2021	2022	2023 and later years	Valuation adjustments and/or other transaction costs	Total
Loans and payables	195,584	121,742	627,173	1,062,861	1,697,757	(14,578)	3,690,539
Total	195,584	121,742	627,173	1,062,861	1,697,757	(14,578)	3,690,539

2017	2018	2019	2020	2021	2022 and later years	Valuation adjustments and/or other transaction costs	Total
Loans and payables	52,411	-	-	10,000	1,605,211	(18,187)	1,649,435
Total	52,411	-	-	10,000	1,605,211	(18,187)	1,649,435

3.3 Net financial result

	2018	2017
Financial income	5,153	8,620
Financial income	5,153	8,620
Finance and similar expenses	(2,463)	(17,849)
Loan interest	(47,346)	(65,714)
Financial expenses	(49,809)	(83,563)
Exchange gains (losses)	(1,047)	1,657
Impairment and gains (losses) on disposals of financial instruments	-	-
Net financial gain (loss)	(45,703)	(73,286)

financial update amounts to 217,855 thousands of euros (207,102 thousands of euros at December 31, 2017).

- At December 31, 2018, the Company signed certain assignment agreements for certain existing intra-group loans of the lender Enagás Financiaciones, S.A.U. (assignor in both cases) with the borrowing companies Enagás Transporte, S.A.U. and Enagás Internacional, S.L.U. Under said agreements, Enagás, S.A. takes over the position of lender from Enagás Financiaciones, S.A.U. in the amount of 1,749,474 thousands of euros (144,102 thousands of euros classified as short-term).
- The heading "Debts to group companies and short-term multigroup entities" at year-end 2018 and 2017 mainly includes:
 - The balance of interest and short-term loans granted to Enagás, S.A. for the other companies in the group.
 - As the parent company of Consolidated Tax Group 493/12 for corporate income tax, Enagás, S.A. has amounts pending payment to some group companies amounting to 31,817 thousands of euros (32,609 thousands of euros in 2017), mainly related to the amounts pending payment to Enagás Financiaciones, S.A.U., Enagás Internacional, S.L.U. and Enagás GTS, S.A.U. in the amounts of 18,314, 12,467 and 312 thousands of euros, respectively (15,004, 17,262 and 183 thousands of euros, respectively, at December 31, 2017). Once the definitive declaration of the 2017 Corporate Tax has been presented in 2018, Enagás, S.A. paid the Corporation Tax account payable to the corresponding group companies belonging to the Tax Consolidation Group, in the amount of 32,879 thousands of euros (23,673 thousands of euros in 2017 for the 2016 Corporate Tax) (**Note 4.2.a**).

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

Likewise, the financial income includes the financial update of the loan for the three-year recovery of the guarantees provided by the Company for GSP and the investment itself and the account payable to Enagás Internacional, SLU, the net effect being an expense amounting to 1,518 thousands of euros. The breakdown of this effect is as follows:

- The financial update of the loan for the execution of the guarantees provided and the update of the investment involved a total expense of 3,296 thousands of euros (16,451 thousands of euros in 2017).

The financial update of the account payable Enagás Internacional, S.L.U. for the assignment of the accounts receivable with GSP involved an expense in the amount of 1,778 thousands of euros (8,200 thousands of euros in 2017).

During financial years 2018 and 2017, there were no financial asset impairments.

3.4 Derivative financial instruments

Accounting policies

- The Company uses derivative financial instruments to hedge its exposure to future business, operating and cash flow risks. Under these operations, the Company has contracted interest rate swaps (IRS) under market conditions, without using derivative financial instruments for speculative purposes.
- In order for these derivative financial instruments to be classified as hedges they are initially designated as such, and the relationship between the hedging instrument and the hedged items is documented, together with the risk management objective and the hedge strategy for the various hedged transactions. In addition, the Company verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) that the hedging relationship is effective, i.e., that it is prospectively foreseeable that the changes in fair value or in the cash flows from the hedged item (attributable to hedged risk) are almost entirely offset by those of hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of the gains or losses on the hedged item.
- All derivative financial instruments are measured, both initially and subsequently, at fair value. Differences in fair value are recognized in the Income Statement, unless there is a specific treatment required under hedge accounting.
- The Company uses cash flow hedges so that changes in the fair value of the derivatives are recorded, in the part in which these hedges are effective and net of their tax effect, under "Net Equity - Adjustments for changes in value - hedging operations".

The accumulated gain or loss under this heading is transferred to the Income Statement in the same period in which the item being hedged affects the result when settled. The results corresponding for the ineffective part of the hedges are recorded directly in profit and loss as financial income.
- Hedge accounting is discontinued when the hedging instrument expires, or when it is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument recognized under equity at that time remains in equity until the forecast hedged transaction takes place. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year.

Significant estimates

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

Name	Classification	Type	Contracted amount	Maturity	Fair value 12.31.2018		Fair value 12.31.2017	
					Assets	Liabilities	Assets	Liabilities
Interest rate swap	Cash flow hedges	Floating to fixed	150,000	Dec-19	-	-	-	(1,250)
Interest rate swap	Cash flow hedges	Floating to fixed	150,000	Jan-20	-	-	-	(767)
Interest rate swap	Cash flow hedges	Floating to fixed	65,000	Mar-20	-	-	-	(722)
Total			940,000		-	-	-	(2,739)

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

On February 9, 2018 and November 7, 2018, the Company signed a contract to novate its contractual position whereby Enagás Financiaciones, S.A.U. took over its position vis-à-vis Santander, BBVA and Societe Generale in relation to the cash flow hedging transactions arranged to hedge the risks of the ICO and EIB loans, which were transferred on the same date as indicated above in this **Note 3**.

a) Cash flow hedges

Based on the above, at the close of financial year 2018, the Company holds no cash flow hedges. However, the detail of the cash flows based on the financial year in which they are generated, at December 31, 2017, was as follows:

Contracted amount	Currency	Maturity	Total	2018	2019	2020 and later years
150,000	Euros	Dec-19	1,250	615	635	-
150,000	Euros	Jan-20	767	373	270	124
65,000	Euros	Mar-20	722	318	274	130
365,000			2,739	1,306	1,179	254

3.5 Financial and capital risk management

a) Qualitative information

The Company Enagás, S.A. is exposed to certain risks which it manages with a risk control and management model, established at group level, which is directed towards guaranteeing achievement of the Company's objectives in a predictable manner with a medium-low risk profile.

This model can adapt itself to the complexity of the Company's corporate activity in a competitive global environment and a complex economic context in which risk can materialize more quickly and the danger of contagion is evident.

The model is based on the following:

- The consideration of some standard types of risk to which the Company is exposed;
- segregation 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 established business objectives and the market environment in which the activities are carried out.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

Comprehensive analysis of all risks allows for their appropriate control and management, by understanding how the risks are interrelated and facilitating an assessment of the risk as a whole. Enagás has established a regulatory framework through its "Risk control and management policy" and "General risk control and management standards," which define the basic principles to be applied and identify the responsibilities of the different departments of the Company.

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

- 1st line of defence: constituted by the organisational units that assume risks in the ordinary development of their activities. The organizational units are responsible for identifying and measuring their respective risk exposure.
- 2nd line of defence: the Sustainability and 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: the Internal Audit Department, in charge of supervising the efficiency of the risk controls in place.

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

- Board of Directors: responsible for approving the risk control and management policy. Its other responsibilities relating to risk have been delegated to the Audit and Compliance Committee.
- Audit and Compliance Committee: the main function is to supervise the efficacy of the risk control and management systems as well as evaluating Group risk exposure (identification, measurement, and establishment of management measures).

- Risk Committee: the main functions include establishment of global risk strategies, establishing the global risk limits, revising the level of risk exposure, and acting to correct any instances of non-compliance.

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

Credit risk

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Company has granted net credit which is pending settlement or collection.

The credit risk associated with receivables from its business activity is historically very limited since the Company operates mainly with Group companies (**Note 3.2.c**).

The Company is also exposed to the risk of its counterparties not complying with obligations in connection with financial derivatives and placement of surplus cash balances. In order to mitigate this risk, cash placements or contracting of derivatives are carried out in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of those assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities that accrue interest at floating rates.

The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the Income Statement.

Based on the Enagás, S.A. estimates and debt structure targets, hedges are put in place using derivatives that reduce these risks (**Note 3.4**).

Exchange rate risk

Changes in exchange rates may affect credit positions denominated in foreign currency. The Company manages exchange rate risk through natural hedges, which consist of contracting financial instruments in the same currency in which the investment is made (**Note 4.1**) and appointing natural hedges or net investments abroad.

Liquidity risk

Liquidity risk arises as a consequence of differences in the amounts or payment and collection dates relating to the different assets and liabilities of the Company.

The liquidity policy followed by the Company oriented towards ensuring that all short-term payment commitments acquired are fully met without having to secure funds under burdensome terms. For this purpose, different management measures are taken such as maintenance of credit facilities ensuring flexibility, sufficient amounts and sufficient maturities, diversified sourcing for financing needs via access to different markets and geographical areas, as well as the diversification of maturities in debt issued.

Tax risk

The Company is exposed to possible modifications in tax regulatory frameworks and uncertainty relating to different possible interpretations of prevailing tax legislation, potentially leading to negative effects on results.

Other risks

Given the dynamic nature of the business and its risks, and despite having a risk management and control system that responds to the best international recommendations and practices, it is not possible to guarantee that some risk is not identified in the risk inventory of the Company.

b) Quantitative information

Interest rate risk

	12.31.2018	12.31.2017
Percentage of financial debt tracking protected rates	57%	66%

Taking into account these percentages of net financial debt at fixed rates, and after performing a sensitivity analysis using a range of +0.25/-0.10% percentage points changes in market interest rates, the Company considers that, according to its estimates, the impact on results of such variations on finance costs relating to variable rate debt could change as follows:

	Interest rate change			
	2018		2017	
	25 bps	-10 bps	25 bps	-10 bps
Change in finance costs	4,635	(1,854)	2,441	(976)

In addition, the aforementioned changes would not produce any significant changes in the Company's equity position in connection with contracted derivatives.

c) Capital management

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

The Company uses as an indicator for monitoring its financial position and managing capital, the level of consolidated leverage, which is defined as the quotient resulting from dividing net consolidated assets (understood to be the sum of net financial debt and consolidated equity) by net consolidated financial debt.

Financial net debt and leveraging of the Enagás Group at December 31, 2018 and 2017 was as follows (consolidated figures):

	2018	2017
Debts with credit institutions	1,363,035	1,582,119
Debentures and other marketable securities	4,089,530	4,050,526
Adjust for amortised cost of Bonds (*)	(10,300)	(1,587)
Loans from the General Secretariat of Energy and Oman Oil	3,931	4,509
Gross financial debt	5,446,196	5,635,567
Cash and cash equivalents	(1,171,543)	(627,864)
Net financial debt	4,274,653	5,007,703

(*)Includes the adjustment to record the yen bond of the Enagás Group at amortized cost as well as the adjustment made on the GNL Quintero bond to show its fair value at the date of the business combination (January 1, 2017). As of the date of said business combination, the GNL Quintero bond is recorded at amortized cost.

	2018	2017
Net financial debt	4,274,653	5,007,703
Shareholders' equity	2,658,758	2,585,639
Financial leverage	61.7%	65.9%

In this way, Enagás, S.A. has shown its financial robustness as confirmed by different rating agencies. The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for the Company with a negative outlook at December 31, 2018. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-", rating at December 31, 2018 with a stable outlook.

3.6 Cash flows

Accounting policies

- 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.

Cash and cash equivalents

	2018	2017
Treasury	457,160	53,129
Total	457,160	53,129

Generally, the banked cash accrues interest at rates similar to daily market rates. The deposits maturing in the short term are easily convertible into cash, and accrue interest at the going market rates. There are no significant restrictions on the availability of cash and bank balances.

a) Available funds

In order to guarantee liquidity, Enagás, S.A. has arranged loans and credit lines which it has not drawn down. Thus, liquidity available to the Company is broken down as follows:

	2018	2017
Cash and cash equivalents	457,160	53,129
Other funds available	1,505,372	1,506,391
Total	1,962,532	1,559,520

In the opinion of the Directors of the Company, this situation allows for sufficient funding to meet possible liquidity requirements in the short term considering its current obligations.

4. Other information

Relevant aspects

Property investments

- Enagás, S. A. has a plot of land located at km. 18 of the A-6 motorway in Las Rozas (Madrid) classified as investment property since it is maintained to obtain a surplus value in its sale.
- The market valuation of this land at December 31, 2018 was 19.6 million euros. This valuation was made by an independent expert in accordance with the Regulations of the Royal Institution of Chartered Surveyors (**Note 4.1.a**).

Remuneration for Board of Directors and Senior Management

- Remuneration for the Board of Directors, without taking into account insurance premiums, amounted to 4,615 thousands of euros. (**Note 4.4**).
- Remuneration for Senior Management, without taking into account the pension plans and insurance premiums, amounted to 3,006 thousands of euros. (**Note 4.4**).

4.1 Information on other items on the Balance Sheet

Accounting policies

Property investments

- The cost model is applied for measuring investment property, that is, the corresponding assets are measured at acquisition cost less the corresponding accumulated depreciation and any impairment losses. However, since only a plot of land that currently has no specific use is included in this heading, it was valued at its recoverable value, calculated as fair value minus the costs necessary for its sale.

Items in foreign currency

- The Company's functional currency is the euro. Consequently, transactions in currencies other than the euro are considered to be foreign currency transactions and are recognized by applying the prevailing exchange rates at the dates of the operations.
- At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates prevailing. Any gains or losses arising are taken directly to the Income Statement for the year in which they arise.

Significant estimates

- The market valuation of the independent expert was performed in accordance with the Regulations of the Royal Institute of Chartered Surveyors (RICS), included in the so-called "Red Book" - Manual of Valuations (RICS Valuation -

Professional Standards, January 2014). Said market valuations defined by RICS are internationally recognized by advisors and accountants providing services for investors and corporations that own investment properties, as well as by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

a) Property investments

	Balance at December 31, 2016	Impairment allowances 2017	Balance at December 31, 2017	Impairment allowances 2018	Balance at December 31, 2018
Cost	47,211	-	47,211	-	47,211
Impairment	(22,311)	(5,290)	(27,601)	-	(27,601)
Net value	24,900	(5,290)	19,610	-	19,610

- Corresponds entirely to a plot of land located at km. 18 of the A-6 motorway in Las Rozas (Madrid), held to obtain a surplus value in its sale as a result of future increases in the market price. At December 31, 2018, Jones Lang LaSalle España, S.A. issued a valuation report, which concluded that the recoverable amount of the plot at that date amounted to 19,610 thousands of euros (19,610 thousands of euros in 2017).
- It is worth noting that the independent expert's report did not include any scope limitations with respect to the conclusions reached.
- There are no mortgages or encumbrances of any type on real estate investments.
- It is Company policy to insure its assets to ensure that there is no significant loss of equity, based on best market practices, given the nature and characteristics of the investment properties. In addition, the Company has contracted the corresponding insurance policies to cover third party civil liabilities.

b) Items in foreign currency

The detail of the most significant foreign currency balances valued at the year-end exchange rate is as follows:

	2018	2017
Long-term credits	402,635	382,013
Debts from group companies	217,855	208,755
Debts with credit institutions	199,965	190,435
Other short-term financial liabilities	3,887	3,695

The amount of exchange gains (losses) recognized in profit / (loss) for the year by financial instrument classes is as follows:

	For Transactions Settled in the Year		For Balances Pending Settlement		Total	
	2018	2017	2018	2017	2018	2017
Loans to Group companies	-	24	-	-	-	24
Debts from group companies	-	7,077	(8,981)	1,653	(8,981)	8,730
Other exchange gains (losses)	(200)	3,495	8,134	(10,592)	7,934	(7,097)
Total	(200)	10,596	(847)	(8,939)	(1,047)	1,657

As indicated in **Note 3.5**, the Company has liabilities and assets items in dollars whose variations are netted by a natural hedge, which do not cause a significant difference in the Income Statement.

4.2 Tax situation

Accounting policies

- The income tax payable or receivable comprises the current tax payable or receivable and the deferred tax income 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 temporary differences identified as amounts expected to be payable or recoverable from the differences between the carrying amounts of assets and liabilities and their tax value, as well as the negative tax bases pending payment and the 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 realized or settled.
- Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of those arising from initial recognition of goodwill or from other assets and liabilities in a transaction that do not affect taxable profit or accounting profit and is not a business combination.
- Deferred tax assets are only recognized to the extent that it is considered likely the Company will have sufficient taxable profit in the future against which the deferred tax assets can be offset.
- Deferred tax assets and liabilities arising from transactions directly charged or credited to equity accounts are also recognized with a charge or credit, respectively, to equity.
- Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability. Deferred tax assets not recognized on the Balance Sheet are also reassessed at the end of each reporting period and are recognized where it has become highly probable that they will be recovered through future taxable profits.

Significant estimates

- In accordance with prevailing legislation in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.
- The Directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying Financial Statements.
- These deferred tax assets have been recognized in the Balance Sheet since the Directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be recovered.

a) Balances with the Public Administrations

	2018	2017
Credit balances		
Deferred tax assets	11,615	12,159
Current balances with the Public Administrations	2,456	13
Tax Authorities debtor for tax refund	1,799	-
Accounts payable by the Tax Authorities for VAT	657	13
Credit balances		
Deferred tax liabilities	2,880	3,555
Current balances with the Public Administrations	27,285	42,888
Accounts payable to the Tax Authorities for withholdings	27,010	25,642
Accounts payable to the Tax Authorities for Corporate Income Tax	-	15,648
Accounts payable to the Tax Authorities for VAT	-	1,331
Social Security agencies creditors	275	267

During 2018, Enagás, S.A. paid 99,819 thousands of euros in Corporate Tax 2018 (96,294 thousands of euros in 2017), corresponding to the Tax Group of which Enagás, S.A acts as the Parent Company.

At December 31, 2018, the balance under the heading Current income tax assets relating to account to be collected corresponding to Tax Group for the 2018 Corporate tax in the amount of 1,394 thousands of euros (at December 31, 2017, the balance under the heading Tax Authorities creditor for corporate tax corresponded to the Account payable by the Tax Group of Corporate tax in 2017 in the amount of 15,648 thousands of euros).

Additionally, Enagás, S.A. acts as the Parent Company of the Tax Group as indicated in **Note 4.2.b**. For these purposes, the Company has debit and credit balances for Corporation Tax with the different subsidiaries of the Tax Group. Accordingly, as indicated in **(Note 3.2.c)** during 2018 the Company settled the respective balances with the rest of the Tax Group companies for Corporate Tax 2017..

Specifically, it has collected the amount of 154,865 thousands of euros, an amount that was mainly part of the balance recorded at year-end 2017 under group companies and multi-group short-term loans **(Note 1.4)** and paid the amount of 32,879 thousands of euros, an amount that was mainly part of the balances recorded at year-end 2017 under short-term debt to group companies and multi-group **(Note 3.2.c)**.

b) Tax returns

Enagás, S.A. has been the parent company of the Tax Consolidation Group 493/12 for Corporate Income tax from January 1, 2013, comprised of the following subsidiaries at December 31, 2018:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.
- Compañía Transportista de Gas Canarias, S.A.
- Enagás Emprende, S.L.U.

- Scale Gas Solutions, S.L.
- Efficiency for LNG Applications, S.L.
- Infraestructuras del Gas, S.A.
- Enagás Services Solutions, S.L.
- Smart Energy Assets, S.L.
- Sercomgas Solutions, S.L.

This involves the joint calculation of the Group's tax result, as well as the deductions and bonuses from the payment. Furthermore, the 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.

c) Reconciliation of accounting result and taxable income

	Income Statement					
	2018			2017		
	Increases	Decreases	Total	Increases	Decreases	Total
Accounting profit before tax	358,927	-	358,927	336,349	-	336,349
Permanent differences:	1,608	(408,663)	(407,055)	517	(390,000)	(389,483)
Donations	582	-	582	477	-	477
Dividend exemption	-	(408,600)	(408,600)	-	(390,000)	(390,000)
Other	1,026	(63)	963	40	-	40
Temporary differences:	6,603	(3,998)	2,605	19,139	(9,652)	9,487
With origin in the financial year:						
Provision for personnel remuneration	4,020	-	4,020	4,981	-	4,981
Provision of fixed assets	11	-	11	5,290	-	5,290
Other	173	(15)	158	8,211	(8,671)	(460)
With origin in previous financial years:						
Amortisation deduction limit R.D.L. 16/2012	-	(981)	(981)	-	(981)	(981)
Accelerated amortisation Law 4/2008, 13/2010	434	-	434	434	-	434
Provision for personnel remuneration	-	(779)	(779)	-	-	-
Other	1,965	(2,223)	(258)	223	-	223
Taxable income	367,138	(412,661)	(45,523)	356,005	(399,652)	(43,647)

d) Tax recognized in equity

	2018			2017		
	Increases	Decreases	Total	Increases	Decreases	Total
For deferred tax:						
With origin in the financial year:						
Recognition of other financial assets (Note 3.1.d)	-	(364)	(364)	84	(638)	(554)
Total deferred tax	-	(364)	(364)	84	(638)	(554)
Total income tax recognized directly in equity	-	(364)	(364)	84	(638)	(554)

e) Reconciliation between the accounting result and the corporation tax expense

	2018	2017
Accounting profit before tax	358,927	336,349
Rate at 25%	89,732	84,087
Impact of permanent differences	(101,764)	(97,371)
Deductions:	(256)	(251)
For amortisation deduction limit	(49)	(49)
For double taxation	(35)	-
For donations	(172)	(202)
Adjustments to income tax rate	(7)	430
Total expense for tax recognized in the Income Statement	(12,295)	(13,105)

f) Years open for inspection and tax audits

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.

In March 2017, a tax inspection was initiated by the Spanish Tax Authorities for general verification of Enagás, S.A. The years and taxes subject to this process correspond to the corporate income tax for the years 2012 to 2015, VAT for the years 2013 to 2015, withholdings/payments on account with respect to tax on income from professional work, property taxes, and taxes levied on non-residents for the years 2013 to 2015.

At 2018 year-end the verification and inspection processes were still ongoing. At any rate, the Company does not expect any liabilities in addition to those already entered under "Short-term provisions" on the Balance Sheet at December 31, 2018 which may significantly affect its equity statement as a consequence of said verification and inspection processes.

Likewise, at 2018 year end, the inspections for 2016 to 2018 are pending with respect to applicable taxes.

g) Deferred tax assets and liabilities

	2018	2017
Deferred tax assets:		
Temporary differences (anticipated taxes):	11,321	11,816
Provision for remuneration (1)	6,683	6,049
Litigation provisions	181	250
Derivatives	-	374
Amortisation deduction limit R.D.L. 16/2012 (2)	1,473	1,718
Other (3)	2,984	3,425
Deductions pending and others (4)	294	343
Total deferred tax assets	11,615	12,159
Deferred tax liabilities:		
Accelerated amortisation (5)	(251)	(359)
Engineering services margin	(1,023)	(1,073)
Other	(1,606)	(2,123)
Total deferred tax liabilities	(2,880)	(3,555)

(1) These temporary differences include personnel expenses resulting from the Long-Term Incentive Plan, recorded in these financial years which, pursuant to Article 14 of the Corporate Tax Law, will be deductible at the time of their delivery or payment, so in 2018 they gave rise to a deferred tax asset.

(2) Arises from the limitation to tax deductible amortisation with respect to the Corporate Income Tax for the years 2013 and 2014. This amortisation is deductible from financial year 2015 following the straight method over a period of 10 years or optionally during the useful life of the asset. To this end, the Company decided to apply the deferred tax asset using the straight line method over a period of 10 years.

(3) It mainly derives from temporary differences in the recording of impairment of real estate investments during 2017 (Note 4.1), giving rise to a deferred tax asset.

(4) In addition, it includes the deduction to be applied from 2015 in accordance with the thirty-seventh transitory provision of Law 27/2014, by virtue of which those contributors for whom limited amortisation was applicable in 2013 and 2014 will have the right to a 5% deduction of the tax base with respect to the amounts included in the taxable income for the corresponding period.

(5) Arising from application of accelerated amortisation of certain assets for tax purposes during the period 2009-2012.

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

4.3 Related party transactions and balances

Accounting policies

- In addition to subsidiaries, associates, and multigroup companies, 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 Company carries out all its transactions with related parties at market values and the corresponding remuneration in kind has been assigned. 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.

Income and expenses	Significant shareholders	Directors and executives	Group employees, companies or entities	Other related parties	Total
2018					
Expenses:					
Financial expenses	-	-	35,306	5,420	35,306
Services received	-	-	3,369	185	3,554
Other expenses	153	7,751	-	15	7,899
Total Expenses	153	7,751	38,675	200	46,759
Income:					
Financial income	-	-	19,799	3,296	23,095
Dividends received	-	-	408,600	-	408,600
Provision of services	-	-	73,619	-	73,619
Other income	-	-	549	-	549
Total income	-	-	502,567	3,296	505,863
2017					
Expenses:					
Financial expenses	-	-	49,452	20,105	69,557
Services received	-	-	1,913	-	1,913
Other expenses	139	6,807	-	15	6,961
Total Expenses	139	6,807	51,365	20,120	78,431
Income:					
Financial income	-	-	47,133	-	47,133
Dividends received	-	-	390,000	-	390,000
Provision of services	-	-	85,973	-	85,973
Other income	-	-	73	-	73
Total income	-	-	523,179	-	523,179

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
2018				
Guarantees for related party debts	-	3,823,466	-	3,823,466
Guarantees and sureties granted - Other	-	89,291	22,895	112,186
Dividends and other earnings distributed	56,892	-	-	56,892
2017				
Guarantees for related party debts	-	3,473,179	-	3,473,179
Guarantees and sureties granted - other	-	55,445	130,212	185,657
Dividends and other earnings distributed	58,624	-	-	58,624

The Banco Santander Group qualified as a related party for the years 2018 and 2017.

Of the transactions disclosed in the above table, 5,420 thousands of euros of finance expenses correspond to this entity for the year 2018 (3,654 thousands of euros during 2017), including finance expenses arising out of the interest rate hedging contracts, and 22,895 thousands of euros in guarantees granted at December 31, 2018 (130,212 thousands of euros at December 31, 2017) (**Note 1.6.b**).

Additionally, the Company maintains a multi-currency club deal as financing, under which nothing was made available at December

The balances with related-parties on the Balance Sheet is as follows:

31, 2018. In this operation, the related party represents 9.63% of the total of the banks that have underwritten this source of financing.

The Company also has a line of financing in dollars with a maximum limit of 235,000 thousands of dollars, whose maturity has been extended in 2018 until February 22, 2020. At December 31, 2018, the amount drawn down in this line was 228,850 thousands of dollars (199,965 thousands of euros at December 31, 2018).

Balance	2018			2017		
	Group employees, companies or entities	Other related parties	Total	Group employees, companies or entities	Other related parties	Total
Long-term equity instruments	4,459,513	-	4,459,513	2,347,456	-	2,347,456
Financing agreements: loans and capital contributions (lender)						-
Long-term loans to companies	400,291	-	400,291	1,704,306	-	1,704,306
Other financial assets	-	402,635	402,635	-	382,013	382,013
Short-term loans to companies	7,266	-	7,266	160,085	-	160,085
Credit for corporation tax Short-term Consolidated Tax Group	144,108	-	144,108	155,599	-	155,599
Dividends and other short-term earnings	127,600	-	127,600	240,000	-	240,000
Trade receivables	13,490	-	13,490	17,826	-	17,826
Financing agreements: loans and capital contributions (borrower)						
Long-term debts	3,494,955	199,965	3,694,920	1,597,024	190,345	1,787,369
Short term debts	163,767	-	163,767	19,802	-	19,802
Debt for corporation tax Short-term Consolidated Tax group	31,817	-	31,817	32,609	-	32,609
Trade creditors	2,185	-	2,185	220	-	220

4.4 Remuneration to the members of the Board of Directors and Senior Management

Accounting policies

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:
 - With Company shares: personnel expense is determined based on the fair value of the shares to be delivered at the grant date, taking into account the degree to which the objectives relating to said plan have been fulfilled. This expense is recognized over the stipulated period during which employee services are rendered with a credit to "Other equity instruments" in the accompanying Balance Sheet.
 - In cash: personnel expense is determined based on the fair value of the liability at the date recognition requirements are met. Personnel expenses are registered as the services are rendered in the period stipulated and are entered in "Long-term provisions", until it is estimated

that they will be settled within less than one year, at which time the associated provision is reclassified to the Personnel line under "Trade and other payables" on the liability side of the accompanying Balance Sheet. The liability is subsequently measured at fair value at each Balance Sheet date, up to and including the settlement date, with changes in fair value recognized in the Income Statement.

The Company used the Monte-Carlo model to evaluate this program. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the Company takes into account the fact that the dividends accrued during the plan period are not paid to the beneficiaries as they do not become shareholders of the Company until the plan has effectively been settled.

Significant estimates and judgements

- The Company estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.

For the part of the plan settled in shares, the Company prepares the estimate of the fair value of the amount settled in cash during its period of validity

(from January 1, 2016 to December 31, 2018) plus the period of approximately four months for full payment.

- At December 31, 2018, the estimate is made assuming that all the objectives relating to the plan have been 98.03% achieved, subject to the approval of delivering the shares assigned to said plan.

Remuneration received	Salaries	Per diems	Other items	Pension plans	Insurance premiums
2018					
Board of Directors	2,366	2,054	195	-	47
Senior Management	2,876	-	130	56	27
Total	5,242	2,054	325	56	74
2017					
Board of Directors	2,215	1,844	161	-	21
Senior Management	2,402	-	98	49	17
Total	4,617	1,844	259	49	38

The remuneration of the members of the Board of Directors for their membership of the Board and those corresponding to the Chairman and the Chief Executive Officer for the exercise of their executive functions during the year 2018 have been approved in detail by the General Shareholders' Meeting held on March 18, 2016 as part of the "Directors' Remuneration Policy for the 2016, 2017 and 2018 financial years", approved as item 7 of the Agenda.

The two Executive Directors are beneficiaries of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on March 18, 2016. Item 8 of its Agenda states that the general meeting assigned them a total of 97,455 performance shares. Said rights do not constitute acquisition of shares until the end of the programme and the final remuneration depends on the degree to which the program objectives have been met.

The members of the Senior Management (member of the Management Committee) are beneficiaries of the 2016-2018 Long-Term Incentive Plan approved by the General

Shareholders' Meeting held on March 18, 2016 under agenda item number 8. As approved by the General Shareholder's Meeting, the Board of Directors has assigned them a total of 76,466 performance shares or rights relating to shares as well as an incentive in cash amounting to 701 thousands of euros. Said rights do not constitute acquisition of shares or collection of any amounts until the program has finalized, the final bonus depending on the degree to which the program objectives have been met.

Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2018, 390 thousands of euros correspond to Executive Directors and 516 thousands of euros to Senior Management (419 thousands of euros and 546 thousands of euros in 2017, respectively).

The remuneration, broken down for each member of the Board of Directors, without taking into account insurance premiums, is as follows:

Board members	2018	2017
Mr Antonio Llardén Carratalá (Executive Director) (1)	1,896	1,793
Mr Marcelino Oreja Arburúa (CEO) (2)	925	818
Sociedad Estatal de Participaciones Industriales (Proprietary Director) (4)	155	140
Mr Luis García del Río (Independent Director) (4)	160	98
Mr Ramón Pérez Simarro (Independent Director) (4)	-	37
Mr Martí Parellada Sabata (External Director) (4)	160	148
Mr Luis Javier Navarro Vigiil (External Director) (4)	160	144
Mr Jesús Máximo Pedrosa Ortega (Proprietary Director) (3) (4)	123	144
Ms Rosa Rodríguez Díaz (Independent Director) (4)	160	144
Ms Ana Palacio Vallelersundi (Proprietary Director) (4)	190	166
Ms Isabel Tocino Biscarolasaga (Independent Director Coordinator) (4)	172	157
Mr Antonio Hernández Mancha (Independent Director) (4)	157	144
Mr Luis Valero Artola (Independent Director) (3) (4)	44	144
Mr Gonzalo Solana González (Independent Director) (4)	160	144
Mr Ignacio Grangel Vicente (Independent Director) (3)	116	-
Mr Santiago Ferrer i Costa (Independent Director) (3)	37	-
Total	4,615	4,221

(1) The remuneration for the Executive Chairman in 2018 was approved in detail by the General Shareholders' Meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2018, the Executive Chairman received fixed remuneration in the amount of 1,000 thousands of euros and variable remuneration in the amount of 593 thousands of euros; he also received 130 thousands of euros for Board membership and other remuneration in kind amounting to 173 thousands of euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totalled 1,896 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 47 thousands of euros for the period. The Group has outsourced its pension obligations with its directors by means of a mixed group insurance policy. In addition to pension obligations, the cover provides benefits in the cases of life expectancy, death or disability. The Executive Chairman is one of the beneficiaries covered by this policy, and of the total premium paid during the year, 240 thousands of euros correspond to the Executive Chairman. The Executive Chairman is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on March 18, 2016. Item 8 of its Agenda states that the Committee assigned him a total of 69,711 performance shares. Said rights do not constitute

acquisition of shares until the end of the programme and the final remuneration depends on the degree to which the program objectives have been met.

(2) The remuneration for the CEO in 2018 was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018." During 2018, the CEO received fixed remuneration in the amount of 500 thousands of euros and variable remuneration in the amount of 273 thousands of euros; he also received 130 thousands of euros for Board membership and other remuneration in kind amounting to 22 thousands of euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totalled 925 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.6 thousands of euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 149 thousands of euros for the period. In addition, the CEO is beneficiary of the long-term incentive plan 2016-2018 approved by the shareholders in general meeting on March 18, 2016 under agenda item number 8, by virtue of which a total of 27,744 performance shares or rights relating to shares were assigned. Said rights do not constitute acquisition of shares until the end of the programme and the final remuneration depends on the degree to which the program objectives have been met.

(3) On March 22, 2018 Mr Luis Valero Artola resigned as Director and Mr Ignacio Grangel Vicente occupied his position.

On October 15, 2018 Mr Jesús Máximo Pedrosa Ortega resigned as Director and Mr Santiago Ferrer I Costa occupied his position.

(4) The remuneration for these directors relating to Board and committee membership was approved in detail by the shareholders in general meeting on March 18, 2016 as part of the "Remuneration policy for Board members for the years 2016, 2017, and 2018."

Share-based payments

On March 18, 2016, the Enagás, S.A. shareholders in general meeting approved a long-term incentive plan ("ILP") aimed at executive directors and senior management of the Company and its Group, with a view to maximizing motivation and loyalty as well as promoting the good results achieved by the Enagás Group, aligning its interests with the long term value of shareholders.

The Plan consists of an extraordinary, multi-year, mixed incentive, enabling its beneficiaries to receive, after a certain period, an incentive payable (i) in shares in Enagás, S.A. and (ii) in cash, provided that certain strategic objectives of the Enagás Group are fulfilled.

With respect to the portion payable in shares, the total number to be delivered will be 307,643 shares. The cash part of the plan is limited to an estimated maximum payment of approximately 2.5 million euros should all the objectives be fully met.

This plan is aimed at persons who, due to their level of responsibility on their position in the Enagás Group, contribute decisively to achieving the Company's objectives.

As established in BOICAC No. 75/2008, query No. 7, the part settled through shares of Enagás, S.A. is considered a shares-based payment transaction that can be settled in equity instruments, and, accordingly, the fair value of the services received, as consideration for the equity instruments granted, is included in the Income Statement at December 31, 2018, under the heading "Personnel Expenses", in the amount of 1,544 thousands of euros (1,838 thousands of euros at December 31, 2017), with a credit to "Other equity instruments" of the Balance Sheet net equity at December 31, 2017. In this regard, the Company estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus

the loyalty period of approximately four months for full disbursement.

The breakdown and fair value of the shares at the grant date of the long-term incentive plan are as follows:

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

Likewise, for the cash incentive part, the Company recorded the provision of services corresponding to this incentive as a personnel expense in the amount of 419 thousands of euros with a credit to "Personnel" heading under current liabilities on the attached Balance Sheet. At December 31, 2018 it is estimated that this amount will be settled within less than one year (at December 31, 2017, it was recorded under "Long-term provisions", in the amount of 568 thousands of euros).

4.5 Other information concerning the Board of Directors

In order to comply with the provisions of article 229 ff. of the Spanish Corporate Enterprises Act, this report includes information on the shareholdings and performance of the roles of the members of the Board of Directors of Enagás, S.A. in other companies with activity of a similar or complementary type to that which it constitutes the corporate purpose. This information was prepared considering that they are companies with similar or complementary activities to those carried out by Enagás S.A., that is, natural gas transmission, regasification, distribution, and marketing activities regulated by Law 34/1998 of the Hydrocarbons Sector.

The interest held in companies performing the same, similar or complementary activities as communicated to the Group by the Board members at December 31, 2018 and 2017 was as follows:

Director	Company	No. of shares	% Stake
2018			
Mr Luis Javier Navarro Vigil	BP, PLC	17	0%
2017			
Mr Luis Javier Navarro Vigil	BP, PLC	17	0%
Mr Jesús Máximo Pedrosa Ortega	Iberdrola	4,019	0%
Mr Jesús Máximo Pedrosa Ortega ⁽¹⁾	Iberdrola	8,882	0%

(1) Through Inversores Asfis, of which he is a Joint and Several director, with a 60% stake.

The positions or functions of the Company's Board members in other companies with the same, similar or complementary activities, as communicated to Enagás, S.A. at December 31, 2018 and 2017, were the following:

Director	Company	Position
2018		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Board Member
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Board Member
Marcelino Oreja Arburúa	Enagás Transporte del Norte, S.L.	Chairman
Marcelino Oreja Arburúa	Enagás Emprende, S.L.U.	Joint Director
Marcelino Oreja Arburúa	Enagás Services Solutions, S.L.U.	Joint Director
2017		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Board Member
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Board Member
Marcelino Oreja Arburúa	MIBGAS	Board Member
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Board Member
Marcelino Oreja Arburúa	Enagás Transporte del Norte, S.L.	Chairman
Marcelino Oreja Arburúa	Enagás Emprende, S.L.U.	Joint Director

There are no activities of the same, similar or complementary nature to those carried out by Enagás which are performed by its Board members, on their own behalf or on behalf of third parties, not included in the above section.

At 2018 year end, neither the members of the Board of Directors of the Company nor any parties related to them, as defined in article 229 of the Spanish Enterprises Act, had notified the remaining Board members of any conflicts of interest, direct or indirect, with those of the Company.

4.6 Other information

a) Environmental information

The Company Enagás, S.A., as head of the Enagás Group, carries out the activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources as part of its environmental management in order to mitigate the impact of its activities.

The Company has integrated protection of the environment within its policy and strategic programs via implementation of an Environmental Management System developed and certified by LLOYD'S, in accordance with the requisites of standard UNE EN ISO 14001, which guarantees compliance with applicable environmental legislation and continuous improvement of its environmental behaviour with respect to the activities it carries out in the Zaragoza laboratory, and management of development projects for new infrastructure.

In 2018, the certifying company LLOYD'S issued the corresponding audit report on the environmental management system with favourable results, concluding that the system's maturity and degree of development ensure continuous improvement for the company in this field.

The Company Enagás, S.A. makes ongoing efforts to identify, characterize, and minimize the environmental impact of its activities and facilities, evaluating the related risks and strengthening eco-efficiency, responsible management of waste and discharges, minimizing the impact in terms of emissions and climate change.

In addition, the Company incorporates environmental criteria in its relationship with suppliers and contractors, as well as in connection with decision-making with respect to the awarding of contracts for the provision of services and products.

During 2018, Enagás, S.A. carried out environmental actions in the amount of 188 thousands of euros, recognized as investments under assets in the Balance Sheet. During financial year 2017, this amount was 66 thousands of euros. The Company also assumed environmental expenses amounting to 273 thousands of euros in 2018, recognised under "Other operating expenses" (277 thousands of euros in 2017).

The society has arranged sufficient civil liability insurance to meet any possible contingencies, compensation and other risks of an environmental nature which it might incur.

Enagás, S.A. did not receive any grants or income in 2018 or 2017 as a result of its activities relating to the environment.

b) Audit fees

"Other operating expenses" include the fees for audit and non-audit services provided by the auditor of Company, Ernst & Young, S.L., or by a company belonging to the same group or related to the auditor, broken down as follows:

Categories	2018	2017
	Services rendered by the auditor of accounts and related companies	Services rendered by the auditor of accounts and related companies
Audit services (1):	634	842
Other assurance services (2)	114	184
Total audit and audit-related services	748	1,026
Total professional services	748	1,026

(1) **Audit services:** This heading includes mainly services rendered for the performance of statutory audits of the Company's Financial Statements and the review work performed with respect to the interim financial statements as well as the Certification of the Financial Information Control System (CFICS). For comparative purposes, in 2017 certain fees corresponding to special work carried out in relation to the Financial Statements were included for an amount of 208 thousands of euros.

(2) **Other audit-related assurance services:** This heading includes the work relating to the Annual Corporate Governance Report, the review of non-financial information included in the Annual Report.

4.7 Subsequent events

Subsequent to the close of the financial year, on 22 February 2019, the Board of Directors, following a report from the Appointments and Remuneration Committee, approved a Long-Term Incentive Plan for the period 2019-2021 to be submitted for approval at the General Shareholders' Meeting scheduled for 29 March 2019. The proposed Plan consists of an extraordinary, multi-annual and mixed incentive, payable in cash and shares of Enagás S.A., linked to the achievement of a series of objectives considered strategic, aligning the interests of the Plan's beneficiaries with the achievement of long-term shareholder value. The Plan may not exceed the delivery of a total of 501,946 shares for all beneficiaries at Group level.

In the event that the Incentive Plan is finally approved by the General Shareholders' Meeting, its basic characteristics will be developed in its corresponding regulations, which must also be approved by the Board of Directors.

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

5. Explanation added for translation to English

These Financial Statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 1.2). Certain accounting practices applied by the Company that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules.

MANAGEMENT REPORT OF ENAGÁS, S.A.

The wording provided by Law 11/2018, of December 28, to article 262.5 of the consolidated text of the Capital Companies Act, relating to the management report, indicates that a company subsidiary on a group will be exempt from the obligation established in this section if the company and its subsidiaries, if any, are included in the consolidated management report of another company, prepared in accordance with the content established in this article.

Based on the above, Enagás, S.A. makes use of this exemption, including non-financial information in the consolidated management report of Enagás, S.A. and Subsidiaries Companies prepared in accordance with said regulations and which will be filed with Commercial Registry of Madrid.

I. Enagás, S.A. situation

Business model

Enagás, S.A., a midstream company with almost 50 years of experience and independent European TSO (Transmission System Operator) through Enagás GTS, is an international reference in the development and maintenance of gas infrastructure and in the operation and management of gas networks.

The company has built the main infrastructure for the Spanish Gas System, turning it into a model of security and diversification of supply.

Through our activities we strengthen and guarantee the security of energy supply, promoting the use of natural gas in preference to other more polluting alternative fuels such as oil or coal. In addition, natural gas is of great importance for improving competitiveness, as it allows for the introduction of efficient industrial technologies which improve the intensity of energy usage and competitiveness in the industry, generating direct and indirect employment.

Government Structure

General Shareholders' Meeting

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

Enagás, S.A. has a free float of 95%, one of the highest on the Spanish continuous market. More than 70% of our share ownership is international, including the USA-Canada and the United Kingdom (27% and 12% respectively).

Enagás, S.A. applies a proprietary separation model, which establishes the maximum limit of ownership by any shareholder at 5%, with a limitation on the voting rights of 1% for agents in the gas sector and 3% for the rest of shareholders. These limitations do not apply to direct or indirect interest held by the public corporate sector.

Board of Directors

Enagás, S.A. has a percentage of independence (54%) higher than the average of the Spanish market and has been reducing the number of members of the Board of Directors that now stands at 13 members.

In addition, Enagás, S.A.'s commitment to promoting gender diversity in the Board is reflected in the significant increase in the percentage of women, from 6% in 2007 to 23% in 2018, with a commitment to reach 30% by 2020 established in director selection policy.

Operation and probable evolution

Enagás, S.A., as head of the Enagás Group, will guarantee the proper functioning of the Spanish Gas System, and will ensure security of supply by facilitating competition in a transparent and non-discriminatory manner. Likewise, it will optimize the operation of the Spanish Gas System by coordinating the different agents and proposing measures to improve its operation. It will continue to develop the transmission network and manage its infrastructures in a safe, efficient, profitable way with a commitment to protecting the environment. All this will be achieved in collaboration with the regulators, thus providing service quality to its customers, creating value for its shareholders and contributing to the sustainable development of the Company.

Natural gas is a key element to achieve a sustainable, safe and efficient energy in a low carbon economy. It is the most efficient technical-economic solution compared to other conventional fuels, with the lowest cost for citizens and companies. Natural gas helps to make the industry more competitive and reduces the environmental impact. It is an essential energy source for many sectors because of its versatility and high calorific value.

In 2018, Enagás operated against a backdrop of relatively stagnant energy demand, where consumption of electricity, natural gas and petroleum products was similar to the previous year. However, broken down by sector, conventional demand for natural gas in Spain grew by more than 4% in 2018 compared to the previous year. This increase is a consequence of the good performance shown by industrial demand and the positive evolution in domestic/commercial demand that ended the year with a growth greater than 6%. Demand for natural gas for electricity generation has decreased due to increased hydropower generation compared to 2017, which was a particularly dry year. With these statistics, total demand for natural gas in Spain in 2018 has reached values similar to those registered the previous year, in which consumption grew by 9%.

II. Evolution and results

Economic dimension

Good Governance

Enagás, S.A. has a Sustainability and Good Governance Policy which reflects the importance of good governance for the generation of value by the company. In 2016, a Long-Term Incentive Plan for 2016-2018 was approved, based on various objectives aligned with the Enagás, S.A. Strategic

Plan and with the expectations expressed by institutional investors and proxy advisors.

Financial and operational excellence

Principal Economic Results

The net profit amounted to 371.2 million euros, 6.23% over 2017. In 2018, investments worth 7.5 million euros were made.

The dividend per share in 2018 increased by 5% over the previous year, reaching 1.53 euros per share. Enagás, S.A. concluded the year 2018 at 23.61 euros per share. The share capital of Enagás, S.A. at December 31, 2018 was 358.1 million euros, with 238.7 million shares.

In 2018 the rating agencies Standard & Poor's and Fitch Ratings in its annual review report has reaffirmed Enagás S.A.'s long-term "A-" rating.

Enagás, S.A. is listed on the Dow Jones Sustainability Index since 2008, and is a leading company in the Oil & Gas Storage & Transportation sector, with a rating of 85 points.

Social dimension

Human capital management

Enagás, S.A., as a certified Top Employer company, offers stable and quality employment with high percentages of permanent and full-time labour contracts, totalling 99% and 95.86%, respectively. In addition, the commitments acquired by Enagás, S.A. in its Management of Human Resources policy, together with the measures and actions implemented, translate into high levels of employee satisfaction and motivation, as reflected in low staff turnover (3.89% voluntary turnover) and the results obtained in the workplace climate survey.

Enagás, S.A. has an integrated talent management model to promote the achievement of the Company's strategic objectives and plans through four principles: to attract the best talent to Enagás, to know our internal talent, to continuously train our professionals and to develop the internal talent.

Enagás, S.A. commits itself, every day, to applying the principle of equal opportunities and non-discrimination. It is a staunch believer of diversity among its professionals through the Comprehensive Diversity Plan as the basis for its strategy which prioritises its focus on the spheres of gender, functional, generational and cultural diversity.

In 2018 Enagás, S.A. renewed its certification as an EFR company (Family Responsible Company), the Bequal seal for its commitment to the inclusion of people with disabilities and joined the *Equal by 30* global gender diversity campaign.

Health and safety

The global security approach of Enagás, S.A. is based on the integration of the safety and health culture into the environment, people, facilities and information, through the involvement of leaders and the development of a model of health and security behaviours.

The Enagás Occupational Risk Prevention Management System, certified according to OHSAS 18001 (100% of activities), has procedures and standards for the identification and evaluation of risks, as well as for the notification of accidents.

In addition, Enagás, S.A. is certified as a Healthy Company.

Ethical compliance and Human Rights

Enagás, S.A. has a framework of policies, procedures and regulations that consists of: the Code of Ethics, corporate policies and guidelines, and the management and regulatory procedures necessary to ensure due diligence in related matters.

The Enagás, S.A. Ethics Channel is a platform for consulting doubts and notifying irregularities or breaches of the Code of Ethics and is managed by the company's Ethics Compliance Committee. In 2018, five communications were received via the Ethics Channel:

- Two external communications relating to possible irregularities in a procurement process and to the incorrect assignment of responsibilities in one of the Company's affiliates. Both were dismissed following appropriate investigations.
- Three internal complaints, one of which refers to a breach relating to fraud and/or economic crimes, that has been dismissed following an investigation and the necessary security measures being taken. Another related to a possible mobbing that has been dismissed due to lack of evidence and the final was an anonymous unfounded complaint that has been dismissed.

The Enagás, S.A. Compliance Model is the main tool for ensuring ethics and integrity in the performance of the company's activities. This Model is being coordinated around the Compliance Policy and its associated standard. Furthermore, under the Compliance Model, Enagás, S.A. has a Crime Prevention Model that is the essential core of the company's criminal compliance.

Community outreach

The objective of Enagás, S.A. social investment, is to contribute to the socio-economic development of local communities, giving priority to those areas in which the company operates, through sustainable social action models. Through dialogue and collaboration with stakeholders, the positive social impact of the company's initiatives, whether in the form of volunteering, sponsorship, patronage or donation (1.7 million euros in 2018).

Supply chain

Management of the supply chain is one of our key material issues. Adequate management of the supply chain allows us to identify and manage regulatory, operational, and reputational risks, as well as taking advantage of opportunities for collaboration and the creation of shared value.

In order to work with Enagás, the suppliers must go through a rigorous approval process. They must meet the following approval requirements:

- Have the capacity and resources to meet technical, quality, environmental and safety requirements, and upholding thereof over an extended period of time.
- Respect the principles of the United Nations Global Compact and the Universal Declaration of Human Rights.
- Hold certifications relating to quality, environmental matters, and security for suppliers of certain product or service families.

The Company's average payment period for its suppliers is 41 days.

Environmental aspects

Activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources are essential elements in the Enagás, S.A. environmental management to mitigate the impact of its activities.

Environmental management

Enagás, S.A. undertakes its environmental commitments (as reflected in the Health & Safety, Environment and Quality Policy) through the Environmental Management System and 100% of its activity is certified in accordance with ISO 14001.

Climate change and energy efficiency

Enagás, S.A. increases its commitment to fighting against climate change every year through its management and continuous improvement model, based on public commitment, emission reduction measures and the reporting of our performance and results, as well as the extending of our commitment to our supply chain.

Enagás, S.A. is also committed to the use of gas as the least polluting fossil fuel and, therefore, key to the power generation mix for meeting emission reduction targets and allowing the development of more efficient renewable energies; as well as replacing other fossil fuels as we move towards more sustainable mobility in sea, rail and road transport.

The Company sets itself improvement challenges by establishing objectives for reducing annual emissions in the medium term, as well as via the definition of an emissions compensation strategy. In order to achieve said objectives, the Company implemented an Energy Efficiency and Emissions Reduction Plan some years ago, through which different energy saving measures are identified, developed, and quantified.

In 2018 it has adopted the reporting recommendations prepared by the Task Force on Climate related Financial Disclosures (TCFD) and has continued with the voluntary offsetting programme for greenhouse gas emissions.

III. Liquidity and capital resources

Enagás, S.A. has adapted to the new circumstances arising out of the crisis, reducing its external financing through banks and resorting to other types of financing, such as bond issues, which has permitted the Company to achieve a more diversified structure. Net debt in 2018 decreased by 878,190 thousands of euros with respect to 2017.

IV. Risk management

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

The Company Enagás, S.A. has established a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model can adapt itself to the complexity of the Company's corporate activity in a competitive global environment and a complex

economic context in which risk can materialize more quickly and the danger of contagion is evident.

This model is based on the following features:

- The consideration of some standard types of risk to which the Company is exposed.
- Separation and independence of risk control and management functions articulated by the Company in three lines of "defence".
- Governing bodies with responsibilities regarding supervision of the Company's risk level.
- Establishing a risk appetite framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the activities are carried out.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

Comprehensive analysis of all risks allows for their appropriate control and management, by understanding how the risks are interrelated and facilitating an assessment of the risk as a whole. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

The main risks associated with the business activities of Enagás, S.A. are classified as follows:

1. Strategic and Business Risks

These are risks which are inherent to the gas sector and are linked to potential losses of value or results derived from external factors, strategic uncertainties, economic cycles, changes to the environment, changes to patterns of demand, competition and market structure or changes to the regulatory framework, as well as those derived from taking the incorrect decisions in relation to business plans and company strategies.

The activities carried out by the Company are notably affected by current regulations (local, regional, national and supranational). Any change in the legislation could negatively affect profits and the value of the company. Within this type of risk, regulatory risk is of special relevance, and is associated with the remuneration framework and, therefore, the regulated income from business activities.

Similarly, the new developments of infrastructures are subject to obtaining licences, permits and authorisation from governments, as well as legislation of various types, notably environmental regulations. These long-term and complex processes may give rise to delays or modifications to the designs initially projected due to: i) obtaining authorisation, ii) the processes relating to environmental impact studies, iii) public opposition in the affected communities, and iv) changes in the political environment. All of these risks may increase costs or delay projected income.

The growth in demand may also bring negative effects that will have a different impact in the short-, medium- and long-term. Growth may also depend on meteorological conditions or the competitiveness of natural gas compared to other energy sources, performance of the economy, etc.

In the short term, the variation in the demand for the transmission, regasification and underground storage of

natural gas in Spain has a direct impact on a component of the regulated remuneration received by these activities. The degree to which regasification plants are used may have a negative impact on the forecasted operating costs, through greater internal consumption and greenhouse gas emissions.

In the medium-to-long term, the increase in the demand is a factor that creates opportunities for building new projects in transport, regasification and underground storage infrastructure for natural gas and its development may alter or delay decisions taken in dealing with these projects.

The results of the Company may also be affected by the legal risk arising from the uncertainties related with the different interpretation of contracts, laws or regulations which the company and third parties may have, as well as the results of any law suits undertaken.

The Company Enagás, S.A. has implemented measures to control and manage its strategic and business risk within acceptable risk levels, consisting in the continuous supervision of risks in connection with regulatory changes, market conditions, competition, business plans, strategic decision-making, etc. as well as management measures to contain risk at acceptable levels.

2. Operational and Technological Risks

Operation of the Enagás, S.A. infrastructures may give rise to losses of value or earnings resulting from inadequate processes, failures of physical equipment and computer systems, human error or other external factors. This type of risk can in turn be classified as an industrial infrastructure risk (related to the nature of the fluids under management), risks associated with infrastructure maintenance, logistical and commercial processes, as well as other risks associated with corporate processes.

The main operational and technological risks to which Company is exposed are:

- Industrial risk, relating to incidents during operation of transport infrastructure, regasification plants, and underground storage, which potentially involve great damage; very often conditioned by the nature of the fluid under management.
- Internal and/or external fraud.
- Cybersecurity, in the different guises it may present itself (economic fraud, espionage, activism, and terrorism).

The Company Enagás, S.A. identifies the activities relating to management and control which can provide an adequate and appropriate response to these risks. Amongst the control activities thus defined there are emergency plans, maintenance plans, control and alerting systems, training and skill upgrading for staff, application of certain internal policies and procedures, defining quality indicators, establishing limits, and quality certifications and audits, prevention and environment, etc. which allow the Group to minimise the probability of these risks occurring. To mitigate the negative economic impact that the materialisation of any of these risks may have on Enagás S.A., a series of insurance policies have been arranged.

Some of these risks could affect the reliability of the financial information prepared and reported by Enagás, S.A. An Internal Control over Financial Reporting (ICFR) system was implemented to control these types of risk, the details of which can be consulted in the Corporate Governance Report.

3. Credit and Counterparty Risks

Credit and counterparty risk relate to the possible losses arising from the non-compliance of monetary or quantifiable obligations of a counterparty to which the Company has granted net credit which is pending settlement or collection.

The counterparty risk includes the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.

Enagás, S.A. monitors in detail this type of risk for its commercial activity, which is particularly relevant in the current economic context among the activities. The activities carried out include analysing the risk level and monitoring the credit quality of counterparties, regulatory proposals to compensate Enagás, S.A. for any possible failure to comply with payment obligations on the part of marketers (an activity that takes place in a regulated environment), request for guarantees, etc.

However, regulations have been developed establishing standards for managing guarantees in the Spanish gas system and which oblige gas supply companies to provide guarantees for: (i) contracting capacity in infrastructure with regulated third-party access and international connections, and international connections, (ii) settlement of imbalances; and (iii) participation in the organized gas market.

The measures for managing credit risk involving financial assets include the placement of cash at highly-solvent entities, based on the credit ratings provided by the agencies with the highest international prestige. Interest rate and exchange rate derivatives are contracted with financial entities with the same credit profile.

The regulated nature of Enagás, S.A. business activity does not allow an active customer concentration risk management policy to be established.

Information concerning counterparty risk management is disclosed in **Note 3.5** to the Financial Statements.

4. Financial and Fiscal Risks

Enagás, S.A. is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could affect the Company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that accrue interest at fixed rates, and the future cash flows from assets and liabilities that accrue interest at floating rates. The objective of interest rate risk management is to create a balanced debt structure that minimizes finance costs over a multi-year period while also reducing volatility in the Income Statement. The Company maintains a fixed or protected debt structure of more than 70% to limit this risk. Changes in exchange rates may affect debt positions denominated in foreign currency. The Enagás, S.A.'s exchange rate risk management is designed to balance the cash flows of assets and liabilities denominated in foreign currency in each of its subsidiaries.

Enagás, S.A. maintains a liquidity policy that is consistent in terms of contracting credit facilities that are unconditionally available and temporary financial investments in an amount sufficient to cover the projected needs over a given period of time.

With respect to tax risk, the Company is exposed to possible modifications in tax regulatory frameworks and

uncertainty relating to different possible interpretations of prevailing tax legislation, potentially leading to negative effects on results.

The financial risk management policy is described in **Note 3.5** of the Financial Statements.

5. Reputational Risks

Reputational risk refers to any action, event or circumstance that could have a harmful effect on the Company's reputation among its stakeholders.

Enagás, S.A. has implemented a self-assessment reputational risk procedure which uses qualitative measurement techniques. This process considers the potential reputational impact of any of the risks listed in the current inventory as a result of strictly reputational events arising from the action or opinion of a third party.

6. Compliance Risk and Model

The Company is exposed to compliance risks, which includes the cost associated with potential penalties for breach of laws and legislation, or penalties resulting from the materialisation of operational events, the use of improper business practices or the breach of internal company policies and procedures.

Also, the Company may be affected by risks associated with the improper use of assessment models and/or risk measurement, and hypotheses that are outdated or do not have the necessary precisions to be able to correctly evaluate their results.

7. Criminal Liability Risks

The amendments made to Article 31 of the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this context, Enagás, S.A., could be held liable in Spain for certain crimes committed by its directors, executives and employees in the course of their work and in the interest of the Company.

To prevent this risk from materialising, Enagás, S.A. has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and to avoid liability for the Company.

8. Other risks

Given the dynamic nature of the business and its risks, and despite having a risk management and control system that responds to the best international recommendations and practices, it is not possible to guarantee that some risk is not identified in the risk inventory of the Company.

V. Subsequent events

Subsequent to the close of the financial year, on 22 February 2019, the Board of Directors, following a report from the Appointments and Remuneration Committee, resolved to propose a Long-Term Incentive Plan, for the period 2019-2021, for approval at the General Shareholders' Meeting, scheduled for 29 March 2019. The proposed Plan consists of an extraordinary, multi-annual and mixed incentive, payable in cash and shares of Enagás S.A., linked to the achievement of a series of objectives considered strategic, aligning the interests of the Plan's beneficiaries with the achievement of long-term shareholder value. The Plan may not exceed the delivery of a total of 501,946 shares for all beneficiaries at Group level.

In the event that the Incentive Plan is finally approved by the General Shareholders' Meeting, its basic characteristics will be developed in its corresponding regulations, which must also be approved by the Board of Directors.

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

VI. Research and Development activities

In the field of technological innovation developed by Enagás S.A. during 2018, the main actions have been to improve various aspects of its present activity and to analyse and deepen the knowledge of other possible technologies that may be in the future supported and put into value the infrastructures and/or the know-how of the Company.

Among the first highlighted is efficiency in a broad sense; gas measurement and analysis of its components; operational safety; the materials and equipment necessary for their activity. The latter include the production, analysis, certification and transport of synthetic natural gas, biogas, biomethane and hydrogen.

To this end, at the end of 2017, a new Transformation Department was introduced in the company's organisation, covering the company's internal innovation activities, the development of new energies, and other new initiatives.

A description of each of the following performance is provided below:

1. Efficiency

This section includes two distinct sections: energy efficiency and technical efficiency.

Energy efficiency

During 2018 Enagás, S.A. has continued its efforts, on the one hand, to reduce the energy consumption of its facilities and, on the other hand, to raise the level of energy it produces for self-consumption or export.

The consumption reduction in its facilities is mainly focused on the optimization of its processes, to minimize the energy needs of these processes, and in the modification or replacement of their equipment, to improve their unit performance.

The production of energy is based on the use of the residual energies of its processes to, in turn, produce electrical energy. The residual energy used is the heat that is lost through the exhaust gases of the gas turbines, the cold that is wasted during the vaporization process of the liquefied natural gas (LNG) and the pressure that dissipates in the points regulated by needs of the gas transportation system or for the delivery of gas to other carriers or distributors. Currently, Enagás has facilities for each of these three types. During 2018, projects have been started up or developed, such as the following: Measuring fugitive methane emissions, Barcelona Desalination Plant, Cathodic Protection Training Camp, Odour Neutralisation Pilot, Water with Methanol in USF, 3D Laser Scanner Pilot for the detection of corrosion and mechanical defects in piping or Electrical Phases Monitoring for the detection of mechanical failures in cryogenic pumps.

Technical Efficiency

As a result of the experience acquired in previous years, during 2018, the possible technical and economic convenience of self-producing certain inputs necessary for

the operation of the facilities was continued. In this sense, the most noteworthy production is that of expanding the autonomous generation of nitrogen at the Huelva plant or a introducing a chlorine dioxide reactor at the Barcelona Plant.

2. Measurement and analysis of natural gas

Enagás, S.A. continues to equip itself with the best available techniques to reduce the level of uncertainty in the measurement of the energy contained in natural gas, both in the liquid state (LNG) and in the gaseous state (NG), at the points at which it is received or delivered to third parties. This innovative effort has been translated into different studies and actions during 2018, among which we highlight the following: RAMAN technology for the determination of LNG quality and its properties during loading and unloading from ship to plant, in liquid state and GASPROP II Project for the development of a computer tool for the calculation of natural gas properties.

3. Operational safety

Throughout 2018, the Company continued with the research line on pipeline safety and other Enagás, S.A. facilities. The work has focused on improving the mathematical models used. To this end, participation in different international joint projects has been maintained, which has also confirmed that the level of security of the Enagás, S.A. facilities is adequate and is in line with that of other foreign companies with similar characteristics.

It has also continued to update the tools developed to meet the needs of different areas of the Company both in the design of new facilities and in the operation of existing ones. Work began on the creation of a unique and more complete simulation Hub for the creation of a collaborative environment, in the field of simulations, which includes the development of ad-hoc simulation tools to support decision-making,

All of the above has been carried out in accordance with the legislation in force in the matter.

4. Materials and equipment

During 2018, Enagás, S.A. has continued its activities to keep up to date a set of specifications and technical requirements, applicable to the materials and equipment with which it designs, builds and operates its facilities, which collects the state of the art at all times and ensures that the best alternatives are adopted in order to optimize the total cost (CAPEX + OPEX) of these facilities for the Company, without undermining security levels. For this purpose, the Company works actively with different national and international organizations and technological entities. Participation in normative organizations (ISO, AENOR, BEQUINOR) and in groups and associations of research and development (GERG, EPRG) stands out.

5. Evolution of gas infrastructure

Enagás, S.A. is aware of the wide diversity of scenarios and solutions that the energy sector could develop in the future in a broad sense. As a consequence and independently of other actions that are carried out in various areas of the company to anticipate events and adapt to the profound changes that will arrive, the area of R&D remains in contact with technologies complementary and/or alternative to natural gas and which can also use part or all of the gas infrastructure in its hypothetical future development and

implementation. In this sense, the following are considered as more plausible technologies: mixtures of hydrogen with natural gas in certain percentages; pure hydrogen; biogas and biomethane. In addition, the possibility of the future development of CO₂ capture, transmission and storage technologies is also contemplated. In this way, the experience and know-how of Enagás, S.A. would be fully applied, due to its similarity, in the deployment of the different infrastructures linked to this technology (pipeline transmission and underground storage of CO₂).

Enagás is committed to developing non-electric renewable energies, such as green hydrogen and biogas/biomethane, as new key energy solutions for the decarbonisation process, and in order to bring about a circular economy.

Renewable gases play a key role in the decarbonisation process, and accordingly it is necessary to provide new alternatives that allow a sustainable mobility, with the options of synthetic natural gas and hydrogen of renewable origin.

These are some of the biogas, biomethane and hydrogen projects on which the company worked during 2018, proving its ability to anticipate and adapt:

- Biogas-Biomethane Upgrade Feasibility Studies: Design, construction and operation of biomethane upgrading plants for injection into the Enagás network or for vehicular use. Six of the more than 25 planned were launched throughout Spain in collaboration with various waste-producing partners (Biogastur, SACYR, Ferrovial, ENCE, Emgrisa, etc.).
- COLHD Project: Development, demonstration and optimisation of liquid biofuel blends, propulsion systems and storage systems to reduce the use of fossil fuels.
- Certificates Of Origin Platform: Establish a Matching Registry and Model for Renewable Green Energy in the form of Biomethane according to its origin and final use and establish the National Management Model according to the European models.
- EMPIR SRT3 Project (Legal Metrology of H₂): Carrying out of precision, durability and intercomparison tests of gas meters for the measurement of non-conventional gases (biogas, biomethane, hydrogen, synthesis gas and mixtures with natural gas).
- Zaragoza Laboratory (Biomethane+H₂): to adapt the Enagás Analysis Laboratory in Zaragoza, providing it with the necessary analytical means and procedures for measuring the components of the biomethane and hydrogen, to guarantee its quality both for injection into the network and for use as a fuel.
- MCHP Micro-Cogeneration Pilot Tests with H₂ (Ajusa & Viessmann): Installation, commissioning and operation of microcogeneration system with fuel cell technology.
- SUN2HY: Luxhor Project (Repsol-Enagás): Development of a Photoelectrolyzer for H₂ production.
- Cartagena H₂ Injection Plant: Demonstration of an H₂ injection process in the gas network in Spain.
- Collaboration on three very promising European projects (SOLUTHION, HYREADY, HIPS-NET)

addressing the feasibility of injecting hydrogen, in certain percentages, into gas networks.

- ECO Project: Development of the technology of simultaneous steam and CO₂ electrolysis for the conversion of excess renewable electricity into distributable and storable hydrocarbons, such as methane.
- GREEN Project (Lanzarote): Development of a demonstrator that performs co-electrolysis of CO₂ and water in an electrolyzer and then a methanization stage for the use of synthesis gas.
- Lastly, the participation in the Spanish CO₂ Platform was extended in 2018.

VII. Acquisition and sale of treasury shares

During financial year 2018, there were no transactions involving treasury shares.

Furthermore, on May 25, 2016, Enagás, S.A. finalized the process for acquiring 307,643 treasury shares for an amount of 8,219 thousands of euros (including related expenses amounting to 8 thousands of euros) and representing 0.13% of the entire Company share capital. This acquisition took place within the framework of the Temporary Share Buy-Back Scheme, whose exclusive aim was to meet the obligations of delivering shares to the

Executive Directors and members of the Company management team under the current remuneration scheme according to the terms and conditions of the 2016–2018 Long-Term Incentive Plan and Remuneration Policy approved at the General Shareholders' Meeting on March 18, 2016. The shares were purchased in compliance with the conditions set out in Article 5 of Regulation EC/2273/2003 and subject to the terms authorised at the General Shareholders' Meeting held on March 18, 2016. Management of the Temporary Share Buy-Back Scheme was entrusted to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the transaction on behalf of Enagás, S.A. independently and without exercising influence on the process.



On February 22, 2019, the Board of Directors of Enagás, S.A. authorised the Consolidated Financial Statements and Management Report for the year ended December 31, 2018, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce, and remaining applicable standards.

In accordance with the provisions of Article 262.5 of the Consolidated Text of the Spanish Corporate Enterprises Act, and the reference included in the Management Report of the individual company Enagás, S.A. for the year ended 31 December 2018, Enagás, S.A., as a subsidiary of the Enagás Consolidated Group, includes the Non-Financial Information Statement in the Consolidated Management Report of Enagás, in accordance with

the provisions of Law 11/2018 on non-financial information and diversity.

DECLARATION OF RESPONSIBILITY: For the purposes of article 8.1 b) of Spanish Royal Decree 1362/2007, of October 19, the undersigned directors state that, to the best of their knowledge the Financial Statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the Company and 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. They additionally state that, to the best of their knowledge, the directors not signing below did not express dissent with respect to the Financial Statements or the Management Report.

Chairman

Mr Antonio Llardén Carratalá
(Signed the original in Spanish)

Board members

Sociedad Estatal de Participaciones Industriales (SEPI)
(Represented by Mr Bartolomé Lora Toro)
(Signed the original in Spanish)

Mr Luis Javier Navarro Vigil
(Signed the original in Spanish)

Mr Martí Parellada Sabata
(Signed the original in Spanish)

Mr Luis García del Río
(Signed the original in Spanish)

Mr Gonzalo Solana González
(Signed the original in Spanish)

Mr Luis Valero Artola
(Signed the original in Spanish)

Secretary to the Board of Directors

Mr Rafael Piqueras Bautista
(Signed the original in Spanish)

Chief Executive Officer

Mr Marcelino Oreja Arburúa
(Signed the original in Spanish)

Mr Antonio Hernández Mancha
(Signed the original in Spanish)

Ms Ana Palacio Vallelersundi
(Signed the original in Spanish)

Mr Santiago Ferrer Costa
(Signed the original in Spanish)

Ms Rosa Rodríguez Díaz
(Signed the original in Spanish)

Ms Isabel Tocino Biscarolasaga
(Signed the original in Spanish)



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working world

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

INDEPENDENT ASSURANCE REPORT ON THE "INFORMATION REGARDING THE ANNUAL CORPORATE GOVERNANCE REPORT"

To the shareholders of ENAGÁS, S.A.:

Scope of the work

We have examined with the scope of a reasonable assurance engagement the Annual Corporate Governance Report for 2018 of ENAGÁS, S.A. prepared in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12 and Circular 2/2018 of June 12 of the Spanish National Securities Market Commission.

Responsibility of the Board of Directors

The directors of ENAGÁS, S.A. are responsible for the preparation, content, and presentation of the accompanying Annual Corporate Governance Report. This responsibility includes designing, implementing, and maintaining the internal control deemed necessary to ensure that the Annual Corporate Governance Report is free of material misstatement due to fraud or error.

The directors of ENAGÁS, S.A., are also responsible for defining, implementing, adapting, and maintaining management systems through which the information needed for the preparation of the Annual Corporate Governance Report is obtained.

Our responsibility

Our responsibility is to issue an independent reasonable assurance report on the Annual Corporate Governance Report based on the work performed by us.

We have carried out our reasonable assurance work in accordance with the requirements established by the International Standard on Assurance Engagements (ISAE) 3000 revised, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Reasonable assurance work includes comprehension of the Annual Corporate Governance Report contained in the financial statements; risk evaluation regarding possible material errors within it; tests and evaluations on design and the use of any other procedures we considered necessary. We consider that our audit provides a reasonable basis for our opinion.

For those recommendations of the Unified Good Corporate Governance Code that have not been implemented by the Company, the Directors of ENAGÁS, S.A. offer the explanations that they consider appropriate. In relation to said explanations, we have verified that the assertions contained in the Annual Corporate Governance Report do not contradict the evidence obtained from the application of the procedures described above.

Also, as regards the system of Internal Control over Financial Reporting (ICFR) (see section F of the accompanying Annual Corporate Governance Report), we verified the existence of the corresponding report issued by the Company's auditor. That report stated that the work was performed in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

Independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality, and professional behavior.

Our Firm applies the International Standard on Quality Control No 1 (ISQC 1) and therefore maintains a global system of quality control, which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

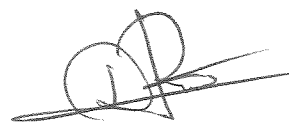
Conclusion

In our opinion, the content of the accompanying Annual Corporate Governance Report for the year ended December 31, 2018 of ENAGÁS, S.A. has been prepared, in all material respects, in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12 and Circular 2/2018 of June 12 of the Spanish National Securities Market Commission.

Other matters

This report can under no circumstances be considered an audit report carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.



David Ruiz-Roso Moyano

February 25, 2019

ISSUER'S PARTICULARS

Financial year-end: [31/12/2018]

Corporate tax code: [A-28294726]

Corporate name:

[**ENAGÁS, S.A.**]

Registered office:

[PASEO DE LOS OLMOS, 19 MADRID]

A. OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390.00	238,734,260	238,734,260

Indicate whether different types of shares exist with different associated rights:

[] Yes
[] No

A.2. List the direct and indirect holders of significant ownership interests at year-end, excluding directors:

Name or corporate name Of shareholder	% of voting rights assigned to shares		% of voting rights through financial instruments		total % of voting rights
	Direct	Indirect	Direct	Indirect	
RETAIL OEICS AGGREGATE	0.00	1.01	0.00	0.00	1.01
BLACKROCK INC	0.00	3.20	0.00	0.17	3.38

STATE STREET CORPORATION	0.00	3.00	0.00	0.00	3.00
BANK OF AMERICA CORPORATION	0.00	3.61	0.00	0.00	3.61

Detail of indirect stake:

Name or corporate name of the indirect holder	Name or corporate name of the direct holder	% of voting rights assigned to shares	% of voting rights through financial instruments	total % of voting rights
RETAIL OEICS AGGREGATE	RETAIL OEICS AGGREGATE	1.01	0.00	1.01
BLACKROCK INC	BLACKROCK INC	3.20	0.17	3.38
STATE STREET CORPORATION	STATE STREET CORPORATION	3.00	0.00	3.00
BANK OF AMERICA CORPORATION	STATE STREET CORPORATION	3.61	0.00	3.61

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

Most significant movements

At December 31, 2018 FIDELITY INTERNATIONAL LIMITED and LAZARD ASSET MANAGEMENT were not registered as significant shareholders in the information published on the CNMV's website.

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

Name or corporate name of director	% of voting rights assigned to shares		% of voting rights through financial instruments		total % of voting rights	% of voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR GONZALO SOLANA GONZÁLEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR MARCELINO OREJA ARBURÚA	0.00	0.00	0.01	0.00	0.01	0.00	0.00
MR ANTONIO LLARDÉN CARRATALÁ	0.02	0.00	0.03	0.00	0.05	0.00	0.00
MR MARTÍ PARELLADA SABATA	0.00	0.00	0.00	0.00	0.00	0.00	0.00

MR LUIS JAVIER NAVARRO VIGIL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	5.00	0.00	0.00	0.00	5.00	0.00	0.00
% of total voting rights held by the Board of Directors							5.06

Detail of indirect stake:

Name or corporate name of director	Name or corporate name of the direct holder	% of voting rights assigned to shares	% of voting rights through financial instruments	total % of voting rights	% of voting rights that can be transmitted through financial instruments
No data		N.A.	N.A.	N.A.	N.A.

A.4. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities, except for those entered in section A.6:

Related party name or corporate name	Type of relationship	Brief description
No data		

A.5. Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its Group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name	Type of relationship	Brief description
BANK OF AMERICA CORPORATION	Corporate	Dividends and other benefits paid: 12,838 thousands of euros.
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Corporate	Dividends and other benefits paid: 17,762 thousands of euros.
BLACKROCK INC	Corporate	Dividends and other benefits paid: 12,021 thousands of euros.
RETAIL OEICS AGGREGATE	Corporate	Dividends and other benefits paid: 3,586 thousands of euros.
STATE STREET CORPORATION	Corporate	Dividends and other benefits paid: 10,685 thousands of euros.

A.6. Describe the relationships, unless they are scarcely relevant to the two parties, between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity directors.

Explain, where appropriate, how significant shareholders are represented. Specifically, those directors who have been appointed on behalf of significant shareholders, those whose appointment has been put forward by significant shareholders, or who are bound to significant shareholders and / or entities of their group, with a specification of the nature of such binding relationships, will be indicated. In particular, where appropriate, the information shall mention the existence, identity and position of board members or representatives of directors, if any, of the listed company, who are, in turn, members of the management body, or their representatives, in companies that hold significant stakes in the listed company or in entities of the group of said significant shareholders:

Name or corporate name of related director or representative	Name or corporate name of related significant shareholder	Corporate name of the group's company of the significant shareholder	Description of relationship/role
MR BARTOLOMÉ LORA TORO	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Deputy Chairman.
MR SANTIAGO FERRER COSTA	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Proprietary director of Enagás S.A., appointed at the suggestion of Sociedad Estatal de Participaciones Industriales.

A.7. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprise Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

[] Yes
[√] No

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

[] Yes
[√] No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

[N/A]

A.8. Indicate whether any individuals or legal entity currently exercise control or could exercise control over the company in accordance with article 5 of the Securities' Market Act. If so, identify:

[] Yes
[√] No

A.9. Complete the following tables on the company's treasury share:

At year-end:

Number of shares held directly	Number of shares held indirectly(*)	% of total share capital
307,643		0.13

(*) Through:

Name or corporate name of the direct shareholder	Number of shares held directly
No data	

Explain the significant variations during the financial year:

Details of significant changes

N/A

A.10. Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock:

The Ordinary General Shareholders' Meeting held on March 27, 2015 adopted the following resolution:
 "To authorise and empower the Board of Directors, with power of substitution, for the derivative acquisition of the company's own shares in accordance with article 146 of the Corporate Enterprises Act, in the following terms:
 1. The acquisitions may be carried directly by Enagás, S.A. or indirectly by subsidiaries under the same terms as those set out herein.
 2. The acquisitions may be carried out through a purchase and sale, exchange or any other transaction permitted by law.
 3. The maximum number of shares to be acquired shall be the maximum number permitted by law.
 4. The acquisition price shall not be more than 15% higher or lower than the average weighted share price of the session prior the acquisition.
 5. The authorisation is granted for a maximum of five years from adoption of this resolution.
 In accordance with article 146 of the Corporate Enterprises Act, it is hereby expressly stated that the shares acquired pursuant to this authorisation may, in whole or in part, be directly awarded to employees or directors of the company or of companies belong to its Group, or that the purchase is the result of the exercise of employee or director options.
 This resolution repeals and leaves without effect by the amount not used the authorisation granted by the General Shareholders' Meeting of April 30, 2010 for the derivative acquisition of treasury shares.

A.11. Estimated floating capital:

	%
Estimated floating capital	95.00

A.12. Give details of any restriction (statutory, legislative or otherwise) on the transferability of securities and/or any voting right restriction. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as authorization or prior notice arrangements that, on acquisitions or transfers of financial instruments of the company are applicable by sectoral regulations.

[√] Yes

[] No

Description of restrictions

Restrictions under law:

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Act 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No natural person or legal person may hold, directly or indirectly, an interest in the parent company (ENAGÁS, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or legal entities that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises.

Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40% (...)" (continues in Chapter H."OTHER INFORMATION OF INTEREST": EXPLANATORY NOTE ON SECTION A.12.)

A.13. Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

[] Yes

[] No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.14. Indicate whether or not the company has issued securities not traded in a regulated market of the European Union.

[] Yes

[] No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they:

B. GENERAL SHAREHOLDERS' MEETING

B.1. Indicate whether the quorum required for constitution of the General Shareholders' Meeting differs from the system of minimum quorums established in the Corporate Enterprises Act and specify any such:

[] Yes

[] No

B.2. Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Corporate Enterprises Act:

[] Yes
[] No

B.3. Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

Article 18 of the Articles of Association states that:

"The shareholders, when constituted as a duly summoned General Meeting, shall by a majority of votes as determined by law decide upon the matters that fall within the powers of the General Meeting. The General Meeting is responsible for addressing and agreeing upon the following issues: (...) and states in section c) Amendments to the Articles of Association".

Likewise, article 26 states that:

"An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the Articles of Association, issue bonds, remove or restrict the pre-emptive subscription right for new shares, and restructure, merge or split the company, transfer all the assets and liabilities thereof, or move the registered office to outside Spain, if, at the original date and time specified in the notice of meeting, there are present, in person or by proxy, shareholders representing at least fifty percent of voting subscribed capital.

At second call, the attendance or representation of shareholders holding at least twenty-five percent of subscribed voting capital shall be sufficient".

Likewise, article 13.3 of the Regulations of the General Shareholders' Meeting states that:

"However, an absolute majority of shareholders holding at least fifty percent of the subscribed capital with voting rights is required to validly adopt resolutions to increase or decrease capital, make any other amendment to the Articles of Association, issue bonds, eliminate or restrict pre-emptive subscription rights for new shares, transform, merge, spin off or globally assign assets and liabilities, and transfer the registered office abroad. However, the favourable vote of shareholders representing two-thirds of the share capital present or represented is required when, on second call, shareholders holding at least twenty-five percent of the subscribed capital with voting rights are present and the aforementioned fifty percent threshold is not reached".

B.4. Indicate the attendance figures for the General Shareholders' Meetings held during the year referred to in this report and those of previous years:

Date of general meeting	Attendance data				Total
	% attending in person	% remote voting Representation	Electronic means	Other	
18/03/2016	0.15	42.89	0.00	7.74	50.78
Of which floating capital	0.14	40.75	0.00	7.35	48.24
31/03/2017	0.15	39.01	0.00	6.49	45.65
Of which floating capital	0.14	37.06	0.00	6.17	43.37
22/03/2018	0.28	40.17	0.00	5.18	45.63
Of which floating capital	0.27	38.16	0.00	4.92	43.35

B.5. Indicate whether there has been any item on the agenda of general meetings during the year that, for any reason, was not approved by the shareholders:

[] Yes
[] No

B.6. Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the General Shareholders' Meeting or for remote voting:

- Yes
 No

B.7. Indicate whether or not it has been established that certain decisions, other than those established by Law, involving an acquisition, disposal, contribution of essential assets to another company or other similar corporate operations, must be submitted for the approval of the general shareholders' meeting:

- Yes
 No

B.8. Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the:

All information on Enagás, S.A.'s Corporate Governance and General Meetings is available to the public on its website (www.enagas.es or www.enagas.com).

The links to this information can be found easily through the company's web browser and are as follows:

- In Spanish:
 - i) Página principal/Accionistas e Inversores/Gobierno Corporativo:
 - Junta General de Accionistas.
 - Política de Gobierno Corporativo.- Informe Anual de Gobierno Corporativo.
 - ii) Página principal/Sostenibilidad/Gobierno Corporativo.
- In English:
 - i) Home/Investors Relations/Corporate Governance:
 - General Shareholders' Meeting.
 - Corporate Governance Policy.
 - Annual Report on Corporate Governance.
 - ii) Home/Sustainability/Corporate Governance.

C COMPANY MANAGEMENT STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors included in the articles of association and the number set by the general meeting:

Maximum number of directors	14
Minimum number of directors	6
Number of directors set by the shareholders' meeting	13

C.1.2 Complete the following table with Board members' details:

Name or corporate name of director	Representative	Director category	Position on the board	Date first appointment	Date last appointment	Election procedure
MR IGNACIO GRANGEL VICENTE		Independent	DIRECTOR	22/03/2018	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS ANA PALACIO VALLELERSUNDI		Independent	LEAD INDEPENDENT DIRECTOR	25/03/2014	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR GONZALO SOLANA GONZÁLEZ		Independent	DIRECTOR	25/03/2014	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR ANTONIO HERNÁNDEZ MANCHA		Independent	DIRECTOR	25/03/2014	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR MARCELINO OREJA ARBURÚA		Executive	CHIEF EXECUTIVE OFFICER	17/09/2012	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS ISABEL TOCINO BISCAROLASAGA		Independent	DIRECTOR	25/03/2014	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING

Name or corporate name of director	Representative	Director category	Position on the board	Date first appointment	Date last appointment	Election procedure
MR ANTONIO LLARDÉN CARRATALÁ		Executive	CHAIRMAN	22/04/2006	22/03/2018	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR MARTÍ PARELLADA SABATA		Other External	DIRECTOR	17/03/2005	31/03/2017	VOTE AT GENERAL SHAREHOLDERS' MEETING
MS ROSA RODRÍGUEZ DÍAZ		Independent	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR LUIS JAVIER NAVARRO VIGIL		Other External	DIRECTOR	09/07/2002	27/03/2015	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR SANTIAGO FERRER COSTA		Proprietary	DIRECTOR	15/10/2018	15/10/2018	CO-OPTION
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MR BARTOLOMÉ LORA TORO	Proprietary	DIRECTOR	25/04/2008	18/03/2016	VOTE AT GENERAL SHAREHOLDERS' MEETING
MR LUIS GARCÍA DEL RIO		Independent	DIRECTOR	31/03/2017	31/03/2017	VOTE AT GENERAL SHAREHOLDERS' MEETING
Total number of directors			13			

Indicate the losses due to resignation, dismissal or for any other reason, in the board of directors during the reporting period:

Name or corporate name of director	Status of director upon resignation	Date of last appointment	Date of departure	Specialized commissions of which she/he was a member	Indicate if the departure occurred before the end of the mandate

MR LUIS VALERO ARTOLA	Independent	25/03/2014	22/03/2018	Appointments and remuneration committee	YES
Name or corporate name of director	Status of director upon resignation	Date of last appointment	Date of departure	Specialized commissions of which she/he was a member	Indicate if the departure occurred before the end of the mandate
				Corporate Social Responsibility.	
MR JESÚS MÁXIMO PEDROSA ORTEGA	Proprietary	31/03/2017	15/10/2018	Appointments and remuneration committee Corporate Social Responsibility.	YES

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS		
Name or corporate name of director	Position held in the company	Profile
MR MARCELINO OREJA ARBURÚA	Chief Executive Officer	<p>Marcelino Oreja has been Chief Executive Officer of Enagás since September 2012. Currently, he is also a Trustee of the Thyssen-Bornemisza Collection Foundation and a Trustee of the Transforma España Foundation.</p> <p>Marcelino Oreja is an Industrial Property Agent, an Industrial Engineer from the Graduate Technical School of Engineering (ICAI) of the Universidad Pontificia de Comillas. He has completed the Global CEO Program and the Advanced Management Program, both of the IESE Business School. Between 1992 and 1997 he was General Secretary of the National Confederation of Young Entrepreneurs, maintaining close collaboration with the Spanish Confederation of Entrepreneurs. In his international and strategic development he has been an adviser to companies such as COMET or SERVICOM. He founded DEF-4 patents and trademarks, which he sold to Garrigues Andersen in 1997, becoming its General Manager. Among other senior positions, he was the International Director of Aldeasa, General Manager of EMTE and, following the merger with COMSA, General Manager of COMSA EMTE (the second biggest unlisted Spanish group in the infrastructure and technology sector). He was also President of the FEVE railway company. In the field of politics, from 2002 to 2004 he was a Member of the European Parliament. He was also a Board Member of the Basque Energy Agency. He is the author of two books: Viaje interior por África (2000)</p>

		and Cultura emprendedora y la Unión Europea (2003).
MR ANTONIO LLARDÉN CARRATALÁ	Chairman	Antonio Llardén has been the Executive Chairman of Enagás since 2007. Currently he is also President of the Foundation for Energy and Environmental Sustainability (Funseam), formed by the main companies of the energy sector in Spain; he is a member of the Executive Committee and the Board of Directors of the Spanish Energy Club; he is a member of the Business Action Council of the CEOE and the Business Leadership Forum. He is a Trustee of the Elcano Royal Institute of International and Strategic Studies

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company	Profile
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		(chaired by HM the King), of the Princess of Girona Foundation (Honorary President, HRH Princess of Asturias and Girona), of Aspen Institute Spain and of the Foundation of Studies of Applied Economy (FEDEA). Antonio Llardén collaborates with different institutions related to the world of music. He is a Trustee of the Reina Sofía School of Music and a member of the Board of Protectors of the Royal Theatre and its Monitoring Committee. An Industrial Engineer from the Graduate Technical School of Industrial Engineers of the Polytechnic University of Catalonia in Barcelona, he has extensive experience in the business world. Throughout his career he has held various senior positions in the infrastructure and energy sectors. He has been Chairman of the gas employer Sedigas, and also a member of the Board of Directors of Eurogas and of the Executive Committee of the International Gas Union (IGU). He has been a Director in several companies. In 2007 he chaired the LNG World Congress, which periodically brings together the main players in the natural gas sector every three years. He has also been Dean of the College of Engineers; member of the Social Council of the Autonomous University of Barcelona and Chairman of its Economic Commission. He is a Knight of the National Order of the Legion of Honour, the highest award granted by France for eminent merits in service to the country. He is currently a visiting professor at several universities and business schools.
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Total number of executive directors	2
% of the board	15.38

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment	Profile
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	- Deputy Chairman of SEPI. A graduate in Economic and Business Sciences through CUNEF, specializing in Finance and Executive MBA through the Business Institute. He started his professional career at Bankinter and held positions in the financial area at Enfersa and Ferrovial. He joined the National Institute of Industry (INI) in 1990. He was appointed director of Planning in 2000 and director of Subsidiaries in 2002, joining SEPI's Management Committee. He has

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment	Profile
		been a member of the Boards of Directors of NAVANTIA, ALESTIS, ITP and TRAGSA.
MR SANTIAGO FERRER COSTA	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	<ul style="list-style-type: none"> • Graduate in Economics and Business Administration. • Director of the Economic and Social Council (CES) of the Balearic Islands. • Member of the Economic Committee of the Economic and Social Council (CES) of the Balearic Islands. • Managing Partner of Morna Assessors, associated with Grupo Tax Economistes i Advocats.
Total number of proprietary directors		2
% of the board		15.38
INDEPENDENT EXTERNAL DIRECTORS		
Name or corporate name of director	Profile	
MS ANA PALACIO VALLELERSUNDI	<ul style="list-style-type: none"> • Lawyer, founder of Palacio & Asociados law firm. • Lead Independent Director of Enagás, Director of Pharmamar and Director of AEE Power. • Elective Director of the Spanish Council of State (2012-2018). • Member of Investcorp's International Advisory Committee and Member of the Chérifien des Phosphates Offices. • Member of IE Business School's Governing Board. • Member of the External Advisor Council of Energy Future Initiative (EFI). • Member of the World Economic Forum's Global Agenda Council and Member of the Executive Board of the Atlantic Council of the United States. • Member of the governing bodies of a number of research centres and public institutions: el Conseil d'Orientation et de Réflexion de l'Assurance de France (CORA), the MD Anderson Cancer Center, the Fondation pour le droit continental and the Science Board of Real Instituto Elcano and the Global Leadership Foundation. • Guest lecturer at Edmund A. Walsh School of Foreign Service at Georgetown University. • Regular contributor to "Project Syndicate", among other media. • Regular participant as panellist in international conferences and forums; in the energy sector, among others, the Istanbul G-20 International Energy; the Atlantic Council Energy & Economic Summit, Atlantic Council Energy Forum and the Schlessinger Awards Energy Security Conference. She was invited as a speaker by the International Energy Agency (IEA) (2017). • Holder of equivalent master's degrees in law, political science and sociology. • Honorary doctorate in humanities from Georgetown University and winner of the 2016 Sandra Day O'Connor Justice Prize granted the title of Officier de la Légion d'Honneur by the Republic of France (2016). • Member of the European advisory council of The European House - Ambrosetti (2015-2016). • Coordinator of the Trans-European Transport Network (2014). • Member of the Advisory 	

	<p>Group of Foreign Affairs and Security (2010-2014) and of the Committee for the Appointment of Judges and Advocates-General of the European Union Court of Justice and the General Court (2010-2013). • Adviser to the European Commission on justice, fundamental rights and citizenship (2010-2012). • Vice-President and member of the Executive Committee of AREVA (2008-2009). • Senior Vice-President and General Counsel of the World Bank (2006-2008). • Secretary General of the International Center for the Settlement of Investment Disputes (2006-2008). • Member of the Spanish Parliament, Chair of the Joint Committee of the Two Houses for EU affairs (2004-2006). • Spain's first woman Minister of Foreign Affairs (2002-2004). • Member of the Presidium of the Convention for the Future of Europe: He participated in the debate and the drafting of the European Constitution project (2001-2003). • Member of the European Parliament, Chair of the Legal Affairs and Internal Market, Citizen Rights, Justice and Internal Affairs Committees, and Chair of the Conference of Committee Chairmen (1994-2002).</p>
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INDEPENDENT EXTERNAL DIRECTORS	
Name or corporate name of director	Profile

<p>MR GONZALO SOLANA GONZÁLEZ</p>	<ul style="list-style-type: none"> • Director of the Nebrija Santander Chair in International Business Management. Professor of international economics at a number of universities. • Founding partner of the law firm Huerta & Solana specialising in competition law and regulations. • Independent Director of OMIClear, Chairman of the Audit Committee and Deputy Chairman of the Risk Committee. • Member of the board of patrons of the Corell Foundation and coordinator of the mobility Think Tank. • Former President of the Tribunal for the Defence of Competition (2000-2005). • Deputy President and Director of Analysis and Strategy of the High Council of Chambers of Commerce (2006-2011) and Director of Study Services at the High Council of Chambers of Commerce (1986-2000). • Former Member of the National Institute of Statistics (INE) (1986-2000 and 2006-2011) and Chairman of the Regional Statistics Committee of the INE. • Economist at the Institute for Economic Studies (1981-1986). • Professor of Applied Economics at the University of San Pablo CEU and of International economics at the University of Deusto.
<p>MR ANTONIO HERNÁNDEZ MANCHA</p>	<p>Public prosecutor. • Member of the Court of Arbitration of Madrid's Chamber of Commerce and Industry of Madrid. • Founding President and Sole Director of Apple Energy Group Iberia, S.L. • Member of C.I.M.A. (Civil and Mercantile Arbitration Court). • Former Vice President of NAP de las Américas Madrid, S.A. • Former Chief Executive Officer of NAP de África Occidental e Islas Canarias, S.A.</p>
<p>MS ISABEL TOCINO BISCAROLASAGA</p>	<p>President of Banco Pastor. • Vice President of Santander Spain. • Independent Director of ENCE. • Former Spanish Minister for the Environment (1996-2000). • Former President for Spain and Portugal and former Vice-president of Siebel (subsequently acquired by Oracle). • Former legal adviser to the Nuclear Energy Board (currently CIEMAT). • Member of the Spanish Royal Academy of Doctors.</p>
<p>MS ROSA RODRÍGUEZ DÍAZ</p>	<ul style="list-style-type: none"> • Doctorate in Economics and Business Administration. • In her capacity as Tenured Professor of the Department of Financial Economics and Accounting of the University of Las Palmas de Gran Canaria, has financial and accounting knowledge. • Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands. • Former Vice-President of Gran Canaria's Cabildo Council. • Former member of the Board of Directors of the collecting company of the City of Las Palmas of Gran Canaria, ERELPA, S.A., (1999-2003). • Former member of the Board of Directors of EMALSA, S.A. (1999-2003). • Former President of the autonomous collection agency dependent on the Cabildo de Gran Canaria VALORA GESTIÓN TRIBUTARIA (2003-2007 and 2011-2012). • Former member of the Board of Directors of EMALSA INSULAR DE ABASTECIMIENTO DE LECHE, S.A. (SIALSA), (2003-2007). • Former member of the Board of Directors of the SOCIETY OF ECONOMIC PROMOTION OF GRAN CANARIA (SPEGC), exercising mainly the functions of economic and financial control (2003-2007) and vice president (2011-2012).
<p>INDEPENDENT EXTERNAL DIRECTORS</p>	
<p>Name or corporate name of director</p>	<p>Profile</p>
	<ul style="list-style-type: none"> • Former member of the Board of Directors of the Sociedad de Avaes de Canarias S.G.R.-SOGAPYME (2003-2007). • Former Vice-President of the Board of Directors of INSULAR CAJA DE AHORROS DE CANARIAS (2004-2007). • Former member of the Governing Council of the University of Las Palmas de Gran Canaria and member, among others, from the Economic Commission, (2003-2007). • Former member of the Commission for the Plenary of Budgets, Economy and Finance of the Parliament of the Canary Islands in its VII Legislature (2007-2010).

MR LUIS GARCIA DEL RÍO	<ul style="list-style-type: none"> • Former Public prosecutor. • Former Director of internal law assistance of Repsol Butano S.A. and former secretary of its Board (2003-2005). • Former Director of regulations regarding vice presidency of exploration and production and liquefied natural gas of Grupo Repsol (2005-2008) • Former Director of YPF,S.A. (Independent Director). • Legal arbitrator and lawyer in exercise (Partner of the law firm DRL Abogados corresponding to the professional limited company GARCÍA DEL RÍO & LARRAÑAGA S.L.P).
MR IGNACIO GRANGEL VICENTE	<ul style="list-style-type: none"> • Ex-Chairman of OMEL (Electricity Market Operator). • Ex-Director of MIBGAS and MIBGAS Derivatives. • Member of the Expert Commission on energy transition scenarios. • Ex-Director of the Legal Advisory and Ex-Vice-Secretary General of REE (2015-2017). • Ex-Director of the cabinet of the Secretary of State for Energy. Ministry of Industry, Energy and Tourism (2012-2015). • Ex-Member of the Board of Directors of the Strategic Petroleum Products Reserves Corporation (2012- 2015). • Ex-Director of the National Radioactive Waste Company. Ex-Chairman of the Audit and Control Committee. (March 2012- 2015). • Lawyer of the State (2004), having completed the Higher Programme in Energy Law of the Institute of Business (2011).
Total number of independent directors	7
% of the board	53.85

List any Independent Directors who receives from the company or Group any amount or payment other than standard Director remuneration or who maintains or has maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, Director or senior manager of an entity which maintains or has maintained the said relationship.

If applicable, include a statement from the board detailing the reasons why the said Director may carry on his duties as an Independent Director.

Name or corporate name of director	Description of the relationship	Motivated statement
MS ANA PALACIO VALLELERSUNDI	Not applicable.	Not applicable.

Name or corporate name of director	Description of the relationship	Motivated statement
MR GONZALO SOLANA GONZÁLEZ	Not applicable.	Not applicable.
MR ANTONIO HERNÁNDEZ MANCHA	Not applicable.	Not applicable.

MS ISABEL TOCINO BISCAROLASAGA	Not applicable.	Not applicable.
MS ROSA RODRÍGUEZ DÍAZ	Not applicable.	Not applicable.
MR LUIS GARCIA DEL RÍO	Not applicable.	Not applicable.
MR IGNACIO GRANGEL VICENTE	Not applicable.	Not applicable.

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile
MR LUIS JAVIER NAVARRO VIGIL	MR LUIS JAVIER NAVARRO VIGIL, Director of Enagás, was appointed, at the proposal of Enagás, as Director of the Mexican companies TLA, S. DE R.L. and TLA Servicios S. de R.L. de C.V. In this respect, Enagás entered into the related service level agreements with Newcomer 2000, S.L.U., the company through which MR LUIS JAVIER NAVARRO VIGIL provided his services to Enagás. This is why it has been considered appropriate to include MR LUIS JAVIER NAVARRO VIGIL in the category of "Other External Director" pursuant to the definition laid down in the Regulations of the Organisation and Functioning of the Board of Directors of Enagás.	TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.	<ul style="list-style-type: none"> • Director of TLA, S. DE R.L. MÉXICO • Director of TLA SERVICIOS • Member of the jury of the Prince of Asturias Awards. • Member of the Governing Committee of the Board of Trustees of the Universidad de Comillas-ICAI. • Member of the Executive Committee of the Hispano-British Foundation. • Member of the Jury of the King Jaime I Awards. • Member of the Board of Trustees of the Reina Sofía School of Music and Partner of the Albéniz Foundation. • Founding member of the Circle of Trust • Officer of the Order of the British Empire • Ex-Director of BP España, S.A. • Ex-Director of E.ON España, S.A. And of E.ON Renovables, S.A.

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:			
Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile
MR MARTÍ PARELLADA SABATA	<p>For having been a Director of the Company for a continuous period of more than 12 years.</p> <p>It is the practice of the Board of Directors of Enagás not to propose to the General Shareholders' Meeting the re-election of those Independent Directors who, because they were directors for a continuous period of more than 12 years, would lose with a new re-election the category of Independent Members pursuant to article 529 duodecies 4 i) of the Consolidated Text of the Corporate Enterprises Act.</p> <p>Nevertheless, according to applicable laws, the Articles of Association and the Rules of the Organisation and Functioning of the Board of Directors of Enagás, S.A., there is nothing to stop an Independent Director from being re-elected even if he or she has been a Director continuously for over 12 years, if there are sufficient grounds to justify that course of action and the overall structure of the Board continues to fulfil the company's good governance policy whereby most of the members of the Board of Directors have to be Independent Directors. In such case and in accordance with Article 529 duodecies of the Consolidated Text of the Capital Companies Act and Article 9 of the Regulations</p>	ENAGÁS, S.A.	<ul style="list-style-type: none"> • Professor at the University of Barcelona. • Member of the Governing Council and Chairman of the Standing Committee of the Hospital Clínico de Barcelona. • Chairman of the Barcelona Institute of Economics Foundation. • Trustee of the Energy and Environmental Sustainability Foundation.

	<p>for the Organization and Functioning of the Board of Directors of Enagás, the Director may not be classified as Independent and will become part of the Board of Directors. to the category of "other external directors" in accordance with article 3.2 b3 of the Regulations for the Organization and Functioning of the Board of Directors. In the specific case of the Director Mr Martí Parellada Sabata, the Board, with the favourable report of the Appointments, Remuneration and Corporate Social Responsibility Committee, appreciated the concurrence of reasons that justify, in the interest of the Company, its permanence in the Board. of Administration of Enagás. His occupation as a Professor of Applied Economy provides the Board of Directors with a view of the general background in which the company operates, thereby completing the general skills map of the Board of Directors in different areas of expertise, and from a perspective which for the time being is not covered by other Board members. His professional experience is coupled with his deep knowledge of the business and activities of the Company, to which he adds rigour in the exercise of the position of Director</p>		
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OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile
Total number of other external directors		2	
% of the Board		15.38	

List any changes in the category of each director which have occurred during the year:

Name or corporate name of director	Date of the change	Former category	Actual category
No data			

C.1.4 Complete the following table with information regarding the number of female directors over the last four financial years, and their category:

	Number of female Directors				% of total directors of each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Directors					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent Directors	3	3	3	3	37.50	37.50	37.50	37.50
Other external					0.00	0.00	0.00	0.00
Total	3	3	3	3	23.08	23.08	23.08	23.08

C.1.5 Indicate whether or not the company has diversity policies in relation to the board of directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized entities, in accordance with the definition contained in the Accounts Auditing Law, must provide information, at least, on the policy they have established in relation to gender diversity.

- Yes
 No
 Partial policies

If the answer is yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results in the financial year. The specific measures adopted by the board of directors and the appointments and remuneration committee to achieve a balanced and diverse mix of directors must also be indicated.

If the company does not apply a diversity policy, explain the reasons why it does not do so.

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained

The Policy for the Selection of Directors, approved by the Board of Directors on September 19, 2016, establishes that in the procedure for the selection of new Directors it should be ensured that the proposals for appointment or re-election promote diversity in the Board, so they should be oriented to a preferential incorporation of women into Board and of persons who, because of their nationality or experience, have an international professional projection, in accordance with the strategy of the Society. The Director appointment or re-election proposals should pursue the goal of having at least 30% of total Board places occupied by women directors by the year 2020.

In addition, the Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A. establishes that the Board is responsible for evaluating the report submitted by the Appointments, Remuneration and Corporate Social Responsibility Committee, the quality and efficiency of the Board's operation, in addition to the diversity in its composition and competences.

In turn, in relation to the appointment of the Board, the rules established that the Board of Directors must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge, that do not suffer from implicit biases that entail any discrimination and, in particular, that facilitate the selection of female directors.

After the proposed appointments to the 2019 General Shareholders Meeting, most of the Board members are Independent Directors. Of its thirteen members, eight will have the status of Independent Directors and, with the presence of four women, Enagás has already reached the diversity target of at least 30% of the members of its Board of Directors being women by 2020 in 2019. Also, women Directors exercise important functions within the Board: Ms Ana Palacio Vallelersundi is Lead Independent Director and Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee, Ms Isabel Tocino Biscarolasaga is Chairwoman of the Audit and Compliance Committee and Ms Rosa Rodríguez Díaz is a Member of the Audit and Compliance Committee.

Finally, during 2018, the Internal Audit Department conducted a review of the application of diversity and non-discrimination principles in the human management process, which confirmed that an appropriate internal control framework exists.

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile to guarantee an even balance between men and women.

Explanation of measures

In order to select Directors, the Appointments, Remuneration and CSR Committee adheres to the provisions of the Director Selection Policy, approved by the Board of Directors at the request of this Committee on September 19, 2016. In application of this policy, the selection of a new Director takes into account at least the following criteria: Suitable professional knowledge and experience. Appointments are limited to persons of recognised prestige and who possess knowledge and experience suited to the exercise of their functions.

Requirements derived from the Hydrocarbons Sector Law. Candidates must be able to satisfy the independence requirements demanded by Enagás' appointment as independent gas transmission network manager.

Requirements for Independent Directors. In addition to the previous criteria, which shall be applied to all Directors, regardless of their category, the persons selected in the category of Independent Directors must meet the requirements for independence under the provisions of the applicable law at all times, and the additional conditions for independence, as the case may be, stipulated in the company's internal regulations.

Commitment to fulfilling the duties and obligations of Directors. Proposals for re-election of current members of the Board of Directors shall take into account the commitment demonstrated by the Directors during the year in which they held office, in fulfilling the duty of diligence and the duty of loyalty, and all the regulations to which, in their condition of Directors and, where applicable, as shareholders or high-ranking member of the company, they are subject under the Internal Code of Conduct in Matters Relating to Securities Markets, the Enagás Group Code of Ethics, the Code of Conduct of the Technical Manager of the Spanish Gas System and other laws or procedures derived from their application. Likewise, it will be judged whether their actions in the exercising of their office has been in good faith and in the best company's interest.

The Board of Directors shall ensure that the nominations encourage diversity within the Board, whereby they must focus on preferably incorporating women and people who due to their nationality or experience have an international professional profile, in accordance with the company's new strategy. The Director appointment or re-election proposals should pursue the goal of having at least 30% of total Board places occupied by women directors by the year 2020.

Enagás Directors selection processes shall at all times take into account any other conditions, where applicable, determined by the company's Appointments, Remuneration and CSR Committee and the applicable laws. In addition, for the presentation of the proposed candidates, the Appointments, Remuneration and CSR Committee receives support from executive recruitment and development firms of recognised renown.

When, despite the measures taken, there are few or no female Directors, explain the reasons:

Explanation of measures

Enagás is aware that it must continue to encourage and facilitate the presence of women in the event of any vacancy arising on the Board, particularly for Independent Directors. In this regard, Enagás complies with article 8 of the Regulations of the Organisation and Functioning of the Board of Directors, which prescribes that selection procedures must be free of any implied bias against women candidates, and that the company shall seek out and include women with the target profile among the candidates for Board places.

At present, THREE (3) of the THIRTEEN (13) members of the Board of Directors of Enagás are women: MS ROSA RODRÍGUEZ DÍAZ, MS ANA PALACIO VALLELERSUNDI and MS ISABEL TOCINO BISCAROLASAGA. In addition, MS ROSA RODRÍGUEZ DÍAZ is a member of the Audit and Compliance Committee, MS ISABEL TOCINO BISCAROLASAGA chairs the Audit and Compliance Committee and MS ANA PALACIO VALLELERSUNDI is Lead Independent Director and chairs the Appointments, Remuneration and CSR Committee.

C.1.7 Explain the appointments committee's conclusions on the checks carried out to ensure that the director selection policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The report by the Appointments, Remuneration and CSR Committee of February 22, 2018, justifying the proposed re-election of a Director for the 2019 General Shareholders' Meeting includes the following:

"After the proposed appointments, most of the Board members are Independent Directors. Of its thirteen members, eight will have the status of Independent Directors and, with the presence of four women, Enagás has already reached the diversity target of at least 30% of the members of its Board of Directors being women by 2020 in 2019. Also, women Directors exercise important functions within the Board: Ms Ana Palacio Vallelersundi is Lead Independent Director and Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee, Ms Isabel Tocino Biscarolasaga is Chairwoman of the Audit and Compliance Committee and Ms Rosa Rodríguez Díaz is a Member of the Audit and Compliance Committee.

Separation of posts.

Since 2012, the company has separated the posts of Chairman of the Board of Directors and Chief Executive Officer, and since 2010, it has had a Lead Independent Director, the post held by Ms Ana Palacio Vallelersundi, providing an additional guarantee that the Board is functioning properly. The internal structure guarantees that all the functions promoting the control that must be exercised by the Board of Directors in relation to the executive and business functions that fall to the Chief Executive Officer (Internal Audit, Legal Counsel and Compliance) maintain the necessary independence, and are organically and functionally assigned to the Chairman of the Board of Directors and to the Board itself through the Secretary to the Board.

Evaluation of the Board's performance.

The Board is subject to an annual evaluation process by an independent expert. The 2018 evaluation has been carried out by the firm SODALI.

Skills matrix.

The Board's evaluation has allowed the configuration of the following skills matrix of the Board of Directors according to its composition at 31 December 2018".

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Name or company name of shareholder	Justification
No data	

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors. If so, explain why these requests have not been entertained:

[] Yes
[√] No

C.1.9 Specify the powers and faculties delegated by the board of directors to board members or board committees, if any:

Name or corporate name of director or committee	Brief description

MARCELINO OREJA ARBURÚA	Pursuant to the resolution passed by the Board of Directors of Enagás, S.A. on March 22, 2018, MR MARCELINO OREJA ARBURÚA was delegated 34 joint and several powers and 13 joint powers. These powers are those which the Board of Directors considered had to be delegated to the Chief Executive Officer within statutory limits, in accordance with article 43 of the company's Articles of Association and article 19 of the Board Regulations. These powers delegated to the Chief Executive Officer, MR MARCELINO OREJA ARBURÚA, by the Enagás' Board of Directors, were granted in the public deed dated April 20, 2018 and executed before the Notary Public of Madrid Mr Francisco Calderón Alvarez as a replacement for his colleague, the Notary Mr Pedro de la Herrán Matorras, and for his files, with number 863 in his notarial archive and is recorded in Volume 33579, Book 0, File 69, Section 8; Sheet M-6113; Entry 827 of the Madrid Companies Register. Further details on the powers delegated by the Board of Directors are provided in section H) "OTHER INFORMATION OF INTEREST". (EXPLANATORY NOTE ON SECTION C.1.9 of this Report).

C.1.10 List the Directors, if any, who hold office as Directors, representatives of directors or executives in other companies belonging to the listed company's group:

Name or corporate name of director	Corporate name of the Group company	Position	Do they have executive duties?
MR ANTONIO LLARDÉN CARRATALÁ	ENAGAS GTS, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR ANTONIO LLARDÉN CARRATALÁ	ENAGAS TRANSPORTE, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	COMPAÑIA TRANSPORTISTA DE GAS CANARIAS, S.A.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	ENAGAS TRANSPORTE DEL NORTE, S.L.	CHAIRMAN	YES
MR MARCELINO OREJA ARBURÚA	ENAGAS EMPRENDE, S.L.U.	JOINT DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	ENAGAS SERVICES SOLUTONS, S.L.U.	JOINT DIRECTOR	YES
MR LUIS JAVIER NAVARRO VIGIL	TERMINAL DE LNG DE ALTAMIRA, S. DE RL. DE C.V.	DIRECTOR	NO
MR LUIS JAVIER NAVARRO VIGIL	TLA SERVICIOS, S.DE R.L. DE C.V.	DIRECTOR	NO

C.1.11 List any company directors or representatives of legal entity directors, if any, who are also members of the boards of directors or representatives of legal entity directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company:

Name or corporate name of director	Corporate name of the listed company	Position
MS ANA PALACIO VALLELERSUNDI	PHARMAMAR, S.A.	DIRECTOR
MS ISABEL TOCINO BISCAROLASAGA	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company boards on which its Directors may sit and indicate where this is regulated, if applicable:

[] Yes
[] No

Explanation of the rules and identification of the document where it is regulated

Under Article 35 of the Articles of Association the following cannot be Directors or, if applicable, natural person representatives of a legal person Director:

- a) Individuals or legal entities that are involved in natural or legal persons who hold the post of Director in more than five (5) companies whose shares are accepted for trading on national or foreign markets.
- b) Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the board of directors:

Remuneration accrued in the year by the board of directors (thousands of euros)	4,615
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	3,106
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	

C.1.14 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Position
MR DIEGO ANTONIO VELA LLANES	Technical System General Manager
MS ROSA SANCHEZ BRAVO	Director of Internal Audit
MR CLAUDIO PEDRO RODRÍGUEZ SUÁREZ	Gas Assets General Manager
MR JESÚS LUIS SALDAÑA FERNÁNDEZ	Affiliates & Business Development General Manager

MR JUAN ANDRÉS DÍEZ DE ULZURRUN MORENO	Deputy General Manager
MR FRANCISCO BORJA GARCÍA ALARCÓN ALTAMIRANO	Financial General Manager
MS FELISA MARTÍN VILLAN	Communication and Public Affairs General Manager
MR RAFAEL PIQUERAS BAUTISTA	General Secretary
MR JAVIER PERERA DE GREGORIO	Human & Corporate Resources General Manager
MS MARIA SALVADORES SICILIA	Strategy Director
Total remuneration received by senior management (thousands of euros)	
	5,350

C.1.15 Indicate whether any changes have been made to the board regulations during the year:

[] Yes
[] No

C.1.16 Indicate the procedures for selection, appointment, re-election and removal of directors. List the competent bodies and the processes and criteria to be followed for each of these procedures.

Pursuant to article 8 of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás:

1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions of the Corporate Enterprises Act and the company's Articles of Association.

2.- Appointments are limited to persons of recognised prestige, that comply with the legal and statutory requirements the position entails, and who possess knowledge and experience suited to the exercise of their functions. The Appointments, Remuneration and Corporate Social Responsibility Committee is responsible for proposing the appointment of Independent Directors. The proposals for the appointment or re-election of Non-independent Directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments, Remuneration and Corporate Social Responsibility Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes. Proposals shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board. The foregoing will also be applicable to natural persons appointed as representatives of a legal person Director. The proposal for a natural-person representative must be submitted to the Appointments, Remuneration and Corporate Social Responsibility Committee.

3.- The Board of Directors must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge, that do not suffer from implicit biases that entail any discrimination and, in particular, that facilitate the selection of female directors.

(Continues in section H) OTHER INFORMATION OF INTEREST.- EXPLANATORY NOTE ON SECTION C.1.16).

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

The annual evaluation of the Board has consisted of a self-evaluation through questionnaires and interviews. Board members were asked 23 questions and one open question with the aim of giving the director the opportunity to provide more direct and subjective feedback.

The areas analysed in the evaluation process were as follows: i) composition and structure of the Board and its Committees, ii) functioning and debate within the Board and its Committees, iii) leadership and performance, iv) personal contribution and alignment of the Board, iv) overall assessment and v) freedom of opinion.

The evaluation resulted in a number of strengths and possible areas for improvement. Among other issues, the directors considered the composition and structure of the Board and Committees very positively, taking into account the circumstances of Enagás and considering that the challenges they face tend to be extremely diverse. They stressed the level of debate and transparency, inviting members to express their opinion independently. They also noted that the increase in the number of committee meetings has provided more time for debate and open and effective communication between the Board (usually through the committee chairs) and Management. The time devoted to dealing with the main issues (regulatory, internationalisation, risk) is also positively valued.

The possibility of holding meetings by video conference to facilitate the participation of those councillors with greater logistical difficulties was seen as one of the possible areas for improvement. The functioning of the Committees is highly valued, although some opinions with a view to improving certain aspects are recognised. The Council's refreshment process is valued, adapting to Enagás' change of context, although some areas for strengthening are detected:

Every year, the company takes into account the result of the board's evaluation in order to improve its internal functioning, deliberation and decision-making.

Describe the evaluation process and the areas evaluated by the board of directors assisted, where applicable, by an external consultant, regarding the operation and membership of the board and its committees and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated

The Board evaluation process began via a resolution by the Appointments, Remuneration and CSR Committee appointing Morrow Sodali as an independent expert, based on its renowned solvency and prestige among international investors, particularly those with shareholdings in Enagás.

Morrow Sodali sent a questionnaire to each Director and conducted interviews with several key Directors. The Directors questioned gave their opinions on a series of questions related to the composition and structure, functioning and debate, leadership and performance, personal contribution and the alignment of the Board and its committees, in addition to questions on their overall valuation and their personal opinion

C.1.18 Explain, for those financial years in which the evaluation has been assisted by an external adviser, the business relationship that the adviser or any group company maintains with the company or any group company.

Enagás does not have any direct contractual relationship (nor has had it in recent years) with SODALI other than the independent evaluation of the Board. However, Enagás engages Santander Global Corporate Banking for a variety of services related to its General Shareholders' Meeting which, in turn, includes certain services that this firm contracts with SODALI regarding advisory on the relations with international investors and proxy advisers.

C.1.19 Indicate the cases in which directors must resign.

In accordance with the Good Governance recommendations, articles 12.2 and 12.4 of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás stipulate that:

12.2.- Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:

- a) When they are affected by instances of incompatibility or prohibitions laid down in Law, the Articles of Association, and in these Regulations.
- b) When they are in serious breach of their obligations as Directors.
- c) When they may put the interests of the company at risk or damage its credibility and reputation. If a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the Board shall

examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign.

d) When the reason for which they were appointed as Executive Directors no longer exists.

e) When Independent Directors cease to meet the conditions required under article 9.

f) When the shareholder represented by a Proprietary Director sells its entire interest. They shall also do so, in the appropriate number, when that shareholder reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

Should the Board of Directors not deem it advisable to have a Director tender their resignation in the cases specified under letters d), e) and f), the Director must be included in the category that, in accordance with these Regulations, is most appropriate based on their new circumstances.

When a Director gives up his place before his tenure expires, through resignation or otherwise, he shall state his reasons in a letter to be sent to all members of the Board of Directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

12.4 - After a Director has been removed from their post, they may not work for a competitor company for a period of two years, unless the Board of Directors exempts them from this obligation or shortens its duration.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

[] Yes
[√] No

If applicable, describe the differences.

C.1.21 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed chairman of the board of directors:

[] Yes
[√] No

C.1.22 Indicate whether the articles of association or the board regulations set any age limit for directors:

[] Yes
[√] No

C.1.23 Indicate whether the Articles of Association or the Board regulations set a limited term of office or other stricter requirements for Independent Directors different to the one established in the regulations:

[√] Yes
[] No

Additional requirements and / or maximum number of years in office

[12]

C.1.24 Indicate whether the articles of association or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

According to article 39 of the Articles of Association, the Board of Directors' meeting shall be validly constituted when one half of the membership plus one member are in attendance or represented at it. The Directors must

attend the meetings of the Board in person. Without prejudice to the foregoing, Directors may grant a proxy to another Director. Non-Executive Directors may only grant a proxy to other Non-Executive Directors. In addition, according to article 7.3 of the Board Regulations, Directors must attend the meetings of the Board in person. Without prejudice to the foregoing, Directors must grant a proxy to another Director. Non-Executive Directors may only grant a proxy to other Non-Executive Directors. Proxies for the representation of absent Directors may be granted by any means, with a telegram, facsimile or email addressed to the Chairman or Secretary of the Board being valid.

C.1.25 Indicate the number of board meetings held during the year. Indicate, where appropriate, how many times the board has met without the chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of Board meetings	12
Number of Board meetings held without the Chairman's attendance	

Indicate the number of meetings held by the leading director with the rest of the directors, without the assistance or representation of any executive director:

Number of meetings	2
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Indicate the number of meetings of the various board committees held during the year:

Number of meetings of the AUDIT AND COMPLIANCE COMMITTEE	10
Number of meetings of the APPOINTMENTS, REMUNERATION AND CORPORATE SOCIAL RESPONSIBILITY	6

C.1.26 Indicate the number of board meetings held during the year and details of members in attendance:

Number of meetings with physical attendance of at least 80% of Board members	12
% of physical attendance as a total of the votes cast during the year	100.00
Number of meetings with physical attendance, or representations with specific instructions, of all the directors	12

% of votes cast with physical attendance and representations with specific instructions out of total votes during the year	100.00
--	--------

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the board are certified previously:

[] Yes
[] No

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual accounts prior for their authorisation for issue by the board:

Name	Position
MR FRANCISCO BORJA GARCÍA ALARCÓN ALTAMIRANO	CHIEF FINANCIAL OFFICER
MR ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN

C.1.28 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated annual accounts it prepares from being laid before the general shareholders' meeting with a qualified audit report.

The Board of Directors shall see to it that the Annual Accounts and the Management Report provide a true and fair view of the Company's equity, financial position and results of operations, in accordance with the law.

The Board of Directors shall ensure that the accounts are presented in such a way that there are no grounds for qualifications by the company's Accounts Auditor, by taking into account all comments or recommendations that the Audit and Compliance Committee may have made previously in its report.

As a committee delegated by the Board, the Audit and Compliance Committee is assigned certain competences that are effective mechanisms to prevent the annual accounts compiled by the Auditor from being presented with qualifications in the audit report, according to Article 7 of the regulations:

- a) Overseeing the preparation and presentation of financial information on the company and the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
- b) Examining the information on activities and results of the Company which is prepared and published periodically in accordance with the prevailing regulations relating to the securities market, seeking to ensure transparency and exactness in the information.
- c) Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
- d) Informing the Board of Directors on the annual accounts prior to their preparation, as well as on financial information which the Company must periodically disclose publicly.
- e) Ensuring that the Board of Directors endeavours to present the accounts in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
- f) Assessing any proposals made by senior managers regarding changes in accounting practices.
- g) Establish an appropriate relationship with the External Auditors in order to receive information on those questions which may represent a threat to their independence. Specifically, any discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit.
- h) Reviewing the content of audits, limited review reports of interim financial statements and other required reports of statutory auditors prior to their issue in order to prevent qualifications.

During the financial year, the Audit and Compliance Committee shall meet with the Auditor quarterly in order to obtain their conclusions regarding the quarterly revision prior to the publication of results. Likewise, interim condensed consolidated financial statements are subject to a limited revision by the Accounts Auditor with the issuance of the corresponding report.

The competences of the Audit and Compliance Committee are designed to minimise the impact of any accounting aspect that becomes evident throughout the financial year, and allows the members of the Board of Directors and the Audit and Compliance Committee to be kept up to date on the most relevant aspects of the audit throughout the year.

C.1.29 Is the secretary of the board also a director?

- [] Yes
[√] No

Complete if the Secretary is not also a Director:

Name or corporate name of the Secretary	Representative
MR RAFAEL PIQUERAS BAUTISTA	

C.1.30 Indicate the specific mechanisms established by the company to safeguard the independence of the external auditors, as well as any mechanisms to safeguard the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

The Enagás Code of Ethics serves as a code of conduct for all employees in their professional activities and in relation to all the company's stakeholders. Enagás has the necessary procedures to ensure due diligence in the issues related to this area, as well as an Ethical Compliance Committee, which is a collegiate body to which the Audit and Control Committee delegates management of the notifications and consultations concerning this matter.

Compliance with the Code of Ethics is mandatory for all employees, managers and directors of Enagás, as well as its suppliers, contractors and collaborators or business partners in their spheres of the company. Affiliates have an ethics and compliance model that is appropriate for the environment they operate in.

The Enagás Audit and Compliance Committee, in accordance with the provisions of Article 7 of the applicable regulation, shall safeguard the independence of the External Accounts Auditor:

- a) Establish an appropriate relationship with the External Auditors in order to receive information on those questions which may represent a threat to their independence. Specifically, any discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit.
- b) Receive those other communications provided for in audit legislation and audit standards.
- c) Proceed with the authorization of services other than those prohibited, in accordance with prevailing regulations.
- d) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
- e) Ensure that the fees of the External Auditor do not threaten their quality and independence, and are not based on any form of contingency.
- f) In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
- g) Receiving the annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to it, in conformity with audit regulations.
- h) Issuing an annual report, prior to the issue of the audit report, giving an opinion on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered contained in it that could compromise the independence of the Accounts Auditor, and it shall be published on the Corporate website sufficiently in advance of the date of the Ordinary General Shareholders' Meeting.
- i) Establish a maximum term of the role of auditor, ensuring a gradual rotation with the main audit partners.

Likewise, the Internal Audit Code of Ethics includes the principles and rules of conduct relevant to the profession and practice of internal audit; they are mandatory for internal auditors and for those professionals performing internal audit, consulting and/or services, consulting and/or advisory services (outsourcing) to the Internal Audit function, through the annual signing of a declaration confirming that they have read, understand and comply with the Code.

During 2018, the Audit and Compliance Committee approved the Hiring and Relationship Procedure with the external auditor. Its purpose is to regulate the process of appointment, renewal and termination of the auditor and the process

of approval of the services provided by the external auditor by the Committee, in accordance with the applicable regulations.

In addition, during 2018 the Committee reviewed and approved all the services provided by the external auditor, to check that they complied with the requirements established in the Regulations of the Audit and Compliance Committee and the Accounts Auditing Law 22/2015. In relation to the mechanisms set out to safeguard the independence of financial analysts, investment banks and rating agencies. Communication and Contact Policy with Shareholders, Institutional Investors and Proxy Advisers, approved by the Board in 2015, sets out the framework of action for the company's relationship with shareholders, analysts, investors and proxy advisers, with the application of the principles of good governance and corporate values, such as transparent reporting, continuity, accessibility and immediacy, the fostering of shareholder trust, protection of their rights and encouraging their participation, equal treatment and non-discrimination, and compliance with the laws in force, etc.

In line with Enagás' Corporate Governance System, the Board of Directors has put in place systems allowing for regular information exchange with shareholders on topics such as investment strategy, assessment of performance figures, the composition of the Board of Directors and management efficiency. Under no circumstances can this information create situations of privilege or attribute special advantages with regard to the other shareholders. In addition, within the scope of its activities the Finance Department provides investment banks with the information they need.

To this end, Enagás has an Investor Relations Area, to permanently deal with enquiries or suggestions from analysts and institutional investors, professionals or qualified persons, rating agencies, bondholders, as well as those from socially responsible investors (SRI), by providing a telephone number and email address for this purpose. Shareholders, investors and analysts can avail themselves of full and updated information via the following channels: the Investor Relations Department and the Shareholder Information Office.

As stipulated in article 5 of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás, the Board shall adopt and execute all acts and measures required to ensure transparency of the company with regard to the financial markets, uphold the proper formation of prices for the company's and its subsidiaries' shares, and perform all functions attending the company's status as a listed company pursuant to current laws and regulations.

Finally, article 7 of the Regulations of the Audit and Compliance Committee of Enagás, establishes that this Committee is responsible for assessing compliance with the Internal Code of Conduct in matters relating to securities markets, the company's governance regulations in general, and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.

It also assists with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

C.1.31 Indicate whether the Company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes
 No

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

Yes
 No

C.1.32 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its Group:

Yes
 No

	Company	Group companies	Total
Amount of non-audit work (thousands of euros)	368		368
Amount of non-audit work / Amount of audit work (%)	36.00	0.00	31.00

C.1.33 Indicate whether the audit report on the previous year's annual accounts is qualified or includes reservations. If applicable, indicate the reasons given to the shareholders in the General Meeting by the Chairman of the Audit Committee to explain the content and scope of those reservations or exceptions.

[] Yes
[√] No

C.1.34 Indicate the number of financial years during which the current audit firm has been auditing the individual or consolidated annual accounts of the company and/or its Group without interruption. Likewise, indicate for how many years the current firm has been auditing the annual accounts as a percentage of the total number of years over which the annual accounts have been audited:

	Individual	Consolidated
Number of consecutive years	3	3
	Individual	Consolidated
No. of years audited by current audit firm / No. of years the company or its Group have been audited (%)	7.00	7.00

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

[√] Yes
[] No

Details

Article 6 of the Regulations of the Organisation and Functioning of the Board of Directors establishes that:

1.- The Board of Directors shall meet at least once every two months and, in any case eight times a year, and on the motion of the Chairman, whenever the Chairman deems it fit for the proper running of the company. A call must be issued when so requested by a majority of the Directors, as set forth in article 39 of the Articles of Association.

Directors who represent at least one third of the members of the Board of Directors may call the meeting, stating its agenda, to be held in the locality where the registered office is located, if they have requested the Chairman to convene the meeting, and the meeting has not been called within one month without reasonable cause.

Except in cases of where the Board has been constituted or has been convened exceptionally on account of urgent circumstances, the Directors must have the requisite information at their disposal sufficiently in advance to be able to deliberate and adopt resolutions on the business to be transacted. To this end, the Agenda of the meetings shall clearly indicate those points on which the Board of Directors must take a decision or resolution. The Chairman of the Board of Directors, in collaboration with the Secretary, must ensure that this obligation to provide information is fulfilled.

In those cases in which, exceptionally, for reasons of urgency, the Chairman wishes to submit to the approval of the Board decisions or resolutions not appearing in the Agenda, this shall require the express prior consent of the majority of the Directors present at the meeting, which will be duly recorded in the minutes.

Ordinary meetings of the Board shall transact general business relating to the Group's performance, earnings, balance sheet, investments, the company's cash position and how it compares to the adopted budget, the business referred to in article 5, if applicable, and the business listed on the agenda, to be drawn up pursuant to these Board Regulations. At these regular meetings the Board shall receive timely information on the movements of the shareholders and of the opinion that significant shareholders, investors and rating agencies hold regarding the company and its Group. Similarly, the Board of Directors shall receive timely information on the main operational achievements and

difficulties and any foreseeable circumstances which may prove critical for the company's affairs, and shall consider the course of action proposed by company management in response.

2.- Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any channel, and shall specify the meeting venue and agenda. The Chairman shall call the Board to meet when so requested by the Independent Leading Director in accordance with article 18 of these Board Regulations. The notice of meeting, which other than in exceptional circumstances shall be issued at least three days in advance of the intended date of the meeting, shall contain all information and documents thought appropriate or relevant for Directors to be properly informed. Directors shall further be furnished with the minutes of the previous meeting, whether or not such minutes have been adopted. The power to set the agenda of a meeting rests with the Chairman, but any Director may request in advance of the calling of such meeting that there be added to the agenda any items which in his/her view ought to be addressed by the Board. The Board shall be properly constituted without need of prior notice if, all Directors being present in person or by proxy, the Directors unanimously consent to the holding of the meeting.

3.- Board Meetings shall ordinarily be held at the registered office, but may also be held at any other venue determined by the Chairman of the Board and specified in the notice of meeting.

C.1.36 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be:

Yes
 No

Details

Pursuant to Good Corporate Governance recommendations, article 12 of the Board Regulations, establishes that Directors must place their offices at the Board's disposal, and tender their resignation, if the Board deems fit, when, inter alia, they may put the interests of the company at risk or damage its credibility and reputation. If a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the Board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign.

When a Director gives up his place before his tenure expires, through resignation or otherwise, he shall state his reasons in a letter to be sent to all members of the Board of Directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

C.1.37 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Corporate Enterprises Act:

Yes
 No

Name of the director	Criminal cause	Observations
MR ANTONIO LLARDÉN CARRATALÁ	Subject Caixa Catalunya	A judgement of acquittal was handed down by the Provincial Court of Barcelona.

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Yes
 No

Decision taken/action taken	Reasoned explanation
-----------------------------	----------------------

<p>The Appointments, Remuneration and Corporate Responsibility Committee has taken note of the acquittal recently handed down by the Barcelona Provincial Court and will continue to follow any progress made in this matter and report back to the full Board in a timely manner.</p>	<p>In accordance with the provisions of the Regulations for the Organization and Functioning of the Board of Directors of the Company, the Chairman of its Board of Directors has kept punctually informed the Appointments, Remuneration and Corporate Social Responsibility and the Board of Directors of all the incidents of a judicial procedure that affects more than 40 people who, as is their case, were part of the day of the Board of Directors of Caixa Catalunya, position in which it ceased in 2011.</p>
<p>Decision taken/action taken</p>	<p>Reasoned explanation</p>
	<p>At the date of this report, a judgement of acquittal was handed down by the Provincial Court of Barcelona. After the monitoring and timely assessment of the situation, the Appointments, Remuneration Committee and Corporate Social Responsibility and the Board of Directors have concluded: i) to take note of the judgement of acquittal handed down by the Provincial Court of Barcelona, and ii) to continue to follow up on this matter giving a timely account of it to the Board in full.</p>

C.1.38 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

[There are no such significant agreements.]

C.1.39 Identify, individually when referring to directors, and in aggregate form in other cases and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

<p>Number of beneficiaries</p>	<p>11</p>
<p>Type of beneficiary</p>	<p>Description of the agreement</p>

Executive Chairman, Chief Executive Officer and Senior Management	The company has an agreement with the Executive Chairman, the Chief Executive Officer and NINE (9) of its officers that include express severance pay clauses. The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute provided the resolution is certified by means of conciliation between the parties, court judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause. The termination benefits to which the Executive Chairman and Chief Executive Officer are entitled are equivalent to two years of their fixed and variable remuneration. The termination benefits to which the NINE (9) Executives are entitled depend on their length of service at the company and their age. All such contracts have been approved by the Board of Directors.

Indicate whether, other than in the cases provided for in law, these agreements must be reported to and/or authorised by the governing bodies of the company or its Group. If they must, specify the procedures, assumptions provided and the nature of the bodies responsible for their approval or making the communication:

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	√	

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?	√	

C.2. Board committees

C.2.1 Give details of all the Board committees, their members and the proportion of executive, proprietary and independent directors, and other external:

AUDIT AND COMPLIANCE COMMITTEE		
Name	Position	Category
MS ISABEL TOCINO BISCAROLASAGA	CHAIRWOMAN	Independent
MS ROSA RODRÍGUEZ DÍAZ	MEMBER	Independent

MR LUIS GARCIA DEL RÍO	MEMBER	Independent
MR MARTÍ PARELLADA SABATA	MEMBER	Other External
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MEMBER	Proprietary
% of executive directors	0.00	
% of proprietary directors	20.00	
% of independent directors	60.00	
% of other external directors	20.00	

Explain the functions, including, where appropriate, those additional to those legally provided, assigned to this body, and describe the procedures and rules of organization and operation thereof. For each of these roles, indicate the most important actions during the year and how they have exercised in practice each of the functions attributed to them, whether in the law or in the articles of association or other corporate agreements.

The Audit and Compliance Committee is governed by applicable legislation, the Articles of Association, and the Rules of Organisation and Functioning of the Board of Directors, the latest amendment of which was approved by the Board of Directors on December 21, 2015, and the Regulations of the Audit and Compliance Committee, the latest amendment of which was approved by the Board of Directors on December 21, 2015.

This Committee consists of five (5) members, within the limits set in articles 44 of the Consolidated Articles of Association, article 26 of the Board Regulations, and article 3 of the Regulations of the Audit and Compliance Committee, which set a minimum of three (3) and maximum of five (5) members, appointed by the Board of Directors based, in particular, on their knowledge and experience on accounting, auditing and risk management. Overall, the members of the Audit and Compliance Committee shall have the pertinent technical knowledge of the gas industry. No executive Director may sit on the Audit and Compliance Committee and the majority of its members must be independent. Three (3) of the Committee's members are independent and we highlight that the President of the Committee, MS ISABEL TOCINO BISCAROLASAGA, is independent and only one (1) member, SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is a Proprietary Director. MR MARTÍ PARELLADA SABATA, External Director, was appointed by the Board of Directors of Enagás based on his knowledge and experience on accounting, auditing or both, as provided for in articles 44 of the Consolidated Articles of Association and 26 of the Regulations for the Organization and Functioning of the Board of Directors.

According to article 3 of the Audit and Compliance Committee Regulations, the Committee Chairman shall be selected from among the Independent Directors by the Board of Directors, and shall not have a casting vote.

As established in article 4 of the Committee Regulations, the term of a Committee member shall be the same as the term of office for a Director. A member of the Audit and Compliance Committee shall vacate that office if he loses his status as Director of the company or if so decided by the Board of Directors. The foregoing notwithstanding the Committee Chairman shall be replaced every four (4) years. A former Chairman may be re-elected after the lapse of one year from his vacating office. The foregoing shall be without prejudice to an outgoing Chairman remaining on the Committee if so resolved by the Board of Directors on adequately reasoned grounds.

The remuneration of Committee members, as provided for in article 5 of the Committee Regulations, will be approved as established in the Articles of Association and the Board Regulations for the setting of remuneration to Directors, subject to the same requirements of public disclosure.

In the exercise of his office, a member of this Committee shall, according to article 6 of the Committee regulations, be under the same duties and subject to the same principles of action as those prescribed for Directors in the Articles of Association, the Board Regulations and current legislation.

In keeping with article 8 of the Committee Regulations, this Committee must meet at least four (4) times a year and the Chairman shall call as many further meetings as they believe are required for the Committee to discharge its duties. In 2018, the Audit and Compliance Committee met ten times.

Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director. Any company employee or Manager of the company deemed relevant may be called to attend the Committee meetings, even ordering their appearance without the presence of another senior officer.

The main purposes of the Committee are to evaluate the company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of

information, and ensure compliance with the Internal Code of Conduct and the legislation in force in the area of their competence.
To achieve these objectives, the Audit and Compliance Committee, in addition to the functions established by law for this committee, shall carry out those detailed in Appendix I (Explanatory notes) to this Report.

Identify the directors who are members of the audit committee who have been appointed on the basis of their knowledge and experience of accounting or auditing, or both and state the date of the appointment of the chair of this committee to that role.

Names of directors with experience	MR MARTÍ PARELLADA SABATA	
Date of the appointment of the chairman to that role	19/06/2017	
APPOINTMENTS, REMUNERATION AND CORPORATE SOCIAL RESPONSIBILITY COMMITTEE		
Name	Position	Category
MS ANA PALACIO VALLELERSUNDI	CHAIRWOMAN	Independent
MR ANTONIO HERNÁNDEZ MANCHA	MEMBER	Independent
MR GONZALO SOLANA GONZÁLEZ	MEMBER	Independent
MR IGNACIO GRANGEL VICENTE	MEMBER	Independent
MR LUIS JAVIER NAVARRO VIGIL	MEMBER	Other External
MR SANTIAGO FERRER COSTA	MEMBER	Proprietary
% of executive directors	0.00	
% of proprietary directors	16.67	
% of independent directors	66.67	
% of other external directors	16.67	

Explain the functions, including, where appropriate, those additional to those legally provided, assigned to this body, and describe the procedures and rules of organization and operation thereof. For each of these roles, indicate the most important actions during the year and how they have exercised in practice each of the functions attributed to them, whether in the law or in the articles of association or other corporate agreements.

The Appointments, Remuneration and Corporate Social Responsibility (CSR) Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Regulations of the Organisation and Functioning of the Board of Directors, as amended by the Board of Directors at its meeting of December 21, 2015.

The Appointments, Remunerations and CSR Committee is composed of six (6) Directors, appointed by the Board of Directors, which is within the limits established in the Consolidated Articles of Associations and the Regulations of the Organisation and Functioning of the Board of Directors, which set a minimum of three (3) and a maximum of six (6)

directors. It consists of six (6) Directors, of which four (4) are Independent Directors, including the Chairman, one (1) is a Proprietary Director and one (1) is an Other External Director.

Article 25 of the Regulations of the Organisation and Functioning of the Board of Directors stipulates that members of this Committee shall be selected by the Board of Directors, which shall ensure that they have the necessary knowledge, competencies and experience to perform their tasks.

A majority of the members of the Appointments, Remuneration and CSR Committee must be Independent Directors. Executive Directors may not sit on the Committee, although they may be present if so expressly decided by the Committee.

The Committee Chairman shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

The Committee Chairwoman is an Independent Director, as provided for in the Board Regulations. Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments, Remuneration and CSR Committee must meet at least four (4) times a year. In 2018, the Enagás Committee met six (6) times.

In addition, meetings shall be called by its Chairwoman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel of the company and its Group, as deemed necessary in the execution of its duties. Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director.

The duties of the Appointments, Remuneration and CSR Committee are set out in article 45 of the Articles of Association and expanded in article 25 of the Regulations of the Board of Directors. For more information see Appendix I ("Explanatory notes") to this Report.

C.2.2 Complete the following table on the number of female directors on the various board committees at the closure of the past four years:

	Number of female Directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	2	40.00	2	40.00	1	20.00	1	20.00
APPOINTMENTS, REMUNERATION, AND CORPORATE SOCIAL RESPONSIBILITY COMMITTEE	1	16.67	1	16.67	2	33.33	1	20.00

C.2.3 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. In addition, indicate whether on a voluntary basis any of the Board Committees has produced an activity report.

The Regulations of the Audit and Compliance Committee are available for consultation at the headquarters of Enagás and on its website at www.enagas.es or www.enagas.com. The latest amendment to these regulations was approved by the Board of Directors of Enagás, S.A at its meeting of December 21, 2015 to adapt to good governance recommendations and Law 22/2015, of July 20, on Auditing. The Appointments, Remuneration and CSR Committee prepared a report on the Audit and Compliance Committee's activities in 2018, which will be published on the website sufficiently in advance of the General Shareholders' Meeting and is included in this Report in Appendix II.

The Appointments, Remuneration and CSR Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations. The Articles of Association and the Board Regulations are available for consultation at the headquarters of Enagás and on its website (www.enagas.es or www.enagas.com).

D. RELATED PARTY OPERATIONS AND INTRAGROUP OPERATIONS

D.1. Explain, if applicable, the procedures and authorized bodies for approving related party or intragroup transactions.

Pursuant to article 14 bis of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás S.A.:

1.- It will be the responsibility of the Board of Directors to identify and approve, pursuant to a report from the Audit and Compliance Committee, transactions carried out by the company or the companies in its Group with Directors under the terms set forth in Articles 229 and 230 of the Corporate Enterprises Act, or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the boards of other companies belonging to the Group or with persons associated with them. The affected Directors or those who represent or are related to the affected shareholders must refrain from participating in deliberating and voting on the resolution in question.

The aforementioned transactions shall be assessed from the point of view of equal treatment and on an arm's length basis, and shall be disclosed in the annual corporate governance report and in the company's regular public reporting as provided in applicable laws and regulations.

2.- The approval provided in the previous paragraph shall not be required, however, for transactions that simultaneously comply with the following three conditions:

- a) they are governed by standard form contracts applied on an across-the-board basis to a large number of customers;
- (b) they go through at market prices, generally set by the person supplying the goods or services; and
- (c) their amount does not exceed 1% of the Company's annual revenues.

3.- The conditions provided in the paragraph above are met, the affected parties shall not be under a duty to report said transactions.

4.- In the event of duly documented, urgent reasons, related party transactions may be authorised, as applicable, by delegated bodies and persons, who must be ratified at the first meeting of the Board of Directors held after the decision is adopted.

D.2. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of the significant shareholder	Name or corporate name of the company or group's entity	Nature of the relationship	Type of transaction	Amount (thousands of euros)
BANK OF AMERICA CORPORATION	ENAGAS, SA.	Corporate	Dividends and other benefits paid	12,838
BLACKROCK INC	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	12,021
RETAIL OEICS AGGREGATE	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,586
STATE STREET CORPORATION	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	10,685

D.3. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or Directors:

Name or corporate name of directors or manager	Name or corporate name of related party	Relationship	Type of transaction	Amount (thousands of euros)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	ENAGÁS, S.A.	Director	Dividends and other benefits paid	17,762

D.4. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

Corporate name of the group entity	Brief description of the transaction	Amount (thousands of euros)
Gasoducto de Morelos, S.A.P.I de C.V.	Financial revenue on the loan.	1,765
Estación de Compresión Soto de la Marina, S.A.P.I. de C.V.	Financial revenue on the loan.	2,878
TRANS ADRIATIC PIPELINE AG	Financial revenue on the loan.	6,381
PLANTA DE REGASIFICACIÓN DE SAGUNTO, S.A. (SAGGAS)	Financial revenue on the loan.	267
GASODUCTO DE MORELOS SAPI DE CV	Guarantees and sureties extended.	8,738
Estación de Compresión Soto de la Marina, S.A.P.I. de C.V.	Guarantees and sureties extended.	7,746

Corporate name of the group entity	Brief description of the transaction	Amount (thousands of euros)
TRANS ADRIATIC PIPELINE AG	Guarantees and sureties extended.	429,960
DESFA, S.A.	Guarantees and sureties extended.	21,400
TRANS ADRIATIC PIPELINE AG	Investment commitments acquired.	61,592

D.5. Details of significant transactions carried out between the company or entities of its group and with other related parties that have not been reported in previous sections:

Corporate name of related party	Brief description of the transaction	Amount (thousands of euros)
No data		N.A.

D.6. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its Group, and its directors, management or significant shareholders.

Article 13 of the Regulations of the Organisation and Functioning of the Board of Directors states that Directors shall perform their positions with the loyalty of a reliable representative, acting in good faith and in the best interest of the company. In particular, the duty of loyalty requires that Directors:

[...]

c) Refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as Director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.

d) Perform their functions according to the principle of personal responsibility with freedom of judgement or judgement and independence relating to instructions from and links with third parties.

e) Adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the company.

In particular, the obligation to avoid conflicts of interest referred to in the preceding paragraph requires that Directors refrain from:

a) Conducting transactions with the company, except for routine transactions carried out under standard conditions for the customers and having little import, which are understood to be those that are not required to be reported in order to express a true and fair view of the equity, the financial position and results of the entity.

b) Using the name of the Company or invoking their position as director to improperly influence the conducting of private transactions.

c) Using the corporate assets, including the company's confidential information, for private purposes.

d) Taking advantage of the company's business opportunities.

e) Obtaining benefits and remunerations from third parties other than the company and its group associated with the performance of their duties, except for acts of mere courtesy.

f) Conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the company or which, in any other manner, place them in permanent conflict with the company's interests.

The above provisions will also be applicable if the beneficiary of prohibited acts or activities is a person related to the Director.

In any event, Directors must inform the other Directors and the Board of Directors of any direct or indirect situation of conflict that they or persons related to them make have with the company's interests. Direct and indirect conflicts of interest in Directors become involved shall be disclosed in the Annual Report.

In addition, concerning transactions carried out with related parties, the company must adopt the following measures:

a) Report them twice a year to the CNMV and include them in the Annual Report in the Corporate Governance section.

b) Submit them in a draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Audit and Compliance Committee, and assess whether they satisfy market criteria.

All those described as being subject to this Internal Code of Conduct must:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal assets and liabilities or any other reason. Communications must be made within fifteen (15) days and, in any case, before the decision that may be affected by the potential conflict of interest is taken.

- Keep the information updated, taking into account any modification or cessation of previously reported situations as well as the emergence of new conflicts of interest.

- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the company. The Audit and Compliance Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 26 of the Board Regulations, is assigned the following duties:

a) Inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.

b) To report to the Board of Directors on any related party transactions before authorisation thereof. Under no circumstances shall the Board of Directors authorise any transaction which has not been issued a favourable report from the Appointments, Remuneration and CSR Committee as outlined in article 14 bis of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., except for those transactions which meet the three conditions stipulated in article 14 bis.

c) Report to the Board of Directors on measures to be taken in the event of breach of these Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and CSR Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

D.7. Is more than one Group company listed in Spain?

[] Yes

[] No

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Describe the scope of the Company's Risk Control and Management system, including fiscal:

The Enagás Group has established a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks.

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

The model is based on the following aspects:

- The establishment of a risk appetite framework that is consistent with the stated business targets and the market context within which the company carries out its activities (see details in section E.4);

- The consideration of standard risk typologies to which the company is exposed (see details in section E.3);

- The existence of Governance Bodies with responsibilities for overseeing the company's level of risk (see section E.2);

- The segregation and independence of risk control and management functions articulated by the Company in three lines of "defence": transparency of the information provided to third parties, guaranteeing their reliability and rigour.

The risk control and management function is articulated around three lines of defence, with differentiated roles and responsibilities.

These lines are the following:

- First line of defence: made up from the organisational units which assume the risks in the ordinary course of their activities. They own and are responsible for identifying the risks.

- Second line of defence: the Sustainability and 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: consists of the Internal Auditing Department in charge of monitoring the efficiency of the established risk controls.

The integral analysis of all risk 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 the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc. Enagás has established a regulatory framework for risk through the "Risk Control and Management Policy" and the "General Regulations for Risk Control and Management" setting out the basic principles governing the risk function and identifying the roles of the various decision-making bodies and the constituent parts of the risk management system. According to the nature of the events and the triggers, monitored risks are classified as: strategic and business risks, operational and technological risks, credit and counterparty risks, financial and fiscal risks, criminal liability risks, reputational risks and compliance and model risks.

E.2. Identify the bodies responsible for preparing and implementing the risk control and management system, including fiscal:

The main bodies responsible for the Risk Management System and their main functions are:

Board of Directors

The Enagás Group Board of Directors is responsible for approving the risk control and management policy. Other responsibilities with respect to risks are delegated in the Audit and Compliance Committee.

Audit and Compliance Committee

The mission of the Audit and Compliance Committee is to assist the Board of Directors in all matters related to the company's risks.

Its functions related to risk control and management are:

- Oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the Company's internal policy. Submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them.
- Assess the company's risks and examine the analyses of risks, the types of which are set out in the internal risk policies, that affect the business. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- Disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

The Enagás Group's Risk Committee is an executive governance body that assists the Steering Committee on all matters related to the company's risks. It coordinates the set of strategic and operational activities to maximise the profitability of the business with certain degrees of uncertainty. Part of the duties of this committee are:

- Oversee compliance with risk regulations, proposing the actions it considers necessary in the event of any breach.
- Establish the risk principles and overall strategy, promoting the integration of the risk management function at all levels and areas of Enagás' business through a common risk culture aligned with the company's objectives.
- Approve risk-measurement approaches, ensuring consistent metrics in order to consolidate the overall risk level.
- Approve the company's overall risk limits and/or thresholds, and, where appropriate, those of the business units and/or corporate departments.
- Ensure that risk remains within acceptable levels and aligned with the company's strategy and objectives.- To regularly review the level of exposure to risk: i) analyse overall risk exposure and exposure of the various businesses and departments, and verify, by risk typology, that the level of risk exposure is below the level of acceptable risk; ii) review the corrective actions proposed by the business units and/or corporate departments to address potential breaches of the established limits.
- Report to and advise the Management Committee on matters related to the company's risks.

Risks Department

The corporate Risk Department is in charge of the overall management of all regulations related to risk, supervising that risk management is applied correctly, disclosed, monitored and improved continuously so that it is aligned with the business needs at all times.

Part of their duties are:

- Ensure that the risk control and management systems are functioning correctly. Define the framework of rules and methodologies for the identification, measurement and management of the main risks affecting the company.
- Participate actively in the preparation of risk strategies and in key decisions about their management. Analyse, from a risk perspective, the main risks and participate in the decisions that affect them.
- Ensure that the risk control and management actions proposed by the business units are mitigating risks effectively in the framework of the policy and strategy drawn up.
- Propose to the Risk Committee the company's risk appetite and tolerance, and the structure of the related limits.
- Monitor and control all the company's risks, validating the measurements made by the business units and/or departments.
- Advise the company's departments in risk assessment.
- Propose a global and consistent view of the company's risk through an internal information and control system.
- Disclose the Group's risks and report on the key matters relating to risks to the Senior Management and Governing Bodies.

Business and corporate units

These are the various business and corporate units that assume risk in the ordinary course of their activities.

Part of their duties are:

- Identify risks in their activity on a regular and systematic basis through the year.
- Assess and measure risks following the established identification and assessment methodologies.
- Define risk-management and risk-mitigation and impact control actions in accordance with the defined strategy and the nature of the risks.
- Pass down risk limits and thresholds to lower levels.

E.3. Indicate the main risks, including fiscal risks and, to the extent that they are significant, those derived from corruption (the latter being interpreted under the scope of Royal Decree Law 18/2017), which may affect the achievement of business objectives:

The main risks affecting the Enagás Group in the development of its business can be classified as follows:
Strategic and Business Risks

These are risks which are inherent to the gas sector and are linked to potential losses of value or results derived from external factors, strategic uncertainties, economic cycles, changes to the environment, changes to patterns of demand, competition and market structure or changes to the regulatory framework, as well as those derived from taking the incorrect decisions in relation to business plans and company strategies.

The Enagás Group's activities are mainly exposed to the following risks:

- Changes in the regulatory framework.
- Evolution of demand, with short, medium and long-term effects, associated with weather conditions, the competitiveness of natural gas with other energy sources, evolution of the economy, etc.
- Permits and administrative approvals.
- Delays and cost overruns in the execution of infrastructure projects.
- Impairment of fixed assets associated with projects.
- etc.

Operational and Technological Risks

During the operation of the infrastructures of the Enagás group, losses of value or deterioration of results can occur due to the inadequacy, failures of physical equipment and computer systems, errors of human resources or derived from certain external factors.

The main operational and technological risks to which the Enagás Group is exposed are:

- Industrial risks (conditioned by the nature of the fluid being handled), those related to incidents during the operation of transmission infrastructures, regasification plants and underground storage facilities, which may involve large-scale damage. - Internal and/or external fraud.
- Cybersecurity (economic fraud, espionage, activism and terrorism).

Financial and Fiscal Risks

The Enagás Group is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.

Interest rate fluctuations affect the fair value of assets and liabilities that accrue interest at fixed rates, and the future cash flows from assets and liabilities that accrue interest at floating rates.

Exchange rate fluctuations may affect positions held with regard to debt denominated in foreign currency, certain payments for services and the purchase of capital goods in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of converting the financial statements of those companies whose currency is not the euro during the consolidation process. This risk affects the Enagás Group, both owing to its international operations, fundamentally in Latin America, and intragroup loans in currencies other than the euro, mainly the US dollar.

The Enagás Group maintains a liquidity policy that is consistent in terms of contracting credit facilities that are unconditionally available and temporary financial investments in an amount sufficient to cover the projected needs over a given period of time.

As regards the execution of large projects, Enagás Group is exposed to uncertainties owing to the effective procurement of finance in conditions similar to those forecast in its business plans. On certain occasions this financial risk may be associated with other risks arising from the agreement terms that set out the conditions of service (which may even lead to the cancellation of the concession agreement).

It is also exposed to potential changes in legal frameworks for taxation and uncertainty arising from the possible different interpretations of prevailing tax laws, which could have a negative impact on results.

Credit and Counterparty Risks

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Enagás Group has granted net credit which is pending settlement or collection. The counterparty risk includes the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.

Reputational Risks

Reputational risk refers to any action, event or circumstance that could have a harmful effect on the company's reputation among its stakeholders.

Criminal Liability Risks

The amendments made to the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this regard, Enagás could be held liable in Spain for certain crimes committed by its directors, officers and staff in the interest of the company. To prevent this risk from materialising, Enagás has approved a Crime

Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the company.

Likewise, as a result of the company's international activity, the Model has been broadened to cover the requirements of Mexican criminal law and US anti-corruption measures.

Compliance Risks and Model

The Enagás Group is exposed to compliance risks, which comprises the costs associated with possible sanctions owing to infringement of laws or sanctions derived from the materialisation of operational events, conducting of improper business practices, non-compliance with internal policies and procedures and/or the incorrect use of models.

E.4. Identify if the company has a risk tolerance level, including fiscal:

The Enagás Group Risk Management and Control Model defines the risk appetite framework, which corresponds to the maximum level of risk the company is willing to take on in order to meet its objectives, and which is expressed by means of risk limits. The level of risk tolerance is the result of the deviation in the level of risk the company takes on at a specific moment in relation to the defined risk appetite.

The Enagás Group has defined a set of limits for the main types of risk that the company may present (strategic risks and business, operational, technological, financial and tax-related, credit and counterparty, and criminal liability risks), with the establishment of the maximum acceptable level of risk, which is updated yearly by the Risk Committee. These limits are specified by a set of indicators that are regularly monitored throughout the year.

E.5. Identify any risks, including fiscal, which have occurred during the year:

The company had a medium-low risk profile over the course of 2018, similar to that of 2017, partly due to the existence of corporate risk control and management systems. This allowed certain risks to be eliminated from the company's inventory, without their having any negative impact.

In relation to the risks that materialized with a negative effect on the company in 2018, certain risks materialized, such as an incident in international infrastructure, caused by adverse weather conditions and/or geographical conditions in the location of the infrastructure. However, the negative impact associated with the incident was significantly reduced by insurance policy cover. Likewise, there was a negative impact limited by the impairment of fixed assets associated with projects paralysed in Spain.

E.6. Explain the response and supervision plans for the main risks of the entity, including fiscal risks, as well as the procedures followed by the company to ensure that the board of directors responds to the new challenges that arise:

A series of control activities defined by each of the business units and corporate departments are associated with the main risks identified by the company to ensure that it can respond adequately and in a timely manner. The Audit and Compliance Committee and the Risk Committee oversee the implementation of these control activities and monitor the action plans.

The type of controls in place vary considerably depending on the nature of the risk. For instance:

- Regulatory risks, controls and mitigating actions include, inter alia, ongoing cooperation with (domestic and European) regulators and public administrations.
- Regarding infrastructure operation (e.g. damage, incidents), risks are mitigated through the design of maintenance and continuous improvement plans, the definition and monitoring of quality indicators, and control systems and alerts, which ensure service continuity and quality, among others. Likewise, there is an insurance schedule in place for transferring these risks to a third party.
- Regarding strategic and business risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- Credit and counterparty risks are mitigated via establishment of guarantee mechanisms, in accordance with specific regulatory requirements, such as continuous monitoring of the main counterparties' credit profiles.
- To prevent criminal liability risk from materialising, the Enagás Group has approved a Crime Prevention Model (reviewed in 2016) and has implemented the measures needed to prevent corporate crime and to avoid liability for the company.

F. INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT IN RELATION TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management systems at the company.

F.1. The entity's control environment.

Specify at least the following components with a description of their main characteristics:

F.1.1 Bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

As part of the ICFR responsibilities at Enagás, S.A. and Subsidiaries (hereinafter the "Group"), the following bodies and/or functions develop, maintain and oversee the preparation of Group financial information:

Board of Directors

Pursuant to article 5 b) of the Regulations of the Organisation and Functioning of the Board of Directors, the Board is responsible for "the determination of the company's tax strategy and of its risk control and management policy, including regarding tax risks, and the oversight of its internal information and control systems", and is ultimately responsible for guaranteeing an internal control environment conducive to complete, reliable and timely, financial reporting.

Pursuant to article 26 of the same regulations, the Audit and Compliance Committee has been delegated the duty of overseeing the internal information and control systems.

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for "overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles". It must also "report to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information", according to article 7 a) of the Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries.

Likewise, article 44 of the Articles of Association states that the Audit and Compliance Committee is responsible for seeing to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems. In addition to discussing any significant weaknesses in the internal control system detected in the course of audit with the auditors without impinging on its independence.

To carry out its duty of oversight of the effectiveness of internal control, the Audit and Compliance Committee has the support of an Internal Audit Unit, as established in the General Internal Audit Regulations.

Finance Department

The Finance Department is responsible for designing, implementing and ensuring there is a suitable and efficient ICFR system. The Internal Control over Financial Reporting Unit assists it in these duties, it is key to managing ICFR and has the following tasks:

Guaranteeing the integrity and internal coherence of the ICFR.

Monitoring of the updating and documentation of the sub-cycles/processes which affect the preparation of financial information (carried out by the people in charge of the sub-cycles/processes).

Overseeing the updating and maintenance of the ICFR management tools.

Managing the self-assessment of the ICFR system and monitoring the results.

Coordinating the ICFR risk assessment and periodically updating the risk map.

Carrying out an annual evaluation of the requirements to update the document attributing the accounts to ICFR areas, in order to maintain the required standard of financial information.

Drawing up and updating the Enagás Group Internal Control over Financial Reporting System Manual ("Enagás Group ICFR Manual").

Updating and disseminating applicable ICFR system regulations, both internal and external.

Identifying the training needs and organisational/execution needs for courses relating to ICFR or other related issues (these are channelled via the Training School programme included in the Training Plan and Training Programme).

Monitoring and updating the model for defining scopes.

Collaborating with the Internal Audit Department, ensuring independence at all times.

Collaborating in classifying any deficiencies detected during reviews of the ICFR system (material weaknesses, significant deficiencies, insignificant deficiencies).

Collaborating in implementing corrective measures detected in the reviews of the ICFR.

Internal Audit Department

The Internal Audit Department reports to the Audit and Compliance Committee as per the General Internal Audit Regulations. It is responsible for "assessing and improving the efficiency of risk management processes, internal control and corporate governance".

Its main ICFR duties, which are coordinated by, overseen and supervised by the Audit and Compliance Committee, include:

Performing tests and assessments of the design, implementation and operational effectiveness of the ICFR system.

Conducting a series of limited checks on the documentation of cycles and sub-cycles to achieve a preliminary understanding of whether the documentation prepared by Enagás is up to date and to detect which potential control activities should be designed.

Conducting a series of limited checks to gain a preliminary understanding of the degree of compliance and formalisation of the (manual and automated) controls established by Enagás.

Verifying the correct implementation of corrective action concerning the ICFR system in accordance with the Internal Annual Audit Plan.

Departments and Business Units involved in preparing financial information

The people in charge of the sub-cycles/processes involved in the preparation of financial information and whose main duties are: Supervising the actions and evaluations carried out for each of the processes for the cycles in the Areas, with the possibility of eventually carrying out tests to confirm the results of specific controls. Establishing, monitoring and evaluating the effectiveness of the control activities within the cycles/sub-cycles, mainly concerning communication, allocating responsibilities, delegating competences, segregating duties and managing access to information and other critical resources, developing and modifying the processes (both operational and control) and support systems.

Coordinating the design, documentation and implementation of ICFR system processes, ensuring objectives to manage all processes in question are met.

Ensuring that all documentation concerning the process is kept up to date (who, what, how, rules, proof, etc.) as well as that concerning the ICFR system control and risk objectives.

In the case of amendments or updates to regulations, procedures, instructions etc., the owner of the process shall notify the ICFR Unit.

Reporting, formally and periodically on the outcome of the self-assessments carried out.

Collaborating in identifying qualitative factors which may affect the inclusion of this process in the general ICFR model.

Implementing and promoting the implementation of corrective action in the area of ICFR.

The allocation of ICFR responsibilities is reflected in the positions within the Group's organisational structure, and included in the job analysis and description sheets containing the description of the assigned tasks. Any changes in the allocation of responsibilities are made to the organisational structure and these sheets, as set forth in the Company's "Organisational Development and Processes" procedure.

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity:

The design and review of the organisational structure as well as defining clear lines of responsibility falls to the Board of Directors, through the Appointments, Remuneration and Corporate Social Responsibility Committee as stipulated in article 25 of the Regulations of the Board of Directors of Enagás, S.A. The Appointments, Remuneration and CSR Committee: "under article 45 of the Articles of Association, has the following duties and powers [...]: to formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of Senior Management posts in order to achieve improved and more efficient company administration [...]".

Likewise, the Corporate Resources and People Department is responsible for designing, implementing and updating the organisational structure. The internal mechanisms used by this department, to clearly define the lines of responsibility, are enumerated in:

"Job Analysis and Description Sheets"

The "Human Resources Development Procedure"

The "Organisational Development and Processes Procedure", which, among other issues, establish and develop, in accordance with the company's strategy and business and operating needs, the organisational structure of the Departments/Units, the overall management model for processes and job descriptions.

The particular features of the ICFR lines of responsibility and authority are regulated by the "Enagás Group ICFR Manual" as well as various rules and regulations concerning the key governing bodies and Senior Management.

Meanwhile, specific ICFR-related responsibilities are considered in the design of the model, aligned with those defined in the Job Analysis and Description Sheets. Versions of the ICFR model are generated periodically to reflect the changes over time in job responsibility.

Also worth noting is the Powers of Attorney and Electronic Signature Certificates Management procedure, which sets out the actions to ensure that responsibilities are given appropriately.

The organisational structure is available to all employees on the Intranet in the form of an organisational chart and is regularly updated. In addition, the specific rules and procedures detailing the related responsibilities are published on the Intranet, as stipulated in the "General Regulations for Rules and Process Management".

Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary actions:

The following documents are available to all employees as part of the Group's Policy on Sustainability and Good Governance and other corporate policies:

Internal Code of Conduct in Matters Relating to Securities Markets

As stipulated in article 5 of the Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., the company has an Internal Code of Conduct in matters relating to Securities Markets which was drawn up and approved by the board. These regulations establish the rules for acting in securities markets and mandatory registries, in particular concerning the following:

- Conduct in situations of Privileged or Classified Information, and the handling of such information; The trading of
- Affected Securities of Enagás or companies in its business group;
- Detecting and dealing with conflicts of interest;
- Company relations with related parties;
- The own shares policy of Enagás and its subsidiaries;
- Generally, compliance with securities market and market abuse regulations.

These regulations are applicable to the members of the Board of Directors of Enagás, to the members of the Board of Directors, where appropriate, of the Management Committee for Subsidiaries and affiliates, to Senior Management, as well as executives and other staff involved in securities market operations or with access to privileged or classified Company information, including External Advisers, as stipulated in articles 2, 3 and 4. In this regard, upon receiving a copy of the regulations covered, persons must sign a statement acknowledging receipt and declaring that they are aware of their obligations. These regulations are also available on the Corporate website and via Intranet.

The Audit and Compliance Committee is responsible for ensuring compliance with the regulations and the company's general governance rules, and makes suggestions, as necessary, to improve these (Article 7 of the Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries). The person in charge of Regulatory Compliance, in coordination with the General Secretariat, will ensure precise and true compliance with the obligations contained therein, with the requirement to regularly report to the Audit and Compliance Committee on the degree of compliance and any incidents detected in relation to its application for evaluation by the Committee, as stipulated by Article 20.1 of the regulations.

Enagás Group Code of Ethics

The "Enagás Group Code of Ethics", approved by the Board of Directors at its meeting of December 15, 2014, is designed to formalise "[...] the ethics and compliance model of the company, providing a description of the conduct expected of its employees, managers and directors (hereinafter "persons") irrespective of their responsibilities and their geographic or functional location [...]".

Moreover, the company "[...] undertakes to inform and train appropriately both the persons at Enagás and third parties so that they are aware of and comply with this Code of Ethics, as well as the regulations, commitments and procedures that implement it. All these receive this Code and expressly confirm their commitment to knowing, complying with and enforcing it [...]".

The conduct guidelines contained in the document, which are listed below, address issues related to financial reporting:

- Be trustworthy and transparent: "[...] The persons at Enagás ensure the reliability and rigour (they provide accurate, complete, understandable and timely information) of the financial and non-financial information both for internal use and provided to the market, and the accounting policies, control systems and supervisory mechanisms

defined are applied so that the relevant information is identified, prepared and communicated in due time and form [...]"

- Expressly reject fraud, corruption and bribery: "In their relationships with third parties, including public authorities, the persons at Enagás can neither offer nor accept gifts or preferential treatment that is of more than a purely symbolic nature or that could be interpreted as an attempt to gain undue influence [...]"

In this regard, in 2013 the "Procedure for Managing the Offering and Acceptance of Gifts" was approved and in 2015 the "Anti-Fraud, Corruption and Bribery Policy" was approved.

The Code states that the Audit and Compliance Committee "[...] is responsible for supervising due execution of the ethics and compliance model, which includes measures for supervision and monitoring to prevent irregularities and offences. Enagás has an Ethical Compliance Committee which reports directly to the Audit and Compliance Committee and which will be responsible for supervising the operation of the ethics and compliance model [...]"

In relation to the above, there is also a Compliance Policy to oversee the commitment to: "[...] uphold conduct that complies with both regulations and ethical standards. [...] and "promote a culture of integrity and respect for the law and ethical standards that takes into consideration not only the interests of Enagás but also the needs and expectations of its stakeholders [...]". This policy is reinforced by the General Compliance Standard.

Code of Conduct of the Technical Manager of the Spanish Gas System

A Code of Conduct of the Technical Manager of the Spanish Gas System has been drawn up to "[...] guarantee that the functions of the Technical Manager of the Spanish Gas System are carried out independently from the rest of the activities of the Enagás Group, in compliance with the legally established criteria in the Hydrocarbons Sector Law 34/1998 of October 7 [...]". It was approved by the Board of Directors on 15 December 2014.

As set out in the Code: "It is the obligation of Enagás GTS to keep the list of the individuals subject to this Code of Conduct updated at all times and to send each of these a copy of the Code, requiring them to furnish a letter in which they confirm they have received the Code and declare that they know and accept compliance with the obligations they are subject to".

It also provides that: "[...] The Ethical Compliance Committee is entrusted with ensuring compliance with this Code of Conduct and the effectiveness hereof. It will therefore periodically report to the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. on the results of its assessment and on any deficiencies detected. However, the Managing Director of the Technical Manager of the System will address any queries that may be raised by the employees of Enagás GTS regarding the Code of Conduct [...]".

The Ethical Compliance Committee, pursuant to pursuant to Article 63.4 d) of the Hydrocarbons Sector Law, shall prepare a report containing the following information:

- The measures adopted to guarantee the segregation of activities.
- The conflicts of interest reported and the measures adopted to resolve them [...]"

Internal Audit Code of Ethics

The Internal Audit Code of Ethics was approved in 2017, establishing the ethical culture in the function as an independent activity. It includes:

1. Principles relevant for the profession and practice of the internal audit:
 - Integrity
 - Objectivity and Independence
 - Confidentiality
 - Competence
2. The Rules of Conduct which describe the behaviour expected from all internal auditors. These rules serve to assist with the interpretation of the Principles in their practical application. Their aim is to guide the ethical conduct of internal auditors. Once a year all internal auditors must sign a declaration stating that they are cognisant of, understand and uphold these rules. In turn, professionals who work with the Internal Audit Department must also sign this declaration, when they start to provide their services to the Department. This Code of Ethics is available on the Intranet.

Whistleblowing channel, for reporting any irregularities of a financial or accounting nature to the Audit Committee, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential:

The company has a whistleblowing channel, the 'Ethics Channel', for consultation and reporting of irregularities or breaches of the Enagás Group Code of Ethics and the Code of Conduct of the Technical Manager of the Spanish Gas System.

The Ethical Compliance Committee is responsible for processing consultations and notifications. This Committee shall respond to all reports and periodically prepare a report to be submitted to the Audit and Compliance Committee. However, according to the "Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics"), if the consultation or notification is of a financial or accounting nature or concerns internal control or fraud, it shall be forwarded directly to the Audit and Compliance Committee.

Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management:

The Talent Management Department, which reports to the Human & Corporate Resources Department, has a "Training School" which manages and plans all the training programmes and other instruction initiatives for all employees included in the Training Plan and Training Programme.

In coordination with the Finance Department and the Internal Audit Department, Talent management identifies and analyses the specific training needs of all personnel involved in preparing and reviewing financial reporting, including issues concerning accounting, internal control and risk management.

In 2018, the Finance Department and the Internal Audit Department took part in various training programmes, including: Cybersecurity: key concepts and best practices, IFRS 16 Leases, Internal Audit, business continuity, Crime Prevention Model, IFRS 15 Revenue recognition, among others.

F.2. Risk assessment in financial reporting.

Report at least:

F.2.1 Indicate the main characteristics of the risk identification process, including risks of error or fraud, stating whether:

· The process exists and is documented:

Identifying risk is one of the core fundamentals in risk analysis with regards to the preparation of financial information. The process follows the COSO 2013 (Committee of Sponsoring Organisations of the Treadway Commission) framework. One of the objects is to help ensure that transactions are recorded faithfully in accordance with the related accounting framework so it can provide reasonable assurance regarding the prevention or detection of errors that could have a material impact on the information contained in the consolidated annual accounts.

The "Enagás Risk Control and Management Policy" provides a reference in the area of risk identification, as it states the company's policies on how to deal effectively with uncertainty, risks and the associated opportunities, thereby improving its capacity to generate value in order to achieve the aims of the Organisation, which include reliable financial reporting.

The principles and criteria included in the policy were issued by the Enagás Risk Committee. This Committee is charged with defining, approving and updating the basic criteria and principles guiding actions in relation to risk, as set out in "Functioning of the Enagás Risk Committee" procedure.

The principles set out in the "Enagás Risk Control and Management Policy" are articulated in the "General Regulations for Risk Control and Management", providing an organisational and methodological framework that ensures the risk control and management process is implemented appropriately and effectively.

Specific risks related to the company's Internal Control over Financial Reporting System are classified in this framework under the Group's operational risk category. The identification and measurement of these risks are performed as set out in the Internal Control over Financial Reporting System Manual.

· The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency:

Pursuant to the "Enagás Group ICFR Manual", the risk identification process covers all financial reporting objectives to ensure the accuracy and completeness of the same. The manual describes the risks related to the financial reporting process as follows:

- Completeness: the risk that all transactions, and other circumstances and events are not recorded.
 - Rights and obligations: the risk that all financial information at any given date does not reflect the rights and obligations through the corresponding assets and liabilities in accordance with applicable standards.
 - Existence and occurrence: the risk that not all transactions, circumstances and events exist and are not all recorded at the appropriate time.
 - Valuation: the risk that not all transactions, circumstances and events are recorded and valued in conformity with applicable standards.
 - Presentation, disclosure and comparability: the risk that not all transactions, circumstances and events are classified, presented and disclosed in the financial information in accordance with applicable standards.
 - Internal fraud: includes the risk of manipulation of files, software and information, and the risk of unauthorised activities (involving employees) leading to intentional financial statement misstatements and misappropriation of funds and assets due to inappropriate use of corporate assets.
- Periodically, the ICFR Unit fully evaluates all control processes and corresponding specific risks mitigation measures in place, and at the same time, assesses whether new risks need to be added.

· A specific process is in place to define the scope of consolidation, taking into account, inter alia, the possible existence of complex corporate structures or special purpose vehicles:

The Finance Department operates a management and updating process to identify those companies which should be included in the scope of consolidation. This process is detailed in the "Period-End Procedures for Consolidated Financial Statements and Annual Accounts".

In compliance with article 7 of the Regulations of the Audit and Compliance Committee, the Committee's duties and competencies include "Overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles".

In determining the companies covered by the ICFR scope, the Group considers those in which it has direct or indirect control, and so for all other consolidated companies, the Group includes controls to ensure consistency, validity and reliability of the financial information provided for inclusion in the consolidated financial statements.

· The process addresses other types of risk (operational, technological, financial, legal, fiscal, reputational, environmental, etc.) insofar as they may affect the financial statements:

The process of identifying risks associated with achieving the financial reporting objectives takes into account the possible effects derived from the materialisation of other types of risks contained in the risk control and management model described in section e) of this document. These effects would arise, as the case may be, through strategic and business risks, operational and technological risks, financial and fiscal risks, credit and counterparty risks, criminal liability risks, reputational risks and compliance and model risks.

· Which of the company's governing body oversees the process:

The Audit and Compliance Committee is responsible for overseeing the preparation and presentation of financial information on the company, and to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information. It also sees to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems, including risks related to the treatment of financial information, according to article 44 of the Consolidated Articles of Association and article 7 of the Regulations of the Audit and Compliance Committee of Enagás S.A. and Subsidiaries.

F.3. Control activities.

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations and projections.

Procedures for reviewing and authorising financial information to be disclosed to the markets

The Organisation has the following documents to ensure the reliability of the financial information to be disclosed to the securities markets:

- "Manual of Accounting Policies (PGC)" and the "Manual of Accounting Policies (IFRS)", which establish and provide clear information on the accounting policies required for performing accounting estimates and preparing the company's Financial Statements and individual and consolidated Annual Accounts, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows.
- "Period-end procedures for the Separate Financial Statements and Annual Accounts" and "Period-end procedures for the Consolidated Financial Statements and Annual Accounts" approved by the Chief Financial Officer establishing the process of preparing, processing, reviewing and authorising the financial information at the closing of accounts by the persons in charge. These also establish the controls of judgements, estimates and evaluations which may materially affect the financial statements.
- "Procedure on the provision of Regular Reports to Securities Market Regulators" which establishes the process to be followed when preparing periodic financial information to be disclosed to the regulated markets regarding interim financial reports, interim management reports and, if applicable, quarterly financial reports, and defines the persons responsible of approval of said financial information.

With regard to the preparation and subsequent disclosure of financial reporting, the Investor Relations Department, the Finance Department, the General Secretariat, the Board of Directors and the Chairman of the Board all play a key role at the various levels within the Organisation in the validation and approval of all financial information.

Description of ICFR: Control and Activities

The Group's ICFR control structure is based on the five components of the COSO Model (The Committee of Sponsoring Organisations of the Treadway Commission) included in the Internal Control-Integrated Framework report (2013):

1. The control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

Likewise, the recommendations of the report on "Internal Control over Financial Reporting at Listed Companies" prepared by the CNMV's Internal Control Working Group (ICWG) (2010) are taken into consideration.

In this regard, the ICFR model states a number of key control objectives which, if fully implemented, allow reliability and transparency in preparing financial reporting. Implementation of these objectives is intrinsically tied to the effectiveness of "Control activities" at each stage of their execution.

In this context, the control structure defined is based on two classes of control:

- General controls
- Process controls

General Controls

The General Controls form the basis of the ICFR model. These are interlinked controls that directly affect the Enagás organisational structure and procedures. These are known as the "control environment" in the CNMV and COSO recommendations.

At the end of 2018, there were 44 ICFR general controls in operation. Senior Management is responsible for overseeing these controls, which are split between the following divisions:

- Secretary to the Board of Directors

- General Secretariat
- Gas System Technical Management Department
- Finance Department
- Human & Corporate Resources Department
- Investor Relations Department
- Sustainability and Risks Department
- Communication and Public Affairs Office

These controls are assessed once a year to incorporate any updates and to identify new control components.

Process controls

Process Controls (control activities) are controls over an organisation's operating processes that are more specific than general controls. These are part of each of the main cycles and sub-cycles comprising the ICFR procedures, guaranteeing the reliability and transparency of Enagás financial reporting. These are factors which mitigate the risks inherent in the financial reporting procedure mentioned above to ensure the established control objectives are met.

These control activities are used throughout all the ICFR model and the eight Areas which affect financial reporting:

- Acquisitions
- Fixed assets
- Inventories
- Revenue
- Payroll and personnel
- Financial management
- Support services
- Financial reporting

These Areas in turn affect a further 28 cycles and 61 subcycles and are formally documented in a corporate IT tool. These process controls can be classified with the following different characteristic attributes:

- According to their nature:
 - Preventive: Preventing errors or any irregularities which may affect the information, i.e. preventing the impact of financial risks.
 - Detective: Identifying errors or irregularities which may affect the financial information, i.e. identifying errors when they arise.
 - Corrective: Correcting errors or irregularities which may affect the financial information, i.e. rectifying errors when they arise.
- According to level of automation:
 - Manual: control mechanisms directly executed by people.
 - Semi-automated: control mechanisms executed by people and validated by "IT support".
 - Automated: control mechanisms with "IT support".

The quarterly self-assessment process carried out by the ICFR unit allows the Organisation to confirm the validity of the description of these controls by the people responsible, identifying any updates (new process controls, elimination, automation, etc.).

At year-end 2018, there were 216 ICFR process controls, approximately 19% of which were automated.

Operating activities

In addition to the controls we have mentioned above, when designing the ICFR subcycles a series of operating activities are defined to establish a flow chart showing how these impact financial reporting. Likewise, these activities are included in a corporate IT tool which establishes the models for the ICFR subcycles.

At year-end 2018, there were 769 operating activities, approximately 12% of which were automated.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

IT systems play an important role and are configured to support the preparation, processing and extraction of the financial information to be disclosed. This is why they are included in the ICFR actions and configuration.

All actions concerning information systems are regulated in the Cybersecurity Policy which defines the principles to effectively manage information security in the IT systems, as well as the assets involved in the processes.

Based on the principles of this policy, Enagás has designed the General Rules for Management of IT Systems establishing the responsibilities and the relationship between the requesting units and the IT Systems Department.

We also have General Computer Controls (GCCs). These provide a control framework designed to offer a reasonable level of security in IT systems used for financial reports, guaranteeing, to the greatest degree possible, that the information is confidential, available and complete. At December 31, 2016, there were 46 General Computer Controls covering five control areas:

- Management and Planning
- Physical and logical security
- Application development and maintenance
- Development and maintenance of infrastructures
- Fraud prevention and detection

Here we would note that within the Infrastructure Development and Maintenance area is the GCC relating to the Business Continuity and Disaster Recovery Plan.

The objectives established within the framework of General Computer Controls help achieve control objectives related to the processing of computer-generated information, through the defining, development, implementation and reviewing of control activities such as user and authorisation management, administrator management, access control, incident management, change management, business continuity, information storage and recovery, operations monitoring, etc.

Integral to the objectives of control of IT systems is the need to establish an appropriate segregation of duties, which is a prerequisite for an ICFR system to function efficiently and effectively. It is therefore of vital importance that there is a clear distinction between who has to execute actions related to the treatment of financial information, and who has to review and/or approve them. For this reason, correctly allocating profiles, both in IT systems and in terms of positions and functions, is critical to the success of the process.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Enagás is particularly vigilant about any activities carried out by third parties which may significantly impact the financial statements to ensure maximum control over key procedures that may be outsourced, and that the activities are carried out to a standard that the Group demands.

The internal rules regulating this can be found in the Identification and Treatment Procedures for Service Organisations.

The Group also has the following regulations and internal procedures regulating the contracting process and ensuring quality control of third parties:

- The "General Regulations for Management of Awarding and Contracting"
- The "Purchase Management Procedures"
- The "Supplier Accreditation Procedure"
- The "Procedure for Ensuring Supplier Reliability"

When the Organisation engages the services of independent experts for appraisal, calculation or valuation services, we request that they certify they are reputable firms in their field and are independent. This helps ensure that the Group's management is able to supervise and take the ultimate decisions on the estimate processes which may impact accounting records.

F.4. Information and communication.

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The Accounting and Accounting Policies Division, which reports to the Finance Department is responsible for keeping all accounting policies regularly updated and communicating these to all personnel involved in the financial reporting process.

It has therefore drawn up the "Accounting Policy Manual (PGC)" and the "Accounting Policy Manual (IFRS)", internal documents which outline all procedures and the accounting policies required for performing accounting estimates and preparing the Company's Financial Statements and Individual and Consolidated Annual Accounts, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows. Those employees involved in the process are informed of any updates to the policies via the Intranet.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the Entity or Group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The preparation, review and approval of all financial information in standard format is regulated by the "Period-end procedures for the Individual Financial Statements and Annual Accounts" and the "Period-end procedures for the Consolidated Financial Statements and Annual Accounts", as well as the "Accounting Policy Manual (PGC)" and the "Accounting Policy Manual (IFRS)", which serve as guides to carrying out these tasks.

Furthermore there is a specific mechanism for the process of preparing the annual accounts and accompanying notes, where the Audit and Compliance Committee, as a Board Committee, takes on a special relevance, overseeing this process (e.g. monitoring the supervision work of the Internal Audit unit, being cognisant of the internal control systems as well monitoring the work performed by the external auditor) before the annual accounts are certified by the Board of Directors. The functions of the Audit and Compliance Committee in this regard are detailed in article 7 of the "Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries".

The Group has an IT tool to record and treat all financial information which satisfies the needs of both individual and consolidated reporting.

F.5. Monitoring of the system.

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the audit committee and an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

In this context, one of Enagás' top priorities is to take a proactive, and thereby preventative role during a phase of constantly overseeing the model, to ensure that the model is updated and aligned with both the business and the best regulatory practices.

Constant analysis of and following up of ICFR, detecting possible flaws and making sure the corresponding improvements and adjustments are achieved by taking the following measures:

- A regular evaluation of the design and effectiveness of current anti-fraud programmes and controls. Its scope and frequency depends on the importance of the associated risk and the demonstrated effectiveness of the controls in place.
- The participation of the Internal Audit Department, through the supervision functions attributed by the ICFR model through the "General Internal Audit Regulations", the "Enagás Group ICFR Manual" and the "Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries".
- Effective supervision by the Audit and Compliance Committee, relative to overall control of the ICFR model, delegated by the Board of Directors, and instrumented by Internal Audit.
- Reporting on weaknesses found, taking corrective measures to solve them, establishing mechanisms to track them and assigning the necessary resources to achieve them, according to the instructions in the "Enagás Group ICFR Manual".

- Finally, once finalised, and subsequent to the implementation of the proposed measures, a design and final validation process will be undertaken, which will eventually be incorporated into the ICFR model. Key throughout this oversight process is the function of Internal Audit which, as set out in the "General Internal Audit Regulations", is responsible for:
 - Collaborating with the Audit and Compliance Committee in fulfilling its duties, particularly with regard to the supervision of the internal control system and the risk control and management process, to relations with the external auditor and supervision of the financial information preparation process. Regarding relations with the external auditor, there is an Accounts Auditor Contracting and Relationship Procedure, which will be monitored for the maintenance of an objective, professional and continuous relationship with the auditor of the Company, respecting at all times its independence.
 - Participating in the review of the Internal Control over Financial Reporting (ICFR) system established by the company for its subsequent certification
- In order to ensure that these objectives are met, there is an "Internal Audit Annual Plan", which is overseen and approved by the Audit and Compliance Committee, and includes a review of the ICFR system. The Group's Management conducted an internal assessment of the ICFR system and concluded that the system in place for Enagás, S.A. and Subsidiaries at December 31, 2018 is effective and contains no significant deficiencies.

F.5.2 If a discussion procedure is in place, whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the annual accounts or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 7 of the Regulations of the Audit and Compliance Committee of Enagás, S.A. and subsidiaries details the objectives and functions of the Committee, including ensuring that the auditor, the Internal Audit function and other experts can inform Senior Management and the Board of Directors, of any significant internal control weaknesses encountered during their review of the annual accounts or other assignments. In this regard, these reports are made after each review task has been completed. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Committee is also in charge of supervising compliance with the Internal Code of Conduct in Matters Relating to Securities Markets. The reports on the activities of the Audit and Compliance Committee contain important information about communication procedures and the conclusions reached at the end of each year.

F.6. Other relevant information.

There is no other relevant information regarding ICFR at the Group to add to that which we have provided in the previous headings of this section F.

F.7. External auditor report.

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has voluntarily subjected its ICFR to review since 2008. All reviews have been carried out by the auditor of Enagás, S.A. and Subsidiaries.

The report for 2018 is attached.

G DEGREE OF IMPLEMENTATION OF CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree to which the recommendations of the Good Governance Code for listed companies are implemented.

In the case where a recommendation is not implemented or only partially implemented, a detailed explanation of the reasons for this is to be included so that shareholders, investors and the market in general have sufficient information in order to evaluate the company's course of action. General explanations are not acceptable.

1. The Articles of Association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant [] Explain []

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Act 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No natural person or legal entity may hold, directly or indirectly, an interest in the parent company (ENAGÁS, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or legal persons that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, dated 28 July, on the Securities Market, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.

b) To partners with whom it exercises control over a dominant company in accordance with article 4 of Securities Market Act 24/1988, of July 28.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties".

Meanwhile, section 3 of Additional Provision 31 of this law states that:

"The restrictions of shareholding percentages and non-transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by Article 66 of Act 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system".

Meanwhile, article 6 bis of the company's Articles of Association ("Limitations on holdings in share capital") establishes that:

"No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated. Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation."

2. When a dominant and subsidiary company are stock market listed, they should provide detailed disclosure on:
- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary with other group companies.
 - b) The mechanisms in place to resolve possible conflicts of interest.

Compliant[] Partially compliant[] Explain[] Not applicable[X]

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
- a) Changes taking place since the previous annual general meeting.
 - b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant[X] Partially compliant[] Explain[]

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant[X] Partially compliant[] Explain[]

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant[X] Partially compliant[] Explain[]

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reports of the operation of the Audit Committee and the Appointments and Remuneration Committee.

- c) Audit Committee report on third-party transactions.
- d) Report on corporate social responsibility policy.

Compliant[X] Partially compliant[] Explain[]

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

Compliant[X] Explain []

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant[X] Partially compliant[] Explain[]

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant[X] Partially compliant[] Explain[]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant[X] Partially compliant[] Explain[] Not applicable []

11. In the event that a company plans to pay for attendance at the general meeting, it should establish a general, long-term policy in this respect.

Compliant[] Partially compliant[] Explain[] Not applicable [X]

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant[X] Partially compliant[] Explain[]

13. The Board of Directors should be of an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant[X] Explain []

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

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total Board places occupied by women directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the Director selection policy and set out its findings in the annual corporate governance report.

Compliant[X] Partially compliant[] Explain[]

15. Proprietary and Independent Directors should constitute an ample majority on the Board of Directors, while the number of Executive Directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant[X] Partially compliant[] Explain[]

16. The percentage of Proprietary Directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant Explain

17. Independent Directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, Independent Directors should occupy, at least, a third of Board places.

Compliant Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the Director class to which they belong, in the case of Proprietary Directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a Board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Compliant Partially compliant Explain

19. The Annual Corporate Governance Report, with prior verification by the Appointments, Remuneration and CSR Committee is to provide an explanation for the reasons Proprietary Directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary Directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They shall also do so, in the appropriate number, when that shareholder reduces their stake to a level requiring a reduction in the number of its Proprietary Directors.

Compliant[X] Partially compliant[] Explain[] Not applicable []

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the articles of association, except where just cause is found by the board, based on a report from the appointments and remuneration committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of Independent Directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant[X] Explain []

22. Companies are to stipulate rules obliging Directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

If a director is indicted or tried for any of the crimes stated in the corporate legislation, the board shall examine the matter and, in view of the particular circumstances, decide whether or not the director shall be called on to resign. The Board of Directors is to provide a reasoned account of such events in the Annual Corporate Governance Report.

Compliant[X] Partially compliant[] Explain[]

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The Independent Directors and other Directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a Director.

Compliant[] Partially compliant[] Explain[] Not applicable[]

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant[] Partially compliant[] Explain[] Not applicable []

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant[] Partially compliant[] Explain[]

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.

Compliant[] Partially compliant[] Explain[]

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Compliant[] Partially compliant[] Explain[]

28. When Directors or the secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant[] Partially compliant[] Explain[] Not applicable []

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant[] Partially compliant[] Explain[]

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant[X] Explain[] Not applicable[]

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly reported/recorded in the minutes, of the majority of directors present.

Compliant[X] Partially compliant[] Explain[]

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its Group.

Compliant[X] Partially compliant[] Explain[]

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.

Compliant[X] Partially compliant[] Explain[]

34. When a Leading Director has been appointed, the articles of association or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or deputy chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant[X] Partially compliant[] Explain[] Not applicable []

35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant[X] Explain []

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:
- a) The quality and efficiency of the Board's operation.
 - b) The performance and membership of its committees.
 - c) The diversity of Board membership and competences.
 - d) The performance of the Chairman of the Board of Directors and the company's chief executive.
 - e) The performance and contribution of individual directors, with particular attention to the Chairmen of Board Committees.

The evaluation of Board Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant[] Partially compliant[] Explain[]

37. When an executive committee exists, its membership mix by Director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.

Compliant[] Partially compliant[] Explain[] Not applicable[]

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.

Compliant[] Partially compliant[] Explain[] Not applicable[]

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by Independent Directors.

Compliant[] Partially compliant[] Explain[]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's non-executive chairman or the Chairman of the Audit Committee.

Compliant[] Partially compliant[] Explain[]

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant[] Partially compliant[] Explain[] Not applicable []

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that Senior Management is acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) In the event of resignation of any external auditor, the Committee should investigate the issues giving rise to the resignation.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the Board in full to inform them of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant[X] Partially compliant[] Explain[]

43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant[X] Partially compliant[] Explain[]

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board

beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant[X] Partially compliant[] Explain[] Not applicable []

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of risk events should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant[X] Partially compliant[] Explain[]

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

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

Compliant[X] Partially compliant[] Explain[]

47. Members of the Appointments and Remuneration Committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant[X] Partially compliant[] Explain[]

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

Compliant[] Explain[X] Not applicable[]

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

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

49. The Appointments Committee should consult with the board's chairman and chief executive officer, especially on matters relating to executive directors.

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

Compliant[X] Partially compliant[] Explain[]

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the Board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that possible conflicts of interest do not undermine the independence of any external advice offered to the committee.
- e) Verify information on remuneration of Directors and senior management contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

Compliant[X] Partially compliant[] Explain[]

51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to Executive Directors and senior officers.

Compliant[X] Partially compliant[] Explain[]

52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) Committees should be chaired by an Independent Director.
- c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each committee's terms of reference;

discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.

- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be recorded/notified in the minutes and a copy made available to all Board members.

Compliant[X] Partially compliant[] Explain[] Not applicable []

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium- sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
- f) Monitor and assess the processes of liaising with different stakeholders.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant[] Partially compliant[] Explain[]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.

- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant[X] Partially compliant[] Explain[]

55. The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.

Compliant[X] Partially compliant[] Explain[]

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant[X] Explain []

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant[X] Partially compliant[] Explain[]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant[X] Partially compliant[] Explain[] Not applicable []

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant[X] Partially compliant[] Explain[] Not applicable []

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant[X] Partially compliant[] Explain[] Not applicable []

61. A major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant[X] Partially compliant[] Explain[] Not applicable []

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant[] Partially compliant[X] Explain[] Not applicable []

The General Shareholders' Meeting held on March 18, 2016 passed a three-year long-term incentive plan (2016-2018), to be paid in 2019, based on the fulfilment of the objectives and metrics established in the plan. For Executive Directors, this incentive may result, at most, in the delivery of shares representing 150% of their annual remuneration (50% per year). This is the first long-term incentive provided by the company in years and is for a limited amount. When other plans are adopted, the limit proposed in this recommendation (of not transferring shares equivalent to twice their annual fixed remuneration) will be considered.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Compliant[X] Partially compliant[] Explain[] Not applicable []

64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that said Director has met the predetermined performance criteria.

Compliant[X] Partially compliant[] Explain[] Not applicable []

H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to corporate governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectoral or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, it will mention whether or not it has adhered to the Code of Good Tax Practices, of July 20, 2010:

The Board of Directors of Enagás, S.A., unanimously agreed to the Company signing up to the Code of Good Tax Practices, promoted by the Large Companies Forum and the AEAT. The company joined on April 21, 2017 and the Company complies with its contents.

This report includes the following Appendices in an attached document.

APPENDIX I. - Explanatory notes.

APPENDIX II.- Report on the Activities of the Audit and Compliance Committee, 2018.

APPENDIX III.- Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2018. APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2018. APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2018.

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

[22/02/2019]

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

[] Yes
[√] No

H. OTHER INFORMATION OF INTEREST:

APPENDIX I,

EXPLANATORY NOTES

EXPLANATORY NOTE ON SECTION A.2.

The list of direct and indirect holders of significant stakes set out in section A.2 of this Report includes those significant shareholders who on December 31, 2018 qualified as such in the relevant official register of the Spanish National Securities Market Commission (CNMV). The foregoing is independent of the question of whether or not the issuer received timely notice from any relevant shareholder in pursuance of article 23 of Royal Decree 1362/2007, of 19 October.

EXPLANATORY NOTE ON SECTION A.3.-

The table for this section uses information published in official CNMV records, in accordance with the communication filed by the company's Directors.

EXPLANATORY NOTE ON SECTION A.5.-

Regarding dividends paid by Enagás to the significant shareholders referred to in section A.5 of this Report, note:

On July 5, 2018, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2017 of 7,558 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 5,280 thousands of euros interim dividend against 2018 earnings was paid. The total dividend paid therefore stands at 12,838 thousands of euros.

On July 5, 2018, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2017 of 10,457 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 7,305 thousands of euros interim dividend against 2018 earnings was paid. The total dividend paid therefore stands at 17,762 thousands of euros.

On July 5, 2018, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2017 of 2,111 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 1,475 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 3,586 thousands of euros.

On July 5, 2018, Enagás paid **BLACKROCK INC** a final dividend for 2017 of 7,077 thousands of euros, as approved by the General Shareholders' Meeting.

Additionally, in December 2018, a 4,944 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 12,021 thousands of euros.

On July 5, 2018, Enagás paid **STATE STREET CORPORATION** a final dividend for 2017 of 6,290 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 4,395 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 10,685 thousands of euros.

EXPLANATORY NOTE ON SECTION A.6

This refers to Mr Bartolomé Lora Toro as the natural person representative of the director of the Sociedad Estatal de Participaciones Industriales (SEPI).

EXPLANATORY NOTE ON SECTION A.8.-

At the date of preparation of this report, the SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), in addition to having a seat on the Board, also had a significant holding (5%) in the share capital of Enagás, S.A.

SEPI cannot exercise control over Enagás, S.A. as it is not in any of the circumstances set out in Article 4 of the Spanish Securities Market Act 24/1988, of 28 July (LMV).

Accordingly, no individual or legal person exercises or could exercise control over Enagás, S.A in accordance with Article 4 of the LMV.

EXPLANATORY NOTE ON SECTION A.9.-

On May 25, 2016 Enagás S.A. finalised the process of acquiring 307,643 of its own shares, which accounts for 0.13% of the total shares in the Group, for a total cost of 8,219 thousands of euros (including associated costs of 8 thousands of euros). This acquisition took place within the framework of the Temporary Share Buy-Back Scheme, whose exclusive aim was to meet the obligations of delivering shares to the Executive Directors and members of the Enagás Group management team under the current remuneration scheme according to the terms and conditions of the 2016–2018 Long-Term Incentive Plan and Remuneration Policy approved at the General Meeting of Shareholders. The shares were purchased in compliance with the conditions set out in Article 5 of Regulation EC/2273/2003 and subject to the terms authorised at the General Shareholders' Meeting held on March 18, 2016. Management of the Temporary Share Buy-Back Scheme was entrusted to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the transaction on behalf of Enagás, S.A. independently and without exercising influence on the process.

EXPLANATORY NOTE ON SECTION A.12.-

Further text of section 2 of the 31 additional provision of the Hydrocarbons Sector Law 34/1998, of 7 October (hereinafter, also called "LSH"):

(...) "For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, of July 28, on the Securities Market, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) To partners with whom it exercises control over a dominant company in accordance with article 4 of the LMV".

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties."

Meanwhile, section 3 of Additional Provision 31 of this law states that:

"The restrictions of shareholding percentages and non-transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission, regulated by Article 66 of Law 34/ 1998, of 7 October, on the Hydrocarbons Sector, management of the transmission network and technical management of the national gas system".

Restrictions under the company's Articles of Association:

In accordance with the aforementioned legal provision, article 6 bis of Enagás' Articles of Association ("Limitations on holdings in share capital") establishes that:

"No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal

persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical management of the system, which are regulated businesses under Hydrocarbons legislation”.

EXPLANATORY NOTE ON SECTION C.1.3.-

In the table relating to independent external directors, in the SEPI profile, it lists its natural person representative as Mr Bartolomé Lora Toro.

EXPLANATORY NOTE ON SECTION C.1.9.-

The Chief Executive Officer, Mr Marcelino Oreja Arburúa, has been delegated the following powers:

A) Jointly and severally.

1. Collect whatever is payable to him for any reason, in bills, cheques, promissory notes, or by deposit in a bank account, by public or private bodies in the European Union, other international organisations, by central, regional, provincial, local government authorities, executive agencies, government depositaries and, in general, by any private individual or legal entity in the public or private sectors; establish and settle balances, determine the form of payment of amounts owed to the company, grant extensions of deadlines, set payment terms and conditions; cash orders of payment from the central, regional or local government tax authorities, including receiving from central government tax offices or other agencies money in cash or any means that represents it and accept the refund of amounts paid in tax.

2. Represent the Company in dealings with third parties, whether natural or legal, public or private, and before all kinds of authorities, public officials, boards and collegiate bodies, chambers, committees, associations, public property registers, companies registers, or public registers of any other kind, trade unions, mutual insurance companies, executive or non-executive agencies, whether autonomous or otherwise, directorates, regional offices of any kind of central, regional, provincial or local government authorities and any other public entities of any level or jurisdiction, whether Spanish or otherwise, whatever their name or nature; exercise any rights, remedies, claims and defences relating to the Company; formulate petitions and in connection with all types of proceedings, file claims and appeals of any kind, including motions for reconsideration and appeals

for review, in which the company has an interest, either in proceedings initiated by the company or in those of others that directly or indirectly affect the company; file them, take part in the processing of them; formulate and respond to representations, propose and examine evidence; apply for stays and adjournments; discontinue and abandon or in any other way withdraw from them, at any stage of the proceedings; execute and enforce agreements, detachments and return of documents; request and respond to certificates and summonses, be they governmental, notarial or of any other nature; request certificates, depositions and authentic copies; take delivery from public authorities, including post and telegraph offices and customs officers, of all kinds of papers, objects, goods and consignments in general addressed to the company, executing any notarial instruments or documents under hand required for such withdrawal or dispatch.

3. Make formal appearances in representation of the company before courts and tribunals of any branch or level, whether in the civil, criminal, administrative, social or labour or any other jurisdiction, and before any arbitrator or arbitration body, of all levels, both domestic and foreign, whatever their territorial scope, and before any other authority, justice system, prosecutor's office, boards, centres, offices, departments, panels, bodies and officers belonging to the judiciary and the administration of justice, of any branch and level, and before them make sworn or ordinary statements and respond to interrogatories in court under non-determinative oath; initiate, pursue and complete as principal, defendant, partner in joinder of parties, coadjutor or in any other capacity, all types of judicial proceedings before any jurisdiction; file, pursue and waive appeals of any kind, including governmental and administrative appeals, and motions for reconsideration, rehearing, appeals for review to the same or a higher court, applications to the Supreme Court on the ground of manifest injustice of a previous decision, appeals against refusal of leave to appeal, actions to have decisions declared void, appeals on the ground on lack of jurisdiction, actions for enforcement of rights or any other legally permitted ordinary or extraordinary appeals, and the abandonment, discontinuance or any other form of withdrawal from proceedings in which the Company has an interest, as well as all kinds of proceedings, including conciliation proceedings, with or without a pre-trial settlement, proceedings of voluntary jurisdiction, governmental, notarial, mortgage and tax proceedings and, accordingly, to bring, respond to and pursue through all their formalities and levels until their conclusion all kinds of actions, claims, complaints, criminal actions, accusations, pleas and defences, and exercise any other causes of action, ratifying them whenever personal ratification is required; choose venues and submit implicitly or explicitly to jurisdictions; give evidence as a legal representative at any of the aforementioned proceedings, petition for stays of proceedings; make, request, receive and comply with summonses, notifications, citations and service of process; apply for joinders, attachments, cancellations, enforcements, dispossessions, filings, auctions of assets, statements and assessments of costs; raise issues of jurisdiction and preliminary issues; challenge witnesses; furnish and challenge evidence, waive evidence and the transfer of proceedings to another court; agree to favourable rulings; provide and withdraw payment bonds and deposits as and when required by the court; provide sureties, make judicial deposits and, in both cases, request they be refunded as and when appropriate, and execute and enforce court rulings.

4. Attend, speak and vote at meetings that are held in bankruptcy proceedings, whether fault-based or otherwise, and in temporary receivership proceedings and arrangements with creditors while they remain in force, approve and challenge creditors' claims and their ranking, appoint and accept appointments as receivers and administrators, appoint representatives; accept and reject debtors' proposals and appoint members of conciliation bodies.
5. Confer powers on court representatives and counsel, freely chosen by him, with general powers for litigation and special powers freely established in each case, including those of responding to interrogatories in court, reaffirming positions, withdrawing and abandoning actions, signing such public or private documents as may be necessary for the exercise of such powers.
6. Enter into contracts of any kind with central, regional, provincial and local government authorities and executive agencies and, in general, with any individual or legal entity in the public or private sectors, including contracts for works, supplies and services (excluding regasification, gas transmission and storage, and gas supply contracts); arrange auctions, calls for bids, competitive tendering, direct procurement or any other legal form of procurement; sign proposals and procurement specifications, award contracts and accept contract awards, sign the related contracts and any public and private documents that may be required for their formalisation, fulfilment or performance and discharge.
7. Take the necessary steps to establish arrangements with central, regional, provincial and local government authorities and their agencies concerning all kinds of public prices, levies, whether they be charges, taxes or rates, that affect the Company, agree to such arrangements and for this purpose approve, agree to and sign any covenant, contract or accord referring thereto.
8. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of goods and real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel, fully or partially, payment bonds, pledges and other security interests in favour of third parties.
9. Lease property as the lessor or lessee thereof.
10. Enter into finance lease agreements, subject to such terms and conditions as he may freely determine.
11. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel mortgages, easements and other rights in rem over real estate, whether of common law or foral law [administrative law particular to the Basque Country and Navarre], and also prohibitions, conditions and all kinds of restrictions on real estate; provide real estate collateral guarantees in favour of third parties.
12. File declarations of construction and cultivation, definition and demarcation of boundaries, grouping together, aggregation, segregation and division of property, and organise buildings under condominium arrangements.

13. Apply for official franchises and authorisations, permits and licences, and complete all the formalities to obtain them, and to renew, amend or cancel them as may be necessary or appropriate.

14. Negotiate and establish with owners affected by future gas installations, whether or not there are compulsory purchase proceedings pending, the imposition of rights of way for pipelines and ancillary components and the purchase of land on which to install gas distribution and regulation chambers or other components that depend on or belong to the networks of the company granting the power of attorney, arranging for this purpose such mutually agreed transactions, clauses and prices that he considers to be fair, and signing public and private documents of any kind, regardless of the amount involved, and cancel rights of way fully or partially.

15. Initiate any proceedings for compulsory purchase in which the company has an interest, make formal appearances thereat and make the representations that he considers appropriate, request and conduct expert appraisals, request and receive compensation and, in general, participate in such proceedings in all formalities and appeals related thereto without limitation, executing and signing for the purpose public or private documents of any kind.

16. With regard to proceedings for compulsory purchase, imposition of rights of way and temporary occupation governed by the Law and Regulations on Compulsory Purchase that are instituted by the company granting power of attorney for the construction of gas pipelines, networks and branches and ancillary installations, they may:

a) Formulate requests and petitions, request and respond to certificates and summonses of all kinds, request affidavits, certificates and certified copies in which the Company has an interest, in dealings with individual and legal entities in the public or private sectors, without any exception.

b) Make and withdraw deposits of any kind, including cash, at public entity depositaries of any kind and those held by private individuals or legal entities, at any of their offices and agencies.

c) Attend the drawing up of official records of facts and events prior to and after the completion of compulsory purchase actions.

d) Group together, aggregate, segregate and divide real estate, making the filings relating thereto with the relevant Property Registers.

e) Arrange for the imposition of rights of way and title restrictions and for the acquisition and occupation by mutual agreement of property and rights affected by the laying of gas pipelines, their networks and branches and ancillary installations, fixing prices and conditions.

f) Discharge or redeem any charges or liens affecting the properties, fixing the price and conditions of such redemption.

g) Authorise, and as appropriate, empower by granting power of attorney to such persons as he considers appropriate to represent the Company at the official recording of facts and events prior to and at the time of the occupation of properties affected by compulsory purchase proceedings.

17. Enter into contracts with any private individuals or legal entities in the public or private sectors for the long-term provision of services of regasification, transmission and storage, procurement of points of entry to the company's gas system, gas supply and any other contract for the provision of services connected with the gas business and ancillary activities.

18. Enter into contracts with any private individuals or legal entities in the public or private sectors for the short-term provision of services of regasification, transmission and storage, procurement of points of entry to the company's gas system, gas supply, connection to installations and any other contract for the provision of services connected with the gas business and ancillary activities.

19. Set up, merge, change the corporate form, dissolve and wind up, take part in the enlargement or modification, of any kind of companies, partnerships, consortia, European consortia and joint ventures, represent the Company in them, attend or take part in all kinds of meetings, holding office and appointing officers and representatives as he considers appropriate; contribute to commercial companies all kinds of assets, receiving in payment the relevant shares, equity interests, scrip certificates, convertible or non-convertible debentures, option rights or shares and, in the case of dissolution, the relevant assets. Establish share syndication agreements.

20. Apply for entries to be made at the Property and Companies Registers; send, receive and respond to summonses and notifications and request notarial certificates of all kinds, signing certificates of attendance and any other formality connected with them.

21. Apply for the registration of trademarks and trade names, patents of invention and introduction, utility models and other modalities of industrial property, or challenge and denounce any attempted or effective misappropriation of the name, trademarks and countersigns of company products and counterfeits of them, initiating and pursuing the appropriate proceedings and making formal appearances in proceedings initiated by others, making statements, providing proof and petitioning as appropriate.

22. Acquire and dispose of intellectual and industrial property rights.

23. Organise, direct and inspect all of the company's services and installations and verify audits of company funds.

24. Hire and dismiss personnel employed by the company, of whatever kind and category, appoint and remove them from their duties, stipulating their pay, duties and tasks, and the remuneration payable for extraordinary services.

25. Grant loans and credits to company staff and agree subsequent renewals, alterations, subrogations and cancellations thereof.

26. Grant payment bonds and personal and in rem guarantees to company staff as surety for the fulfilment of personal and mortgage loan contracts granted to Enagás personnel.

27. Negotiate and sign on behalf of the company any kind of general or partial collective agreements and any other type of pact, agreement or arrangement with the company staff, trade unions, or administrative or judicial authorities that are competent in matters of labour and social security.

28. Issue any kind of certificates, identity cards and other documents with the details of company staff that are contained in the company record books and files.

29. Sign all documentation to do with social security, accidents at work insurance, enrolments and dis-enrolments, filings and changes; initiate and pursue claims before the Spanish National Institute of Social Security and offices thereof, mutual insurance companies, benefit societies and insurance companies.

30. Make formal appearances and represent the company in dealings with the regional traffic department and offices thereof, in order to register, transfer and scrap any type of vehicle belonging to the company and to register and de-register them as appropriate.

31. Take delivery of letters, certificates, dispatches, parcels, postal orders and declared value items from communications offices, and of goods and property shipped from shipping companies, Customs and agencies. Receive, open, answer and sign any kind of correspondence and keep the company's books in accordance with the law.

32. Sign any public or private documents that may be necessary in order to jointly and severally exercise the powers granted hereunder as effectively as possible.

33. Request and obtain electronic signature certificates from authorised providers of certification services and use the electronic signature whenever he considers it appropriate in accordance, at all times, with the applicable rules on electronic signatures.

34. Grant such powers of attorney as he considers necessary, being able to confer each and every one of the aforementioned powers granted hereunder or part of them on such person or persons as he considers appropriate. He may also revoke the powers granted by the Board of Directors, by himself or by other company bodies.

The powers included in this section must be exercised by Group B as legal representative, together with any of the authorized legal representatives in accordance with the following deeds executed before the Madrid Notary Public Mr Pedro de la Herrán Matorras: (i) deed dated June 13, 2012 number 1,291 of the filing system, registered on Company sheet M-6113, entry 728; (ii) deed dated June 27, 2013, number 1,493 of the filing system, registered on Company Sheet M-6113, entry 752 ;-(iii) deed dated September 10, 2013, number 2,023 of the filing system registered on Company Sheet M-6113, entry 763; (iv) deed dated September 13, 2017, number 1,915 of the filing system, registered on Company Sheet M-6113, entry 816. The terms of these powers of attorney are as follows:

Jointly with another authorised signee from Group B or from I Group A, up to a limit of 30,000.000 C, except for power of attorney 12, which can be jointly executed for any amount with another I authorised signee from Group B or from Group C.

Jointly with another authorised signee from Group C up to a limit of 20,000,000 euros".

The aforementioned powers (be they joint and several, joint) cannot be exercised in one or more of the following circumstances exist, which are considered LIMITATIONS on the powers delegated here:

I. Making investments or transactions of any type that, due to their high amount or special characteristics, represent a strategic or special fiscal risk for the Company.

II. Creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar type that, by their nature, might impair the transparency of the Company or the Group.

III. Performing transactions that the Company or the companies perform with the members of the Board of Directors under the terms set forth in Articles 229 and 230 of the Corporate Enterprise Act, or with shareholders who, individually or jointly with others, hold a significant stake, including shareholders represented on the Company's Board of Directors or the boards of other companies belonging to the same group or with persons associated with them.

However, this limitation will not be applicable in one of the following two cases:

A) When, in the opinion of the legal representative, there are urgent circumstances that require the transaction or make it advisable; or

B) When the transactions simultaneously meet the following three characteristics:

1st They are governed by standard form contracts applied on an across-the-board basis to a large number of customers,

2nd They go through at market. generally set by the person supplying the goods or services; and

3rd Their amount does not exceed 1% of the Company's annual revenue.

IV. Carry out any action that, in accordance with the Corporate Enterprises Act, is a non-delegable power either of the Board of the Company or of the Board of Directors of the Company.

B) Jointly.

1. Enter into all types of banking arrangements including: factoring, leasing, lease financing, reverse factoring and any other similar banking arrangements with any Spanish or foreign bank, including the Bank of Spain and the branches thereof, the European Investment bank, the Spanish Official Credit Institute, registered savings banks, savings banks, post office savings banks, the Confederation of Spanish Savings Banks, the General Deposit Fund or any other similar Spanish or foreign trading, transfer, exchange or credit institution.

2. Open, monitor, cancel or drawn down from ordinary current accounts or credit, sight or fixed-term deposit accounts, secured through a security interest, personal guarantee, pledged securities or trade notes, with or without a guarantee.

3. With regard to ordinary current accounts or credit, sight or fixed-term deposit accounts opened on behalf of the company, write personal cheques, issue bank drafts, issue bank cheques, perform bank transfers or use any other accepted payment system or mechanism; pay in or withdraw voluntary or required amounts and deposits of cash or securities, signing any documentation required to perform such transactions.
4. Issue, cash, accept, endorse, receive, sign, intervene, challenge, pay and negotiate any type of bills of exchange, letters of credit, non-credit or credit facilities, promissory notes, cheques and other bank bills, commercial bills, bank giros, or bills of exchange.
5. Obtain and award loans or credits, with or without collateral or personal guarantees, including the pledging of securities, and arrange subsequent renewals, amendments and subrogations. Acquire and extend credits.
6. Request, cancel and withdrawn personal and collateral-backed sureties, guarantees and payment bonds.
7. Enter into discounting arrangements for promissory notes issued by the company with banks and financial institutions authorised to perform discounting, and enter into loan or other financing arrangements represented by promissory notes with these entities; contract agency services to facilitate such financing arrangements.
8. Buy and sell shares, debentures, bonds, stakes and any other type of security or instrument, and collect any yield from these.
9. Pay in bearer cheques paid to the company, signing the reverse, for the sole purpose of paying them into the current accounts held with the Bank of Spain, and other banks, credit institutions and savings banks.
10. Arrange transfers between current and credit accounts or loan accounts set up in the company's name through bank transfers, bank cheques or any other accepted payment system or mechanism in all types of banks, including the Bank of Spain, savings banks and other credit institutions, both Spanish and foreign.
11. Award and accept loans to/from subsidiaries and affiliates and the parent company.
12. Make payments to settle invoices for gas purchases and settle taxes by personal cheque, bank giro or transfer, bank cheque or any other accepted payment system or mechanism from ordinary current accounts and credit, sight or fixed-term deposit accounts opened by the company, to which end any type of document may be signed.
13. Sign any public or private documents that may be necessary in order to jointly exercise the powers granted hereunder as effectively as possible.

EXPLANATORY NOTE ON SECTION C.1.10.-

The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS Derivatives, S.A., a company that is not part of the Enagás Group and in which Enagás S.A. holds a 19.4% stake.

EXPLANATORY NOTE ON SECTION C.1.11.-

SEPI has representation on the Board of Directors of the listed company EBRO FOODS, S.A. through ALYCESA (a 91.96%-owned subsidiary of SEPI).

EXPLANATORY NOTE ON SECTION C.1.14.-

During financial year 2018, the total remuneration of the Senior Management of the Company amounted to 5,350 thousands of euros. Said report includes the compensation received by the Director of Internal Audit (Mr Isidro del Valle Santín from January 1 to October 30 of 2018 and Ms Rosa Sanchez Bravo from November 1 to December 31 of 2018).

EXPLANATORY NOTE ON SECTION C.1.16.-

DURATION IN CHARGE AND CO-OPTION:

Article 10 of the Regulations of the Organisation and Functioning of the Board of Directors stipulates that Directors may hold office for a period of four years, and may be re-elected for similar periods. Directors appointed by co-option will perform their duties until the date of the first General Meeting, or until the date of the following meeting, if the vacancy arises after the General Meeting has been convened and before it is held.

RE-ELECTION OF DIRECTORS:

Article 11 of the Regulations of the Organisation and Functioning of the Board of Directors stipulates that the Appointments, Remuneration and CSR Committee, responsible for evaluating the quality of work and dedication to their offices of the Directors proposed during the previous term of office, shall provide the information required to assess proposals for re-election of non- Independent Directors presented by the Board of Directors to the General Meeting and proposals for the re-election of Independent Directors.

Proposals for re-election shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the candidate. This report shall be attached to the minutes of the General Meeting or of the Board.

As a general rule, appropriate rotation of Independent Directors should be ensured. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified.

REMOVAL:

Directors shall leave their post after the first General Meeting following the end of their term of appointment and in all other cases in accordance with the law, the

Articles of Association and these Regulations (Article 12.1 of the Regulations of the Organisation and Functioning of the Board of Directors).

The Board of Directors shall not propose the removal of any independent Director prior to the end of the period mandated by the Articles of Association for which they have been appointed, unless there are due grounds acknowledged by the Board following a report from the Appointments, Remuneration and Corporate Social Responsibility Committee. In particular, it shall be understood that there is just cause when the Director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable legislation (Article 12.3 of the Regulations of the Organisation and Functioning of the Board of Directors).

EXPLANATORY NOTE ON SECTION C.1.32.-

As disclosed in note 4.6 c) to the Annual Accounts, Law 22/2015 on the Audit of Accounts establishes that non-audit services provided by the auditor must be less than 70% of the average fees paid for audit services for three consecutive years. The amount of non-audit services rendered by the auditor of accounts (Ernst & Young, S.L.) amounts to 36% of the audit service fees invoiced during 2018 (31% for the Group).

EXPLANATORY NOTE ON SECTION C.1.39

In accordance with article 529 octodecies of Corporate Enterprises Act, the Board is informed of the main terms and conditions of Director's contracts in the Remuneration Policy and Remuneration Report that is submitted to the Board every year.

EXPLANATORY NOTE ON SECTION C.2.1.-

AUDIT AND COMPLIANCE COMMITTEE (Continued):

The duties and responsibilities of the Audit and Compliance Committee are:

a) With regards to the financial statements and other accounting information

- Overseeing the preparation and presentation of financial information on the company and the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
- Examining the information on the company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.

- Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
- Informing the Board with regard to the annual accounts and any other information that must be regularly disclosed prior to these being drawn up.
- Ensuring that the Board of Directors endeavours to present the financial statements in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
- The Board of Directors must properly explain any departure from the Audit and Compliance Committee's prior Report in the Annual Accounts finally authorised for issue.
- Assessing any proposals made by senior managers regarding changes in accounting practices.

b) Competencies relating to legality

- Reporting to the Board of Directors prior to it approving the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair the transparency of the company or the Group.
- Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 Bis of the Regulations of the Board.
- Receiving and analysing information on the fiscal criteria applied by the company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the annual accounts.

c) Competencies with regard to the Internal Audit unit

- Ensuring the independence of the unit that performs internal audit functions, which reports functionally to the Chairman of the Committee. It also ensures the smooth running of internal control and information systems submitting recommendations and proposals to the Board of Directors, with related monitoring periods, as it deems appropriate.
- The head of the unit responsible for the internal audit function shall present an annual work programme to the Committee, and report on any incidents arising during its implementation, and shall submit an activity report at the end of each year.

- Ensuring the unit has sufficient resources and suitably qualified personnel for optimum performance of the function.
- Approving the Internal Audit Plan and related work plans, and proposing the annual budget for this, ensuring that activity focuses mainly on the most significant risks facing the company.
- Supervising the company's Internal Audit services, receiving regular information on its activities and verifying that senior management takes its conclusions and recommendations into account.
- Making proposals to the Board of Directors on the selection, appointment, re-election and removal of the head of Internal Audit.

d) Competencies relating to the relationship with the external auditor

- With regard to the **appointment, re-election and replacement of the accounts auditor:**

- Taking responsibility for the selection process, pursuant to applicable legislation.
- Reporting on the remuneration of the external auditor and other contract conditions.
- Proposing the appointment, re-election or replacement of the external auditors of the Enagás Group to the Board of Directors for presentation to the General Shareholders' Meeting.
- As applicable, ensuring that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

- With regard to the **independence of the external auditor and absence of causes for prohibition and incompatibility:**

- Establish an **appropriate relationship with the External Auditor** in order to receive information on those questions which may represent a threat to their independence. Specifically, the discrepancies that may arise between the auditor of accounts and Company management, and any other discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit.
- Receive those other communications provided for in audit legislation and audit standards.

- Proceed with the authorization of services other than those prohibited, in accordance with prevailing regulations.
 - Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the **concentration of the auditor's business** and other requirements concerning auditor independence.
 - Ensuring that the **fees** of the external auditor do not threaten their quality and independence, and are not based on any form of contingency.
 - In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
 - Receiving the annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to it, in conformity with audit regulations.
 - Issuing an annual report, prior to the issue of the audit report, giving an opinion on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered, as referred to in the previous section, that could compromise the independence of the Accounts Auditor, considered separately and in their totality, other than statutory audits and how they relate to the requirement of independence or to the audit regulations and shall be published on the website of the company sufficiently in advance of the date of the Ordinary General Shareholders' Meeting.
 - Establishing a maximum term of auditor engagement, ensuring a gradual rotation with the main audit partners.
- With regard to **audit reports**:
 - Reviewing the content of audits, limited review reports of interim financial statements and other required reports of statutory auditors prior to their issue in order to prevent qualifications.
 - Supervising the responses of senior management to its recommendations, and mediating and arbitrating in the event of any disagreement with regard to the principles and criteria applicable to the preparation of the financial statements.
 - Fostering and ensuring that the external auditor who audits the individual and/or consolidated financial statements takes full responsibility for the audit report issued, even when the financial statements of affiliates are audited by other external auditors.
 - Reporting to the General Shareholders' Meeting on the audit results, explaining that this process contributes to the reliability of the financial information, and on the role performed by the Committee in this process.

- Ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform them of the work undertaken and developments in the company's risk and accounting positions.

e) Competencies relating to the Company's risk control and management function

- Oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the company's internal policy. Submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them.

In particular, the company shall have a risk control and management unit, supervised by the Audit and Compliance Committee, which shall, among other functions, ensure the proper functioning of the risk control and management systems and, in particular, identify, manage and adequately quantify all material risks affecting the company; actively participate in the development of the risk strategy and major decisions on its management; and ensure that the risk control and management systems adequately mitigate risk under the policy defined by the Board of Directors.

- To assess the company's risks and examine the analyses of risks that affect the business, which are set out in the internal risk policies. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- To disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

f) In relation to Corporate Governance

- Reporting in advance to the Board of Directors on structural and corporate changes that the company plans to carry out, their economic conditions and their accounting impact and, in particular, where appropriate, the proposed exchange ratio.
- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Regulations of the Audit and Compliance Committee and the company's governance regulations in general, and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.

- Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.

- Supervising a whistle-blowing mechanism enabling employees to report - confidentially and anonymously - any potentially significant incidents they identify in the company, particularly with regard to financial and accounting issues, whilst respecting personal data protection regulations and the basic rights of the parties involved.

- Preparing an annual report on the work of the Audit and Compliance Committee that will form part of the Corporate Governance Report.

- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interests.

g) Competencies relating to the Compliance function

- Ensuring the independence of the compliance function.

- Ensuring that the compliance unit performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Group Code of Ethics.

- Ensuring that the compliance unit has the human and material resources needed for optimum performance of its functions.

- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Compliance.

h) In relation to shareholders

- Providing information on issues within the scope of its duties at the General Meeting.

APPOINTMENTS AND REMUNERATION COMMITTEE (Continued):

The duties and responsibilities of the Appointments and Remuneration Committee are:

- Evaluate the competencies, knowledge and experience required on the Board of Directors. To this end, it shall determine the functions and capacities required of the candidates to fill each vacancy, and evaluate the precise amount of time and degree of dedication necessary for them to effectively perform their duties, while overseeing that the Non-Executive Directors have sufficient time available to properly perform their functions.
- Review the structure of the Board of Directors, the criteria for the renewal of Directors required under the Articles of Association, the addition of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that the Committee considers necessary.
- Establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- Forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- Report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- Report on the appointment and dismissal of the Secretary of the Board of Directors.
- Report on proposed appointments and removals of senior management and the basic terms of their contracts.
- Examine and organize the succession of the Chairman of the Board of Directors and CEO of the company and, if appropriate, to make proposals to the Board to ensure the succession is smooth and well-planned.
- Draw up and review the criteria that must be utilized for the composition of the Board and for selection of those nominated as Directors, ensuring that their access to the Board does not affect the company's status as technical transmission operator, pursuant to the provisions of regulations applicable concerning hydrocarbons.

The Committee shall verify on an annual basis compliance with the selection policy of Directors of the company approved by the Board of Directors.

- Formulate proposals to the Board of Directors regarding the company's organizational structure, including the creation of senior management posts in order to achieve improved and more efficient company administration.
- Propose to the Board of Directors a policy of remuneration of Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to the Chairman, to executive committees or Chief Executives, along with individual remuneration and other

terms of Executive Directors' contracts, ensuring that said policy is abided by. To this end, the committee will periodically review the remuneration policy for Directors and senior management and ensure that their individual remuneration is proportional to that paid to the other Directors and Senior Management of the company.

- Propose a general remuneration policy for Enagás management, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has suitable highly qualified staff for administering its business at all times, proposing to the Board the basic conditions of their contracts.
- Verify information on remuneration of Directors and senior management contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- Ensure that any conflicts of interest do not impair the independence of external advisers to the Committee on remuneration.
- Report to the Board on general policy concerning Corporate Social Responsibility and Corporate Governance, ensuring the adoption and effective application of best practices – both those which are compulsory and those that are in line with generally-accepted recommendations. To this end, the Committee shall be responsible for the following functions:
 - a) Submit to the Board the initiatives and proposals it deems appropriate and provide information on proposals submitted to the Board and information the company releases to shareholders annually regarding these issues.
 - b) Monitor compliance with the rules of corporate governance of the Company, periodically assessing the adequacy of the company's system of corporate governance, in order to fulfil its mission of promoting the social interest, and consider, as appropriate, the legitimate interests of other stakeholders.
 - c) Monitor the communication strategy and relations with shareholders and investors, including small and medium shareholders.
 - d) Monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
 - e) Monitor and assess the processes of liaising with different stakeholders.
 - f) Review the corporate responsibility policy of the company, ensuring that it is aimed at creating value.

In particular, the Committee shall ensure that the policy of corporate responsibility identifies at least:

- The goals of its corporate social responsibility policy and the support instruments to be deployed.

- The corporate strategy with regard to sustainability, the environment and social issues.
- Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- The mechanisms for supervising non-financial risk, ethics and business conduct.
- Channels for stakeholder communication, participation and dialogue.
- Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

The report which, if any, may be issued by the Committee on the company's general policy of Corporate Social Responsibility, shall be developed using any of the internationally accepted methodologies, and shall be published on the website of the company sufficiently in advance of the Ordinary General Shareholders' Meeting.

- Report to the Board of Directors on measures to be taken in the event of breach of these Board Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and Corporate Social Responsibility Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

The Committee shall consult the Chairman of the Board and Chief Executive Officer of the company, especially on matters relating to the appointment of the executive directors and the remuneration of senior management and Executive Directors. Any board member may suggest directorship candidates to the Appointments Committee for their consideration.

EXPLANATORY NOTE ON SECTION D.2

Regarding dividends paid by Enagás to significant shareholders, excluding Directors, referred to in section D.2 of this Report, note:

On July 5, 2018, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2017 of 7,558 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 5,280 thousands of euros interim dividend against 2018 earnings was paid. The total dividend paid therefore

stands at 12,838 thousands of euros.

On July 5, 2018, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2017 of 2,111 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 1,475 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 3,586 thousands of euros.

On July 5, 2018, Enagás paid **BLACKROCK INC.** a final dividend for 2017 of 7,077 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 4,944 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 12,021 thousands of euros.

On July 5, 2018, Enagás paid **STATE STREET CORPORATION** a final dividend for 2017 of 6,290 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 4,395 thousands of euros interim dividend against 2018 earnings was paid. Therefore, the total dividend paid stands at 10,685 thousands of euros.

EXPLANATORY NOTE ON SECTION D.3.-

Regarding dividends paid by Enagás to Directors who are significant shareholders, as referred to in section D.3 of this Report, note:

On July 5, 2018, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** a final dividend for 2017 of 10,457 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2018, a 7,305 thousands of euros interim dividend against 2018 earnings was paid. The total dividend paid therefore stands at 17,762 thousands of euros.

EXPLANATORY NOTE ON SECTION D.4.-

The criteria used by Enagás for reporting information on significant operations carried out by the company with other entities in the same group is as follows:

1. Significant operations with other entities in the group shall be reported provided that they are not eliminated in the consolidation process.

2. Of the operations that are not eliminated in the consolidation process, a report shall be made of those that do not simultaneously meet the following three conditions:
 - a. Their amount does not exceed 1% of the Company's annual revenues.
 - b. They are part of the company's ordinary traffic, with ordinary traffic understood to mean those activities related to transmission, storage and regasification.
 - c. They are carried out at prices or rates under normal market conditions.

For the item Services received, the company was invoiced for **48,541 thousands of euros**, and for the item Services rendered, the company invoiced for **8,844 thousands of euros**, an amount which was not included in section D.4 of this report because it involved operations that were part of the ordinary traffic of Enagás S.A. and its Group in terms of object and conditions.

EXPLANATORY NOTE ON SECTION D.5.-

The amount from related party transactions is obtained from the following breakdown:

Group Entity	Related Party	Category	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Finance cost	5,816
Enagás Internacional, S.L.U.	Banco Santander, S.A.	Finance cost	4,959
Total finance cost, other related parties			10,775

Group Entity	Related Party	Category	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Financial income	3
Enagás Internacional, S.L.U.	Banco Santander, S.A.	Financial income	31
Total finance revenue, other related parties			34

Group Entity	Related Party	Category	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Guarantees	102,411
Total guarantees, related parties			102,411

Group Entity	Related Party	Category	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Agent Services	15
Enagás S.A.	Banco Santander, S.A.	Vehicle rental	44
Enagás S.A.	Club Español de la Energía	Services received	61
Enagás S.A.	C.E.O.E.	Services received	30
Enagás S.A.	Fundación Aspen Institute España	Services received	50
Enagás G.T.S., S.A.	Club Español de la Energía	Services received	4
Enagás Internacional, S.L.U.	Newcomer 2000	Services received	72
Enagás Transporte S.A.U.	Banco Santander, S.A.	Vehicle rental	122
Enagás Transporte S.A.U.	Club Español de la Energía	Services received	440
Total services received, other related parties			838

Total transactions with other related parties	114,058
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Transactions with BANCO SANTANDER, S.A.

Financial expenses: in 2018, financial expenses paid to Banco Santander, S.A. amounted to **10,775 thousands of euros**, of which 5,816 thousands of euros corresponds to Enagás S.A., and 4,959 thousands of euros to Enagás Internacional, S.L.U.

Financial income: in 2018, financial income from Banco Santander, S.A. amounted to **34 thousands of euros**, of which 3 thousands of euros corresponds to Enagás S.A., and 31 thousands of euros to Enagás Internacional, S.L.U.

Guarantees and sureties received: guarantees extended by Banco Santander, S.A. in 2018 amounted to **102,411 thousands of euros**, all of which were granted to Enagás, S.A.

Services received: Enagás, S.A. incurred expenses of **59 thousands of euros**, as follows:

Services received from Banco Santander				
Category	Amount	Price policy	Payment terms	Guarantees
Vehicle hire	44	-	-	-
Agency commission	15	-	-	-

Services received: Enagás Transporte, S.A.U. incurred expenses of **122 thousands of euros**, broken down as follows:

Services received from Banco Santander				
Category	Amount	Price policy	Payment terms	Guarantees
Vehicle hire	122	-	-	-

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

Services received: Enagás International, S.A.U. incurred expenses of **72 thousands of euros**, broken down as follows:

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

Transactions with Club Español de la Energía-

Services received: Enagás, S.A. incurred expenses of 61 thousands of euros, as follows:

Services received from Club Español de la Energía				
Category	Amount	Price policy	Payment terms	Guarantees
Various services	61			

Services received: Enagás Transporte, S.A.U. incurred expenses of **440 thousands of euros**, broken down as follows:

Services received from Club Español de la Energía				
Category	Amount	Price policy	Payment terms	Guarantees
Various services	440	-	-	-

Services received: Enagás G.T.S., S.A.U. incurred expenses of **4 thousands of euros**, broken down as follows:

Services received from Club Español de la Energía				
Category	Amount	Price policy	Payment terms	Guarantees
Various services	4	-	-	-

Transactions with C.E.O.E. -

Services received: Enagás, S.A. incurred expenses of **30 thousands of euros**, as follows:

Services received from CEOE				
Category	Amount	Price policy	Payment terms	Guarantees
Various services	30			

Transactions with Fundación Aspen Institute España-

Services received: Enagás, S.A. incurred expenses of **50 thousands of euros**, as follows:

Services received from Fundación Aspen Institute España				
Category	Amount	Price policy	Payment	Guarantees

			terms	
Various services	50			

APPENDIX II

REPORT ON THE ACTIVITIES OF THE AUDIT AND COMPLIANCE

COMMITTEE, 2018

Annual Activity Report of the Audit and Compliance Committee

Audit and Compliance Committee
22 February 2019



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1

Composition,
attendance and
operation



Composition

On 31 December 2018, the composition of the Audit and Compliance Committee was as follows:



Chairwoman

Ms Isabel Tocino
Biscarolasaga
Independent



Member

Sociedad Estatal de Participaciones Industriales (SEPI), represented by its Vice President Mr Bartolomé Lora Toro
Proprietary



Member

Ms Rosa Rodríguez Díaz
Independent



Member

Mr Luis García del Río
Independent



Member

Mr Martí Parellada Sabata
External



Secretary

Mr Rafael Piqueras Bautista

The following changes took place in the composition of the committee in 2018:

- The resignation presented by Mr Luis Valero Artola from the Board of Directors and therefore as a member of this Committee took effect at the General Meeting of Shareholders of 22 March 2018.
- Furthermore, the Board of Directors agreed to appoint Mr Luis García del Río as a member of the Audit and Compliance Committee on 22 March 2018 to occupy the vacancy, having ceased to be a member of the Appointments, Remuneration and CSR Committee.

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

All the information on the Directors, including their work experience, is available on the Enagás Corporate Website:

[www.enagas.es/enagas/
es/QuienesSomos/
ConsejoAdministracion](http://www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion)



Attendance

In accordance with the Regulations governing the Audit and Compliance Committee, the committee approved an annual schedule of meetings, which set a total of ten meetings: four ordinary meetings, five preparatory meetings and one extraordinary meeting.

All members of the Audit and Compliance Committee physically attended these meetings.

Committee Operation

The Committee conducted its activity in 2018 in accordance with the best practices of corporate governance and the standard procedures set out in Technical Guidelines 3/2017 on Audit Committees in Public Interest Entities.

In accordance with these guidelines, all Audit and Compliance Committee meetings were attended by the Internal Audit Director, Mr Isidro del Valle Santín, and the Internal Audit Manager, Ms Rosa Sánchez Bravo, in her duties as adviser to the Committee.



Similarly, during 2018, upon the invitation of the Chair of the Committee, the Committee insisted on the presence of the following Directors, in relation to matters of their competence in accordance with the established agenda: the Chief Executive Officer Mr Marcelino Oreja Arburúa and the Chief Financial Officer of Enagás Mr Borja García-Alarcón Altamirano. The Chief Risk Officer and the Compliance Officer also attended meetings of the Committee when the latter addressed issues related to their functions.

Likewise, the representatives of the external auditors, Ernst & Young, S.L., attended the ordinary meetings of the Committee.

The documentation relative to each meeting, such as the agenda and the minutes from the previous meeting, were given to Committee members sufficiently in advance.

Ordinarily, after each Audit and Compliance Committee meeting the Chairwoman of the Committee reports to the Board of Directors in a meeting held the same day, with regard to the actions taken and matters addressed in each Committee meeting.



2

Regulation of the Audit and Compliance Committee



The Audit and Compliance Committee is governed by the provisions of applicable laws and regulations, the provisions contained in corporate documents, the Regulations for the Organisation and Functioning of the Board of Directors of Enagás, S.A., as well as the set of regulations governing its own organisation and operation, dated 21 December 2015.

These documents are available on the website.

The main duties of the Audit and Compliance Committee are listed under the following basic categories:

2.1. Annual Accounts and other financial reports:

- i. Oversight of the process for the preparation and presentation of any economic or financial reports relative to the Company and its Group, which are published in compliance with the regulations governing the securities market, ensuring their transparency and the accuracy of the information presented.
- ii. Reporting to the Board of Directors on the recommendations or particulars it considers necessary in relation to the application of accounting principles, internal control systems or any other matter addressed for the purpose of safeguarding the integrity of the financial information.

- iii. Reporting to the Board of Directors with regard to the annual accounts and any other information that must be regularly disclosed, prior to their being drawn up.
- iv. Reporting at the General Shareholders' Meeting on the issues that arise in relation to those matters that fall within the competence of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial information and the role that the Committee has played in this process.

2.2. External auditors

The appointment, re-election or replacement of external auditors:

- i. Responsibility for the process of selection, renewal and replacement of the account auditor.
- ii. Reporting on the remuneration of external auditors and other contract conditions.
- iii. Proposing to the Board of Directors the appointment, re-election or replacement of the accounts auditor, subject to the decisions of the General Shareholders' Meeting.

External auditor independence:

- i. Ensuring compliance by both the account auditor and the Company with the regulations governing the provision of non-audit services, limits on the concentration of the auditors' business and other generally applicable requirements concerning auditor independence, in addition to the existing internal procedures.
- ii. Ensuring that the fees of the external auditor does not jeopardise their quality and independence, and are not based on any form of contingency.
- iii. Authorisation for the provision of any services other than those of auditing non-prohibited accounts, after analysing the threats to auditor independence and the safeguard measures to be applied where deemed necessary.
- iv. Receiving from the account auditors on a yearly basis their auditor independence statement in relation to any directly or indirectly related entity or entities, in accordance with the regulations governing the account auditing activity.
- v. The issuance of an report expressing the Committee's opinion on the independence of the auditors, prior to the issuance of the audit report.

In relation to the audit process and other limited reviews of interim financial statements:

- i. Establishing opportune relations with the external auditors in order to receive information on those issues relating to the audit process, evaluating the results of each audit and discussing any significant weaknesses in control that may be detected with the account auditors.
- ii. Reviewing the contents of audit reports, reports on limited review of interim financial statements and other statutory reports required of account auditors prior to their issuance, in order to prevent qualifications.
- iii. Ensuring that the external auditors hold two meetings per year, half-yearly and at the end of the accounting period, with the Board of Directors in order to report on the evolution of accounting positions and risks to the Company.
- iv. Conducting a yearly assessment of auditor performance, in accordance with the criteria set out in the Company's internal procedure and the laws in force.



2.3. Internal audit function

- i. Ensuring the independence of the Company's internal audit function, ensuring the provision of sufficient resources and suitably qualified personnel for the optimum performance of its duties.
- ii. Supervising the internal audit services, receiving regular information on their activities and verifying that senior management takes their conclusions and recommendations into consideration.
- iii. Yearly assessment of the internal audit function and its manager's performance.
- iv. Making proposals to the Board of Directors on the selection, appointment, re-election and removal of the head of the internal audit function.

2.4. Risk control and management function

- i. Overseeing the effectiveness of risk control and management systems in order to adequately mitigate risks with the framework of the Company's internal policy.
- ii. Reporting to the Board of Directors on any risks uncovered, with an assessment thereof, and any key issues concerning risks.

2.5. Competencies relating to legality

- i. Reporting to the Board of Directors prior to approval of the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair the transparency of the Company or the Group.
- ii. Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 Bis of the Regulations of the Board of Directors.
- iii. Preparing a report on related-party transactions, for posting on the Company's website, sufficiently in advance of the Ordinary Shareholders' Meeting.

2.6. Corporate governance

- i. Reporting in advance to the Board of Directors on operations involving structural and corporate modifications planned by the Company.
- ii. Overseeing compliance with the Internal Code of Conduct in matters relating to securities markets of the Regulations of the Audit and Compliance Committee.

In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and Corporate Social Responsibility Committee in relation to Directors' and executives' compliance with the Code.

- iii. Supervising a whistle-blowing mechanism enabling employees to report – confidentially and anonymously – any potentially significant incidents they identify in the Company, particularly with regard to financial and accounting issues, while observing the personal data protection laws and the basic rights of the parties involved.
 - iv. Preparing the present Annual Activity Report of the Audit and Compliance Committee that will form a part of the Annual Corporate Governance Report.
 - v. Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interests.
- iii. Ensuring that the compliance function performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Group Code of Ethics.
 - iv. Ensuring that the compliance function is provided with the necessary staff and material resources needed for the optimum performance of its duties.

2.8. Tax policies and related matters

- i. Receiving and analysing information on the tax-related criteria applied by the Company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the Annual Accounts.

2.7. Compliance

- i. Ensuring the independence of the compliance function.
- ii. Overseeing the activity of the Compliance Department, and receiving its reports on a regular basis.





3

Activities of the Audit and Compliance Committee in 2018



During 2018, the Committee fully executed its scheduled actions, strengthening activities related to its oversight of financial and non-financial reporting in accordance with the standard procedures set out in the Technical Guidelines, including monitoring of account auditing, relations with the external auditors, internal audit activity, risk control and management, and compliance.

The most relevant activities conducted by the Audit and Compliance Committee in 2018 is summarised below.

3.1. Financial and non-financial reporting

Preparation and approval of the Enagás annual accounts for 2017.

In its meeting held on 19 February 2018, the Committee analysed and debated the 2017 annual accounts, reporting favourably on them to the Board of Directors, which proceeded to prepare the annual accounts for the year ending 31 December 2017 under the terms set out by the Committee.

Oversight of Interim Financial Statements

In the course of 2018, in accordance with good governance practices, the Committee continued to carry out its duty of reviewing the Company's

interim financial statements, quarterly and half-yearly, from the reports and analysis provided by the Chief Financial Officer, Internal Audit Director and external auditors.

The Committee understands that this activity is of vital importance in maintaining strict control of the Company's accounts and to facilitate the issuance of an unqualified audit report at year-end.

As a result of its work, the Committee presented at its meetings in April and October 2018 reports to the Board of Directors regarding the interim economic and financial statements of Enagás and the economic and financial report for the first quarter of 2018.

In compliance with the Code of Good Tax Practices observed by Enagás, the Committee was informed by the Finance Department of the tax policies applied prior to the preparation of the annual accounts.

Throughout 2018, the Finance Department regularly reported to the Audit and Compliance Committee on the process of implementing the new accounting standards IFRS 9 and IFRS15, in force since 1 January 2018, and their main impacts on the Enagás financial statements.

Internal Control over Financial Reporting System (“ICFR”).

At the beginning of 2018, the external auditor reported favourably on the Internal Control over Financial Reporting System (hereinafter 'ICFR'), that the Company applies under the COSO 2013 guidelines.

During 2018, the Finance Department and the Internal Audit Department reported on the implementation of minor improvement recommendations detected in the 2017 ICFR certification.

Finally, on 22 February 2019, the account auditors informed the Audit and Compliance Committee that, in their opinion, the Group had effectively received ICFR certification for 2018. The Committee subsequently informed the Board of Directors of this certification, and of the non-existence of relevant recommendations.

Annual Corporate Governance Report and Annual Report containing non-financial information

On 15 February 2018, the Annual Corporate Governance Report and 2017 Annual Report, containing the non-financial information, were made available to the Committee in accordance with Spanish Royal Decree Law 18/2017 of November 24, on non-financial information and diversity. Both documents were finally approved by the Committee on 19 February 2018.

As regards the 2018 financial year, the Committee approved both the Annual Corporate Governance Report and the Consolidated Management Report containing non-financial information on 22 February 2019. The non-financial information statement contained in the Consolidated Management Report provides all the information required by Spanish Law 11/2018 of 28 December governing non-financial information and diversity.

Preparation and approval of the Enagás 2018 annual accounts

With regard to the approval of the 2018 annual accounts, the account auditors gave a favourable report to the Audit and Compliance Committee on 22 February 2019, leading to their subsequent preparation by the Board of Directors.

Moreover, the consolidated accounts together with the management report will be presented to the General Meeting of Shareholders to be held on 29 March 2019.



3.2. External auditors

Account auditing

In accordance with the established agenda, the external auditors participated in the nine ordinary meetings held by the Committee in 2018, and in the three ordinary meetings held in 2019 to prepare for the end of the accounting period, which has allowed the latter to adequately perform its duty to serve as a communication channel between the Board of Directors and the external auditors. In addition, the external auditors reported to the Board of Directors in its meetings on two occasions during the past year, 19 February 2018 and 16 July 2018.

At the meetings held by the Committee in 2018, the external auditors provided detailed information on the planning and progress of their work.

Analysis of Auditor Independence by the Audit and Compliance Committee

During 2018, the Audit and Compliance Committee approved the contracting and relations with external auditors, whose purpose is to regulate the process of appointment, renewal and removal of auditors and the process of approval of the services provided by the external auditors by the Committee, in accordance with the applicable regulations.

In addition, the Committee reviewed and approved all of the services provided by the external auditors, to verify that they complied with the requirements established in the Regulations of the Audit and Compliance Committee and Spanish Account Auditing Law 22/2015.

At the meeting held on 22 February 2019, the external auditors delivered to the Audit and Compliance Committee their auditor independence statement certifying fulfilment of the independence requisites set out in the applicable laws.

On 22 February 2019, the Audit and Compliance Committee issued the Account Auditor Independence Report in which a favourable opinion was expressed as to the independence of the external auditors. This report is available on this website. By 31 December 2018, non-audit services accounted for 36% of total auditor fees.

3.3. Internal auditors

The Committee supervises the Company's internal audit services, receiving regular information on their activities and verifying that senior management takes their conclusions and recommendations into consideration.

In this regard, at the meeting of the Committee held on 15 February 2018:

- The Committee evaluated and approved the Annual Internal Audit Plan for 2018 and the Internal Audit Budget for the year, evaluating the suitability and effectiveness of the internal audit function for the implementation of the plan.
- The Committee carried out an evaluation of the performance of the duties and responsibilities assumed by both the Internal Audit Director and the internal audit function as a whole.

The completed evaluation questionnaire mainly evaluates aspects such as the strategic positioning of the function, good governance and auditor independence, as well as performance in the execution of the defined Audit Plan.

- Finally, it was informed of the Annual Report on internal audit activity conducted in 2017.

The Committee reported on all these aspects to the Board of Directors at their meeting held on 15 February 2018.

Throughout 2018, the Internal Audit Director reported to the Committee quarterly on monitoring of the Audit Plan, the reports issued and the degree of implementation of the recommendations previously detected by the Committee.

It should be highlighted that the Internal Audit Department presented the conclusions given on the quality certificate issued by the Institute of Internal Auditors of Spain in January 2018. In October, the Committee approved a number of modifications to the internal regulations governing the internal audit function in order to address certain improvement actions specified on the quality certificate.

In its extraordinary meeting held on 19 November 2018, the Audit and Compliance Committee proposed to the Board of Directors the appointment of Ms Rosa Sánchez Bravo as Internal Audit Director, which was approved.

3.4. Risk management and control

The Audit and Compliance Committee considers risk control to be of special significance. In all the meetings held by the Committee in 2018, the Chief Executive Officer and Director of Risks reported to the Committee on the state of risk management and control in the Company, and the level of compliance with the risk limits defined.

On 15 January 2018, the Risk Department presented the results of the yearly risk monitoring.



and measurement process, explaining the improvements made to the control model implemented in a number of affiliate companies, which have enabled the measurement of risks to be better measured and consolidation of risks at group level to be facilitated. The level of risk agreed for 2018 by the Risk Committee was proposed to the Committee for approval.

Ongoing monitoring of the evolution of risks was conducted at the subsequent meetings held by the Committee.

Finally, it should be pointed out that after these meetings, the Chairwoman reported to the Board of Directors on the actions taken in relation to risks.

3.5. Related-party transactions

With regard to 2017, in accordance with the recommendations of the Code of Good Governance of listed companies, the Audit and Compliance Committee prepared a report, dated 19 February 2018, on related-party transactions that was made available to shareholders at the time notice was given of the General Meeting of Shareholders to be held on 22 March 2018.

In its report, the Committee confirmed that the company has complied with the securities market regulations regarding related-party transactions and verifies that all the related-party transactions in 2017 form part of the company's ordinary course of business and were made on an arm's length basis and approved by the company's Board of Directors.

With regard to 2018, the Audit and Compliance Committee prepared a report, dated 22 February 2019, on related-party transactions. It will be made available to shareholders at the time notice is given of the General Shareholders' Meeting to be held on 29 March 2019.

No related-party transactions were made in 2018 that required involvement by the Board of Directors.

3.6. Compliance

The Committee approved the General Compliance Standard on 16 July 2018.

On 15 October 2018, the Committee was informed of the state of progress of the Anti-Corruption Model.

In accordance with article 20.2 of the Internal Code of Conduct, Secretary of the Board of Directors informed the Audit and Compliance Committee of the degree of compliance and incidents relating to the application of the Internal Code of Conduct (RIC) in matters of the securities market.

Finally, mention must be made of the fact that the Committee was informed on 15 February 2018 of the actions taken by the Ethics Committee with regard to monitoring the initiatives included in the 2017 Sustainable Management Plan and the setting out of initiatives in the Plan for Sustainable, Ethical and Compliant Management for 2018, and the breakdown of incidents arising in relation to the Ethics Channel, despite no incidents of appreciable importance taking place during the year.

3.7. Activity of the Audit and Compliance Committee

On 15 February 2018, the Annual Activity Report of the Audit and Compliance Committee, included in the documentation made available to shareholders, was presented to the Committee. This report was finally approved on 19 February 2018, and the Board of Directors was notified of this at the meeting held by the Board of Directors on the same day.

During 2018, the Committee monitored the implementation of the improvements defined for compliance with the standard procedures set out in the Committee's Technical Guidelines.

On 5 September 2018, Enagás was requested by the Spanish Securities Market Commission (CNMV) to respond to specific questions regarding compliance with the obligations derived from Additional Provision 3 of the Spanish Audit Act 22/2015 of 20 July governing audit committees in public interest entities. The Committee reviewed the contents of the report responding to this requirement on 8 October 2018, approving the text and notifying the Board of Directors about this report at its meeting held the same day.





4

Evaluation of Audit and Compliance Committee performance



In accordance with the provisions of the Regulations of the Board of Directors and the recommendations of Technical Guidelines 3/2017 on Audit Committees in Public Interest Entities, the Board of Directors and the Audit and Compliance Committee underwent an evaluation of the quality and efficiency of the performance of their duties and competences in 2018 by an external consultant, taking as a frame of reference for its evaluation the applicable regulations and best practices in matters of corporate governance.

The result of this evaluation highlighted the fact that the Audit and Compliance Committee performs its duties in accordance with the best corporate governance practices, and that there was no need for changes in its internal organisation or to its operating procedure. The results of this evaluation were approved by the Audit and Compliance Committee and the Board of Directors on 22 February 2019.



5

Progress made in 2018



In line with the recommendations contained in Technical Guide 3/2017 for Audit and Compliance Committee, the following actions were carried out in 2018:

- Extension of the contents listed in the Annual Calendar with preparatory meetings and an annual training plan.
 - An increase in the number and duration of meetings held by the Committee.
 - In relation to the function of supervising the effectiveness of the Internal Financial Reporting System (IFRS), the intensification of reporting activities, by the Finance Department and the Internal Audit Department, have made it possible to extend the information available to the Committee in order to be able to conclude on the level of confidence and reliability of the IFRS.
- Enhanced training through courses on:
 - New Accounting Standards – IFRS 9 Financial assets and liabilities, IFRS 15 on Revenue, and IFRS 16 on Leases (23 May 2018).
 - Tax-Related Matters – Immediate provision of information to the Spanish Tax Authority, AEAT (23 May 2018).
 - Process for Managing Purchasing and Suppliers (23 May 2018).
 - Risk Management and Control Model (19 November 2018).

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APPENDIX III

**AUDIT OPINION ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ("ICFR"), 2018**



Building a better
working world

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INDEPENDENT ASSURANCE REPORT ON THE "INFORMATION REGARDING THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) SYSTEM"

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

To the shareholders of ENAGÁS S.A.:

Scope of the work

We have examined the accompanying information on the Internal Control over Financial Reporting (ICFR) system of ENAGÁS S.A. and subsidiaries (the "Group") contained in Section F of the Annual Corporate Governance Report for the year ended December 31, 2018.

The objective of this system is to contribute to the faithful representation of the transactions performed and to the provision of reasonable assurance in relation to the prevention or detection of any errors that might have a material effect of the consolidated financial statements.

The aforementioned system is based on the rules and policies defined by the Boards of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report.

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail, (ii) guarantee that these transactions are performed only in accordance with the authorizations established; (iii) provide reasonable assurance that transactions are recognized appropriately to enable the preparation of the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorized acquisition, use or sale of the company's assets that could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Directors' Responsibility

The Directors of ENAGÁS, S.A. are responsible for maintaining the System of Internal Control over Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness.

Our responsibility

Our responsibility is to issue an independent assurance report on the effectiveness of the System of Internal Control over Financial Reporting (ICFR) based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the ENAGÁS' Group consolidated financial statements as at December 31, 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

We have carried out our reasonable assurance work in accordance with the requirements established by the International Standard on Assurance Engagements (ISAE) 3000 revised, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Reasonable assurance work includes comprehension of internal control over financial information contained in the financial statements; risk evaluation regarding possible material errors within them; tests and evaluations on design and daily effectiveness of the system and the use of any other procedures we considered necessary. We consider that our audit provides a reasonable basis for our opinion.

Independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

Our Firm applies the International Standard on Quality Control No 1 (ISQC 1) and therefore maintains a global system of quality control, which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

Conclusion

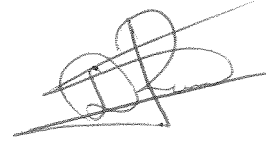
In our opinion, at December 31, 2018, the Group had, in all material respects, an effective System of Internal Control over Financial Reporting contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by the Board of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report. Also, the disclosures contained in section F of the Annual Corporate Governance Report at December 31, 2018 comply, in all material respects, with the requirements established by the Corporate Enterprises Act, the ECC Order /461/2013, of March 20, Circular 7/2015, of December 22, which amends Circular 5/2013, of June 12, of the Spanish National Securities Market Commission (CNMV) and Circular 2/2018, of June 12, of the Spanish National Securities Market Commission.

Other matters

This report can under no circumstances be considered an audit report carried out in accordance with prevailing audit regulations in Spain.

Nevertheless, in accordance with prevailing audit regulations in Spain, we have audited the consolidated financial statements of Enagás, S.A. and subsidiaries for the year ended December 31, 2018, prepared by the directors in accordance with the International Financial Reporting Standards as adopted by the European Union, and other financial reporting framework provisions applicable to the Enagás Group in Spain and our report issued on February 25, 2019 on the consolidated financial statements expressed an unqualified opinion.

ERNST & YOUNG, S.L.



David Ruiz-Roso Moyano

February 25, 2019



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AUDIT REPORT ON CONSOLIDATED 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 5)

To the shareholders of Enagás, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Enagás, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of total changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2018 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

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

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Recovery of financial assets related to the investment in Gasoducto del Sur Peruano, S.A.

Description On January 24, 2017, the Directorate General for Hydrocarbons of the Ministry for Energy and Mines terminated the "Improvements to the National Energy Security and Development of the South Peruvian Pipeline" concession agreement and on December 4, 2017, the National Institute for the Defense of Competition and Intellectual Property published in the Official Gazette, El Peruano, that Gasoducto del Sur Peruano, S.A. had filed for bankruptcy, as explained in Note 3.3.a to the accompanying consolidated financial statements.

The Group maintains a financial asset amounting to 275.3 million American dollars related to the investment in Gasoducto del Sur Peruano, S.A. and receivable accounts related to executed guarantees totaling 226.8 million, interest amounting to 1.9 million American dollars, and several invoices for professional services rendered amounting to 7.6 million American dollars, which represent assets recorded as of December 31, 2018 amounting to 408 million euros (note 3.3.a to the accompanying consolidated financial statements).

As a result of termination of the concession agreement, and as explained in the aforementioned note to the consolidated financial statements, there is an ongoing controversy between the Group and the Peruvian Government regarding the recovery of the investment in Gasoducto del Sur Peruano. Following the required six months of direct contact between Enagás and the Peruvian Government during which no agreement was reached, on July 2, 2018, the Group filed a request to begin arbitration proceedings against the Peruvian Government with the International Center for Settlement of Investment Disputes (CIADI) in connection with their investment in Gasoducto Sur Peruano, S.A.

We determined this to be a key audit matter due to the significance of the amounts related and the uncertainty surrounding the final outcome in this type of issue, which are often drawn out and complex from a legal, technical, and economic standpoint for all parties involved and interested in.

Our response: In this regard, our audit procedures included the following:

- ▶ Evaluation of compliance with the terms of the contracts and agreements between shareholders of Gasoducto Sur Peruano, S.A.
- ▶ Reading of the new correspondence between official Peruvian government bodies and the investee Gasoducto del Sur Peruano, S.A.
- ▶ Meetings with external independent experts in both Peruvian and international law engaged by the Company.
- ▶ Review of the related analysis reports prepared by various Peruvian and international law experts (bankruptcy, criminal and administrative law, inter alia) and Group's internal legal consultants.

- ▶ Review of the Group's accounting estimate processes used to analyze the recovery of financial assets and the report prepared by an external accounting expert, in addition to the report prepared by an independent expert to determine the net carrying amount of these assets that will be applied in resolving the arbitration proceedings.
- ▶ Evaluation of the financial asset recovery analysis prepared by Group Management based on various scenarios (sensitivity analysis).
- ▶ Review of the disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

Regulatory framework including recognition of income and amounts receivables from the gas system

Description The Group's principal revenue arising from regasification, storage, and transport of natural gas are regulated in a remuneration framework agreement (explained in the Appendix III to the accompanying consolidated financial statements). Consequently, the Group's activities are notably affected by local, regional, national, and supranational regulation. Any change introduced in such regulation could therefore affect the results and the value of the assets used in the Group's regulated business activities.

Moreover, new development of infrastructures are heavily contingent upon obtaining government licenses, permits, and authorizations, as well as compliance with varying types of regulation, the most salient of which are environmental regulation. The related procedures, which are explained in Note 2.4 to the consolidated financial statements, are drawn out and complex and can lead to delays or modifications of original designs, due mainly to the process of obtaining required authorizations; the steps involved in conducting environmental impact studies; public opposition in communities affected by the projects, as well as changes in the political environments of the countries where the Group operates. All such risks can lead to increase costs and/or delay budgeted revenue.

The factors above mentioned have led us to consider these aspects as a key audit matter.

Our response In this regard, our audit procedures included the following:

- ▶ Review of prevailing regulation and evaluation of the degree of compliance therewith.
- ▶ Tests of revenue recognition, verifying its reasonableness in terms of each year's regulatory developments.
- ▶ Verification of the gas system's accounts payable and receivable by examining provisional and definitive settlements with the CNMC during the year.
- ▶ Analysis of the recoverability of non-current accounts receivable generated from operating the gas system in recent years (commonly referred to as "deficit accounts") in compliance with prevailing regulations
- ▶ Analysis of litigation in progress from gas infrastructure projects associated with the remuneration framework agreement together with internal and external legal advisors, where necessary, and follow-up of their current status and possible accounting effects.

- ▶ Review of the disclosures included in Notes 2.1, 2.2, 2.4 y Appendix III of the accompanying consolidated financial statements in accordance with the applicable financial reporting framework.

Significant estimates

Description The Group makes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability of explicit and implicit goodwill from investments accounted for by the equity method, as well as intangible assets and the fair value of financial instruments. In this regard, the Group uses financial derivatives to hedge against credit, interest rate, and exchange risks to which its activities, operations, and projected cash flows are exposed

The Group's net assets include investments for significant amounts. Main amounts and criteria and assumptions used in the related valuation are described in Note 1.6, 2.6 and 3.6 to the accompanying consolidated financial statements.

We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, small changes in the hypotheses could have a material impact on the Group's consolidated financial statements.

Our response Our audit procedures primarily included:

- ▶ Review, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each cash generating unit and from investments accounted for by the equity method, focusing particularly on the discount rate and long-term growth rate applied.
- ▶ Analysis of projected financial information shown in the business plan, for each investee and each cash-generating unit, by analyzing historical financial and budgetary information, current market conditions, and our own projections of potential changes.
- ▶ Review, in collaboration with our internal specialists, of: i) the valuation of financial instruments taking into account the reasonableness of the methodology, sources and data used by management, performing contrast testing and ii) the supporting efficiency tests carried out for derivative financial instruments considered to be hedges.
- ▶ In addition, we checked the adequacy of the information disclosed by the Group related to the estimates in Notes 1.6 (Investments accounted for by the equity method), 2.6 (impairment of non-financial assets) and 3.6 (derivatives financial instruments), respectively of the accompanying consolidated financial statements in accordance with current regulation.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, or where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulations, and if not, disclose this fact.
- b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company's directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



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

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 25, 2019.

Term of engagement

The ordinary general shareholders' meeting held on March 18, 2016 appointed us as auditors for three years, commencing on December 31, 2016.

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

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

February 25, 2019

ENAGÁS, S.A. AND SUBSIDIARIES

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ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2018

(In thousands of euros)

ASSETS	Notes	12.31.2018	12.31.2017
NON-CURRENT ASSETS		7,915,622	8,428,869
Intangible assets	2.5	944,659	929,889
Goodwill		188,445	181,704
Other intangible assets		756,214	748,185
Investment properties	4.1	19,610	19,610
Property, plant, and equipment	2.4	5,238,215	5,501,351
Investments accounted for using the equity method	1.6	1,028,555	1,022,058
Other non-current financial assets	3.3.a	674,151	936,049
Deferred tax assets	4.2.f	10,432	19,912
CURRENT ASSETS		1,610,580	1,143,767
Inventories	4.8	24,812	23,772
Trade and other receivables	2.2	388,910	478,887
Current income tax assets	4.2.a	1,799	-
Other current financial assets	3.3.a	12,797	6,695
Short-term accruals		10,719	6,549
Cash and cash equivalents	3.8.a	1,171,543	627,864
TOTAL		9,526,202	9,572,636
LIABILITIES			
EQUITY		3,039,371	2,941,284
SHAREHOLDERS' EQUITY		2,658,758	2,585,639
Share capital	3.1.a	358,101	358,101
Reserves	3.1.c	2,006,066	1,879,996
Treasury shares	3.1.b	(8,219)	(8,219)
Profit/(loss) for the year		442,626	490,837
Interim dividend	1.8.a	(145,917)	(139,241)
Other equity instruments	4.4	6,101	4,165
ADJUSTMENTS FOR CHANGES IN VALUE	3.1.d	6,640	(13,327)
MINORITY INTEREST (EXTERNAL PARTNERS)	3.2	373,973	368,972
NON-CURRENT LIABILITIES		5,911,074	6,174,709
Non-current provisions	2.8.a	176,490	178,404
Financial debt and non-current derivatives	3.3.b	5,188,572	5,468,810
Deferred tax liabilities	4.2.f	476,765	485,156
Other non-current liabilities	2.7	69,247	42,339
CURRENT LIABILITIES		575,757	456,643
Current provisions	2.8.a	3,369	-
Financial debt and current derivatives	3.3.b	364,386	230,003
Trade and other payables	2.3	204,269	206,904
Current tax liabilities	4.2.a	3,733	19,736
TOTAL		9,526,202	9,572,636

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Balance Sheet at December 31, 2018

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2018

(In thousands of euros)

	Notes	12.31.2018	12.31.2017
Revenue	2.1.a	1,294,660	1,360,170
Income from regulated activities		1,084,081	1,152,015
Income from non-regulated activities		210,579	208,155
Other operating income	2.1.a	47,558	24,404
Personnel expenses	2.1.b	(131,238)	(128,939)
Other operating expenses	2.1.c	(243,487)	(242,519)
Amortization allowances	2.4 and 2.5	(308,809)	(319,093)
Impairment losses on disposal of fixed assets	2.4 and 4.1	(38,635)	(34,810)
Result of investments accounted for using the equity method	1.6	70,982	72,859
OPERATING PROFIT		691,031	732,072
Financial income and similar	3.5	65,846	102,376
Finance and similar expenses	3.5	(154,657)	(186,172)
Net exchange gains	3.5	(373)	1,013
Change in fair value of financial instruments	3.5	(15,412)	(18,123)
FINANCIAL RESULT		(104,596)	(100,906)
PROFIT /(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		586,435	631,166
Income tax	4.2.c	(123,108)	(126,090)
PROFIT /(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		463,327	505,076
Profit attributable to minority interest	3.2	(20,701)	(14,239)
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY		442,626	490,837
BASIC EARNINGS PER SHARE (in euros)	1.7	1.8565	2.0587
DILUTED EARNINGS PER SHARE (in euros)	1.7	1.8546	2.0587

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Income Statement at December 31, 2018.

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

AT DECEMBER 31, 2018

(In thousands of euros)

	Notes	12.31.2018	12.31.2017
CONSOLIDATED PROFIT FOR THE YEAR		463,327	505,076
Attributed to the parent		442,626	490,837
Attributed to minority interest		20,701	14,239
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		23,829	(133,633)
From companies accounted for using the full consolidation method		9,888	(13,466)
From cash flow hedges	3.1.d	(14,133)	(8,546)
From currency translation differences	3.1.d	20,345	(7,520)
Tax effect	3.1.d	3,676	2,600
From companies accounted for using the equity method		13,941	(120,167)
From cash flow hedges	3.1.d	2,410	(462)
From currency translation differences	3.1.d	12,534	(119,828)
Tax effect	3.1.d	(1,003)	123
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		12,189	5,690
From companies accounted for using the full consolidation method		1,846	(6,183)
From cash flow hedges	3.1.d	13,118	16,212
From currency translation differences	1.11 and 3.1.d	(8,292)	(18,575)
Tax effect	3.1.d	(2,980)	(3,820)
From companies accounted for using the equity method		10,343	11,873
From cash flow hedges	3.1.d	5,176	4,524
From currency translation differences	1.6 and 3.1.d	6,313	8,248
Tax effect	3.1.d	(1,146)	(899)
TOTAL RECOGNIZED INCOME AND EXPENSES		499,345	377,133
Attributed to minority interest		36,752	(25,818)
From currency translation differences	3.2	16,051	(40,057)
From attributable to results	3.2	20,701	14,239
Attributed to the parent company		462,593	402,951

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Statement of Recognized Income and Expenses at December 31, 2018

IAS 1 requires that items to be reclassified in the Consolidated Income Statement are broken down separately from those that will not be reclassified. All of the aforementioned cases are considered susceptible to reclassification in the Income Statement.

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY AT DECEMBER 31, 2018

(In thousands of euros)

	Capital (Note 3.1.a)	Share premium and reserves (Note 3.1.c)	Other equity instruments (Note 4.4)	Treasury shares (Note 3.1.b)	Profit / (loss) for the year	Interim dividend (Note 1.8.a)	Adjustments for changes in value (Note 3.1.d)	Minority interest (Note 3.2)	Total equity
BALANCE AT DECEMBER 31, 2016	358,101	1,737,183	1,959	(8,219)	417,222	(132,565)	74,559	14,696	2,462,936
Total recognized income and expenses	-	-	-	-	490,837	-	(87,886)	(25,818)	377,133
Transactions with shareholders	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
- Distribution of dividends	-	-	-	-	(198,848)	(139,241)	-	(16,053)	(354,142)
Other changes in equity	-	142,813	2,206	-	(218,374)	132,565	-	396,147	455,357
- Payments based on equity instruments	-	-	2,206	-	-	-	-	-	2,206
- Transfers between equity accounts	-	85,809	-	-	(218,374)	132,565	-	-	-
- Differences due to changes in consolidation scope	-	39,661	-	-	-	-	-	396,147	435,808
- Other changes	-	17,343	-	-	-	-	-	-	17,343
BALANCE AT DECEMBER 31, 2017	358,101	1,879,996	4,165	(8,219)	490,837	(139,241)	(13,327)	368,972	2,941,284
- Adjustments due to initial application of new accounting standards (Note 1.10)	-	2,176	-	-	-	-	-	(10,340)	(8,164)
BALANCE AT BEGINNING OF 2018	358,101	1,882,172	4,165	(8,219)	490,837	(139,241)	(13,327)	358,632	2,933,120
Total recognized income and expenses	-	-	-	-	442,626	-	19,967	36,752	499,345
Transactions with shareholders	-	-	-	-	(208,862)	(145,917)	-	(21,952)	(376,731)
- Distribution of dividends	-	-	-	-	(208,862)	(145,917)	-	(21,952)	(376,731)
Other changes in equity	-	123,894	1,936	-	(281,975)	139,241	-	541	(16,363)
- Payments based on equity instruments	-	-	1,936	-	-	-	-	-	1,936
- Transfers between equity accounts	-	142,734	-	-	(281,975)	139,241	-	-	-
- Differences due to changes in consolidation scope	-	-	-	-	-	-	-	541	541
- Other changes	-	(18,840)	-	-	-	-	-	-	(18,840)
BALANCE AT DECEMBER 31, 2018	358,101	2,006,066	6,101	(8,219)	442,626	(145,917)	6,640	373,973	3,039,371

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Statement of Total Changes in Equity at December 31, 2018

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 2018

(In thousands of euros)

	Notes	12.31.2018	12.31.2017
CONSOLIDATED PROFIT BEFORE TAX		586,435	631,166
Adjustments to consolidated profit		360,138	385,543
Amortization of fixed assets	2.4 and 2.5	308,809	319,093
Other adjustments to profit		51,329	66,450
Change in operating working capital		78,701	321,159
Inventories		(1,165)	2,703
Trade and other receivables		75,668	298,755
Other current assets and liabilities		4,293	(4,566)
Other non-current assets and liabilities		(673)	(1,075)
Trade and other payables		578	25,342
Other cash flows from operating activities		(231,493)	(258,341)
Payment of interest		(137,781)	(165,180)
Interest received		31,308	18,588
Income tax receipts (payments)	4.2.c	(124,025)	(110,963)
Other cash inflows/(outflows)		(995)	(786)
NET CASH FLOWS FROM OPERATING ACTIVITIES		793,781	1,079,527
Payments for investments		(261,762)	(472,304)
Subsidiaries and associates	1.6	(194,599)	(184,420)
Fixed assets and real estate investments	2.4 and 2.5	(42,173)	(54,079)
Other financial assets		(24,990)	(233,805)
Proceeds from sale of investments		524,602	143,834
Subsidiaries and associates		524,602	143,834
Other cash flows from investing activities		89,875	112,867
Other receipts (payments) from investing activities	1.6	89,875	112,867
NET CASH FLOWS FROM INVESTING ACTIVITIES		352,715	(215,603)
Proceeds from and payments on financial liabilities		(237,647)	(885,972)
Issues	3.8.c	6,856,091	9,257,139
Repayment and amortization	3.8.c	(7,093,738)	(10,143,111)
Other cash flows from investing activities		305	-
Other receipts (payments) from financing activities		305	-
Dividends paid	1.8.a	(376,731)	(354,142)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(614,073)	(1,240,114)
EFFECT OF CHANGES IN CONSOLIDATION METHOD		377	243,092
Effect of exchange rate fluctuations		10,879	(24,492)
TOTAL NET CASH FLOWS		543,679	(157,590)
Cash and cash equivalents at beginning of period		627,864	785,454
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3.8.a	1,171,543	627,864

The accompanying Notes 1 to 5 constitute an integral part of the Consolidated Cash Flow Statement at December 31, 2018

1. Group activities and presentation basis

Relevant aspects

Results

- The net profit attributed to the parent company amounts to 442,626 thousands of euros (**Note 1.7**). Variation is mainly due to the recording in financial year 2017 of the effect of the business combination in stages of GNL Quintero for an amount of 52,406 thousands of euros (**Note 1.11**).
- Net earnings per share amounts to 1.8565 euros per share as compared to 2.0587 euros per share in 2017 (**Note 1.7**). In addition, net diluted earnings per share amounts to 1.8546 euros per share as compared to 2.0587 euros per share in 2017.
- The proposed dividend payment per share for 2018 amounts to 1.53 euros per share (1.46 euros per share in 2017) (**Note 1.8**).
- The Board of Directors has proposed the following distribution of net profit corresponding to 2018 for the Parent, Enagás, S.A. (**Note 1.8.a**):



Working capital

- At December 31, 2018 the Consolidated Balance Sheet presents a positive working capital of 1,034,823 thousands of euros (687,124 thousands of euros at December 31, 2017).

Other information

- Enagás divested a net sum of 263 million euros during 2018. The most noteworthy transactions are the following:
 - Capital contributions in Trans Adriatic Pipeline (hereinafter TAP) amounting to 31,342 thousands of euros (**Note 1.6**) and granting loans amounting to 118,400 thousands of euros. Subsequently, with regard to the loans granted, on December 27, 2018, the first financing provision subscribed by TAP under the Financing Agreement with the financial entities signed on November 30, 2018 took place. With these funds, TAP has returned loans to Enagás for an amount of 415,187 thousands of euros (**Note 1.9 and 3.3.a**), leaving an outstanding amount of 8 million euros at December 31, 2018.
 - Acquisition of a 13.2% stake in Hellenic Gas Transmission System Operator, S.A. (hereinafter 'DESFA') through the subsidiary Senfluga Energy Infraestructure in which the Enagás Group already holds a 20% share. The total price of the transaction amounted to 40,485 thousands of euros (**Note 1.5 and 1.6**).
 - Sale of entire shareholding of the Swedegas Group (50% stake) to FS Gas Transport AB for the amount of 100,468 thousands of euros (**Note 1.5**).
 - Payments for investments made in regasification, transmission and storage facilities, with the aim of expanding and improving them to adapt to future demand forecasts amounting to 42,173 thousands of euros.

1.1 Group activity

Enagás, S.A. (hereinafter the Company or the Parent Company), a company incorporated in Spain on July 13, 1972 in accordance with the Spanish Corporate Enterprises Act, is the head of a group of companies (**Appendices I and II**) that form the Enagás Group (hereinafter the Group or the Enagás Group) and which are engaged in the transmission, storage and regasification of natural gas, as well as the development of all functions related to the technical management of the gas system.

a) Corporate purpose

- i. Regasification, basic and secondary transmission as well as storage of natural gas, via the corresponding gas infrastructure or facilities, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.
- ii. Design, construction, commissioning, exploitation, operation, and maintenance of all types of complementary gas infrastructure and facilities, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties.
- iii. Development of all functions relating to technical management of the gas system.
- iv. Transmission and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding facilities, of its own or of third parties, as well as the design, construction, commissioning, exploitation, operation, and maintenance of all types of complementary infrastructure and facilities necessary for said activities.

1.2 Basis of presentation

The Consolidated Annual Accounts of the Enagás Group for 2018 were prepared based on the accounting records of the Parent and remaining entities comprising the Group, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, in conformity with Regulation (EC) 1606/2002 of the European Parliament and Council.

The Consolidated Annual Accounts have been prepared applying all mandatory accounting principles, standards, and measurement criteria in order to give a true and fair view of the equity and financial position of the Group at December 31, 2018, as well as of the results of its operations, changes in equity, cash flows, and changes in recognized income and expenses for the year then ended.

The Consolidated Annual Accounts of the Enagás Group for 2018 were authorized for issue by the Board of Directors at their meeting held on February 22, 2019. The 2017 Consolidated Annual Accounts were approved at the Enagás, S.A. General Shareholders' Meeting held on March 22, 2018 and duly filed at the Madrid Mercantile Registry. The Group's Consolidated Annual Accounts and those of each entity belonging to the Group, corresponding to the year 2018, are pending approval at their respective Ordinary General

- v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them.
- vi. Rendering of services of a diverse nature, amongst them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas markets management activities to the extent they are compatible with the activities permitted for the Company by law.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transmission and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). Consequently, the corporate purpose includes:

- vii. Management of the corporate group comprised of the interest held in share capital of companies belonging to the group.
- viii. Rendering of assistance or support services to affiliates, including the provision of appropriate guarantees and reinforcement for them.

b) Other information

Its registered address is located at Paseo de los Olmos, 19, 28005, Madrid. At its website www.enagas.es and at its registered address its Articles of Association and other public information on the Company and its Group can be consulted.

Shareholders' Meeting. It is expected that they will be approved without modification.

These Consolidated Annual Accounts are presented in thousands of euros (unless otherwise stated).

a) Materiality criteria

The accompanying Consolidated Annual Accounts do not include the information or disclosures which the Group did not consider of material significance or important relative to the concept of materiality as defined in the conceptual framework of IFRS, taking into account the Consolidated Annual Accounts as a whole.

b) Comparison of information

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

On 1 January, the Enagás Group applied the new *IFRS 9 Financial Instruments* and *IFRS 15 Income from contracts with customers*, without restating the comparative information referring to 2017 (**Note 1.10**).

1.3 Consolidation principles

The Consolidated Financial Statements include the financial statements of the Parent, Enagás, S.A. and its subsidiaries, associates, joint ventures, and joint operations at December 31, 2018.

Subsidiaries are considered to be those entities with respect to which the Enagás Group fulfils the following criteria:

- The capacity to use its interest to influence the amount of revenue to be obtained from said subsidiary.
- The Group has power over the affiliate, in so far as a company has rights which permit it to direct relevant activities, understood as those which significantly affect the revenue generated by the subsidiary.
- It maintains exposure or the right to variable revenue arising from its involvement in the subsidiary.

Subsidiaries are consolidated using the full consolidation method.

The share of minority shareholders in the equity and profit of consolidated subsidiaries of the Enagás Group is recognized in "Minority interests (External partners)" under "Equity" in the Consolidated Balance Sheet and "Profit (loss) attributable to minority interests" in the Consolidated Income Statement, respectively. Subsidiaries are consolidated from the date of acquisition, that is, the date the Group obtains control, and continue to be consolidated until the Group no longer retains control over them.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Parent. With respect to the joint agreements, that is, those by virtue of which the Enagás Group maintains joint control with one or more other partners, a distinction is made between joint operations and joint ventures. Joint control is understood as control shared by virtue of a contractual agreement which requires unanimous consent from all involved parties for decision-making regarding relevant activities.

Thus, joint operations are considered to be those in which, based on a contractual arrangement, a company enjoys the rights to assets and assumes obligations with respect to liabilities. The interest held in joint operations is consolidated using the proportionate consolidation method.

In addition, joint ventures are considered to be those in which, based on a contractual arrangement, a company exercises rights with respect to the net assets of the joint venture. Shareholdings in joint ventures are consolidated using the equity method. In those cases in which the Enagás Group acquires control over companies previously considered as joint ventures, a new estimate is made for the fair value of the interest held previously in equity at the acquisition date, recognizing income or losses in the Consolidated Income Statement for the reporting period.

Further, associates are considered to be those entities over which the Enagás Group holds significant influence, that is, the power to intervene in decision making regarding financial policies and operational matters, without attaining full control or joint control. The interest held in associates is consolidated using the equity method.

If appropriate, adjustments are made to the financial statements of subsidiaries, affiliates, joint ventures, and joint

operations in order to unify their accounting policies with those of the Enagás Group.

a) Consolidation methods

Consolidation method/Company	Functional currency
Full consolidation	
Enagás Transporte, S.A.U.	Euro
Enagás GTS, S.A.U.	Euro
Enagás Internacional, S.L.U.	US dollar
Enagás Financiaciones, S.A.U.	Euro
Enagás U.S.A., L.L.C.	US dollar
Enagás Perú, S.A.C.	US dollar
Enagás México, S.A. de C.V.	US dollar
Compañía Transportista de Gas Canarias, S.A.	Euro
Enagás Emprende, S.L.U.	Euro
Enagás Chile, Spa.	US dollar
Terminal de Valparaíso, S.A.	US dollar
Enagás Transporte del Norte, S.L. (1)	Euro
Infraestructuras del Gas, S.A. (1)	Euro
GNL Quintero, S.A. (1)	US dollar
Terminal Bahía de Quintero, SpA. (1)	US dollar
Efficiency for LNG Applications, S.L. (1)	Euro
Hydrogen to Gas, S.L. (1)	Euro
Enagás Services Solutions, S.L.	Euro
Sercomgas Solutions, S.L. (1)	Euro
Vira Gas Imagine, S.L. (1)	Euro
Smart Energy Assets, S.L. (1)	Euro
Scale Gas Solutions, S.L. (1)	Euro
Joint operations	
Gasoducto Al-Andalus, S.A.	Euro
Gasoducto Extremadura, S.A.	Euro
Equity method	
Morelos EPC, S.A.P.I. de C.V.,	US dollar
Gasoducto de Morelos, S.A.P.I. de C.V.	US dollar
Morelos O&M, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina EPC, S.A.P.I. de C.V.	US dollar
Estación de Compresión Soto La Marina O&M, S.A.P.I. de C.V.	US dollar
Compañía Operadora de Gas del Amazonas, S.A.C.	Peruvian Nuevo Sol
Bahía de Bizkaia Gas, S.L.	Euro
Trans Adriatic Pipeline AG	Euro
Terminal de LNG de Altamira, S. de R.L. de C.V.	US dollar
Transportadora de Gas del Perú, S.A.	US dollar
Planta de Regasificación de Sagunto, S.A.	Euro
Iniciativas del Gas, S.L.	Euro
MIBGAS	Euro
Grupo Swedegas (2)	Swedish krona
Gas to Move Transport Solutions, S.L.	Euro
Tecgas, Inc.	US dollar
Mibgas Derivatives, S.A.	Euro
Senfluga Energy Infrastructure	Euro
Hellenic Gas Transmission System Operator, S.A.	Euro
Axent Infraestructuras de Telecomunicaciones, S.A.	Euro

- (1) For these companies the Enagás Group recognizes interest corresponding to minority interests under "Minority interests (External partners)" in Equity in the Consolidated Balance Sheet at December 31, 2018.

- (2) As indicated in **Note 1.5**, this investment was disposed of on November 20, 2018 and the disposal of the investment was recognized under "Investments accounted for using the equity method" in the Consolidated Balance Sheet.

b) Consolidation process

Consolidation of the Enagás Group was carried out in accordance with the following process:

- i. Transactions between companies included in the consolidation scope. All balances, transactions, and results between companies consolidated under the full consolidation method were eliminated upon consolidation. For joint operations, the balances, transactions and results of operations with other Group companies were eliminated in the proportion at which they were consolidated. With respect to gains and losses generated through operations amongst Group companies and companies consolidated under the equity method, the percentage of interest held by the Group in the latter was eliminated.
- ii. Harmonization of criteria: For affiliates which apply different accounting and measurement criteria to those of the Group, the consolidation process included the corresponding adjustments, provided the effect was significant, with a view to presenting the Consolidated Financial Statements based on harmonized measurement standards.
- iii. Translation of Financial Statements denominated in foreign currency.

The translation to euros of the Financial Statements of the aforementioned companies in the Enagás Group consolidation process was carried out in accordance with the following procedures:

- Assets and liabilities of each corresponding balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date.
- Income and expense items making up each Income Statement heading are translated at the average exchange rate for the year in which the related transactions are carried out.
- Exchange gains (losses) arising as a result of net assets are recognized as a separate component of equity under "Adjustments for changes in value" and in the Income Statement under "Translation differences."

When disposing of a company whose functional currency is not the euro; or when disposals are carried out as a result of losing control; or result from business combinations with respect to previously held interest, translation differences recognized as a component of equity relating to said investment are recognized in the Consolidated Income Statement as soon as the effect arising from said disposal is recognized.

The exchange rates with respect to the euro of the main currencies used by the Group during 2018 and 2017 were as follows:

Currency	Average exchange rate applicable to the headings of the Income Statement	Exchange rate applicable to the balance sheet headings (1)
2018		
US dollar	1.18128	1.14446
Peruvian Nuevo Sol	3.86882	3.85127
Swedish krona	10.25900	10.15790
2017		
US dollar	1.12958	1.19395
Peruvian Nuevo Sol	3.78933	3.90000
Swedish krona	9.63618	9.84220

- (1) Equity excluded.

The effect on the main headings of the Group's Consolidated Financial Statements of applying the conversion process to the assets and liabilities of companies consolidated using the full consolidation method and whose functional currency is the US dollar is as follows:

2018	Consolidated total	Contribution of companies using the euro as functional currency	Contribution of companies using the US dollar as functional currency	Amount in US dollars
Fixed assets and investment properties	6,202,484	4,581,621	1,620,863	1,855,013
Other non-current financial assets	674,151	586,521	87,630	100,289
Trade and other receivables	388,910	369,658	19,252	22,033
Other current financial assets	12,797	11	12,786	14,633
Cash and cash equivalents	1,171,543	707,771	463,772	530,768
Financial debt and non-current derivatives	5,188,572	4,101,401	1,087,171	1,244,224
Financial debt and current derivatives	364,386	189,758	174,628	199,855
Trade and other payables	204,269	183,092	21,177	24,236

- iv. Elimination of dividends: Internal dividends are considered to be those a Group company recognizes as income for the year and that have been distributed by another Group company.

During the consolidation process, dividends received by subsidiaries and joint operations are eliminated by considering them to be reserves of the recipient company, which consequently recognizes them under "Reserves". In the case of minority interests in companies consolidated using the full consolidation method, the amount of the dividend corresponding to said minority interests is eliminated from the consolidated equity heading "Minority interests (External partners)."

- v. Equity method: The investment is initially recognized at cost and subsequently adjusted by the share corresponding to the investor of the changes in net assets of the affiliate. In addition, dividends received are accounted for as a lower amount under "Investments accounted for using the equity method".

Also, when the associate or joint venture is acquired, any difference between the cost of the investment and the share of the net fair value of the identifiable assets and liabilities of the associate or joint venture is accounted for as follows:

- The capital gain related to these companies or joint ventures is included in the carrying amount of the investment. This capital gain cannot be amortized.
- Any excess of the share of the net fair value of the identifiable assets and liabilities over the cost of the investment is included as income to determine the share of profit or loss of the associate or joint venture in the period in which the investment is acquired.

The consolidated profit for the year includes participation in the results of the affiliates under "Results of

investments accounted for using the equity method" in the accompanying Consolidated Income Statement. If the participation in losses of an associate or joint venture equals or exceeds participation in said entities, the loss will no longer be recognized under additional losses. Once interest in an entity is reduced to zero, the additional losses will be maintained and a liability will only be recognized to the extent the corresponding entity incurred legal or implicit obligations or made a payment on behalf of an associate or joint venture. If the associate or joint venture subsequently reports profits, the entity will once again recognize its interest only after its participation in said profits equals its participation in unrecognized losses.

In addition, the accompanying Consolidated Statement of Recognized Income and Expenses includes the participation in the statement of the investee.

1.4 Estimates and accounting judgements used

In the Group's Consolidated Annual Accounts for 2018, estimates and judgements were occasionally made by the Senior Management of the Group and of the consolidated companies, subsequently ratified by the Directors, in order to quantify certain assets, liabilities, income, expenses, and commitments reported herein. These estimates and judgements basically relate to:

- The useful life of PP&E assets **(Note 2.4)**.
- Provisions for decommissioning/abandonment costs, other provisions and contingent liabilities. **(Note 2.8)**.
- The measurement of non-financial assets to determine the possible existence of impairment losses **(Note 2.6)**.
- The recognition of investments accounted for using the equity method **(Note 1.6)**.
- The fair value of financial instruments and financial assets **(Notes 1.6, 3.3 and 3.6)**.
- The calculation of income tax and deferred tax assets **(Note 4.2)**.

- The fair value of equity instruments granted under the Long-Term Incentive Plan ("LTI") **(Note 3.1.b)**.
- Estimates applied to IFRS 15 and IFRS 9 **(Note 1.10)**.

Although these estimates were made on the basis of the best information available at December 31, 2018, future events may require these estimates to be modified prospectively in the coming years (upwards or downwards). In accordance with IAS 8, this would be done prospectively, recognizing the effects of any change of estimate in the Consolidated Income Statement.

1.5 Changes in the consolidation scope

The following changes in the consolidation scope of the Enagás Group occurred during 2018:

Entity	Amount of the investment (thousands)	Stake percentage		Description / Type of control
	In euros	Previous	At 12.31.2018	
Hydrogen to Gas, S.L.	135	-	60%	Consolidation in accordance with the full consolidation method as the Group keeps control of it.
Subgroup Senfluga Energy Infraestructure ⁽¹⁾	40,485	-	20%	Based on shareholder agreements there is a situation of significant influence resulting in consolidation by the equity method.
Enagás Services Solutions, S.L.	4,945	-	100%	Consolidation in accordance with the full consolidation method as the Group keeps control of it.
Axent Infraestructuras de Telecomunicaciones, S.A.	1,625	-	49%	Based on shareholder agreements there is a situation of significant influence resulting in consolidation by the equity method.
Sercomgas Gas Solutions, S.L.	147	-	84%	Consolidation in accordance with the full consolidation method as the Group keeps control of it.
Smart Energy Assets, S.L.	394	-	87.5%	Consolidation in accordance with the full consolidation method with the Group keeping control of it.
Gas to Move Transport Solutions, S.L.	(2)	82%	59.4%	Sale of the 22.6% stake of Enagás Emprnde, S.L.U. in the company. Given that, based on the shareholder agreements, increased majorities are required for taking relevant decisions, both financial and operational, this represents significant influence and consolidation is carried out using the equity method.
Vira Gas Imaging, S.L.	70	49%	94%	Enagás Emprnde, S.L.U. acquired an additional 45% stake in the company. Based on shareholder agreements, the Group will continue to control the company, and will consolidate using the global integration method.
Swedegas Group	(71,573)	50%	-	Excluded from the consolidation scope as the company has been sold.

⁽¹⁾ Senfluga Energy Infraestructures holds a 13.2% stake in Hellenic Republic Asset Development Fund, S.A.

Hydrogen to Gas, S.L.

On February 22, 2018, Hydrogen to Gas, S.L. was incorporated. This company, domiciled in Spain, is directly controlled by Enagás Emprnde, S.L.U. through a 60% stake and is therefore fully consolidated.

Investment at the end of the 2018 financial year amounts to 135 thousands of euros.

Subgroup of Senfluga Energy Infraestructure

In February 2018, Senfluga Energy Infraestructure ("Senfluga") was incorporated for 24 thousands of euros. Enagás Internacional, S.L.U. has a 20% stake in this company, domiciled in Greece, and has significant influence in it, and it is therefore consolidated using the equity method.

During the month of December 2018, and once the corresponding conditions precedent were met, Senfluga closed the purchase of 66% of the shares of DESFA, the operator of the high-pressure natural gas transmission network in Greece, with approximately 1,500 kilometres of gas pipelines, as well as the Revithoussa regasification plant.

The stake of the Enagás Group in Senfluga at the end of 2018 amounted to 40,485 thousands of euros.

Enagás Services Solutions, S.L.

On April 3, 2018, Enagás Services Solutions, S.L. was incorporated. This company, domiciled in Spain, is directly controlled by Enagás S.A. through a 100% stake and is therefore fully consolidated.

Investment in this company at the close of the 2018 financial year amounted to 4,945 thousands of euros.

Axent Infraestructuras de Telecomunicaciones, S.A.

On April 24, 2018 Axent Infraestructuras de Telecomunicaciones, S.A. was incorporated and is domiciled in Spain. Enagás Services Solutions, S.L.U. has a 49% stake in this company, and has significant influence in it, and it is therefore consolidated using the equity method.

The investment of Enagás Services Solutions, S.L.U. in this company, at the close of the 2018 financial year amounted to 1,625 thousands of euros.

Sercomgas Gas Solutions, S.L.

On May 7, 2018, the company Sercomgas Gas Solutions, S.L., was established, with a registered office in Spain. This company is 84% owned by Enagás Emprnde, SLU, which has direct control over the company, with its entire assets, liabilities and results and recognizing the 16% corresponding to the company's other partners, both in the "External Partners" heading of Net Equity, and "Result attributable to external partners" of the Income Statement.

The stake of Enagás Emprende, S.L.U. in this company, at the end of 2018, amounted to 147 thousands of euros.

Smart Energy Assets, S.L.

On September 4, 2018, Smart Energy Assets, S.L. was incorporated for 394 thousands of euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through an 87.5% stake. Thus, it is also fully consolidated together with recognition of the 12.5% stake corresponding to the headings "external partners" in the Consolidated Equity and "Profit attributable to external partners" in the Income Statement.

Vira Gas Imaging, S.L.

On November 6, 2018, Enagás Emprende, S.L.U. acquired an additional 45% stake in the company Vira Gas Imagine, S.L. (hereinafter, "Vira") for a total amount of 70 thousands of euros.

Given that Enagás Emprende, S.L.U. already had a previous stake of 49%, as a result of the aforementioned acquisition the stake increased up to 94%. Based on the current shareholders agreements, Enagás Emprende, S.L.U. acquired control over Vira, giving it the right to unilaterally adopt the relevant decisions of the company. This change in the consolidation method based on equity to the full consolidation

method. No effects have been occurred in the Income Statement.

Swedegas Group

On November 21, 2018, after compliance with the corresponding conditions precedent set forth in the purchase agreement, the sale was completed of the entire stake that Enagás Internacional, S.L.U. held in the Swedegas Group and that accounted for 50% of its share capital.

The sale price of this transaction amounted to 100,468 thousands of euros (1,032,981 thousand Swedish krona). As a result of this transaction, the Group derecognized the investment initially recorded in the "Investments accounted for using the equity method" caption of the Consolidated Balance Sheet, as well as the cancellation of the adjustments for changes in value accumulated in the Net Equity at the date of the transaction for a negative amount of 1,787 thousands of euros. This amount is not material considering that the financial investment in SEK was associated with the debt in the same currency and was hedged by a net investment abroad (**Note 3.6**).

This operation has had a positive impact on the Consolidated Income Statement in the amount of 24,459 thousands of euros, recorded under "Financial income and similar" (**Notes 1.6 and 3.5**).

1.6 Investments accounted for using the equity method

Accounting policies

- The Group assesses the existence of joint agreements as well as significant influence with respect to associates taking into account the shareholder agreements which require increased majorities for taking relevant decisions.
- In order to classify the joint agreements amongst joint ventures and joint operations, the Group assesses the rights and obligations of the involved parties as well as the remaining circumstances stipulated in said agreements.

Significant estimates and judgements

- At year-end, or when there are indications of impairment, the Group analyses the recoverable amounts of investments accounted for under the equity method to determine the possibility of impairment.
- As indicated in the previous note (**Note 1.5**), during December 2018, the purchase of 13.2% of the shareholding structure of DESFA through Senfluga was finalized. As the corresponding 12-month deadline subsequent to acquisition has not yet elapsed, the accounting of this increased stake in the company and the assignation of an acquisition price is currently being reviewed, though the Group expects no significant changes.

Opening balance	New acquisitions/Increases (1)	Change in consolidation method (2)	Dividends	Profit/(loss) for the year	Translation differences	Hedging transactions	Exits from the perimeter/Decreases (3)	Other adjustments	Closing balance
2018									
1,022,058	75,801	(208)	(91,233)	70,982	18,847	5,437	(71,573)	(1,556)	1,028,555
2017									
1,870,973	60,382	(755,999)	(112,867)	72,859	(111,580)	3,286	-	(4,996)	1,022,058

- (1) "New acquisitions/Increases" includes, mainly, capital contributions to TAP, to Estación de Compresión Soto La Marina, S.A.P.I. de C.V. and to Axent in the amounts of 31,342 thousands of euros, 2,429 thousands of euros and 1,625 thousands of euros, respectively. Also included is the acquisition of 13.2% of DESFA for 40,485 thousands of euros.
- (2) "Change in consolidation method" includes the effect of derecognizing Vira Gas under "Investments accounted for under the equity method" amounting to 208 thousands of euros as it is now consolidated using the full consolidation method. At December 31, 2017 the effect of derecognizing GNL Quintero under "Investments accounted for under the equity method" amounting to 540,696 thousands of euros as it is now consolidated using the full consolidation method. In addition, the effect of the derecognition of GSP under "Investments accounted for under the equity method" is also included in the amount of 215,303 thousands of euros, given that significant influence was lost during 2017, becoming registered as receivables (Note 3.3.a).
- (3) "Exits from the perimeter / Decreases", includes the effect of the "Investment accounted for by the equity method" in the amount of 71,573 thousands of euros, as a result of the sale of the entire stake held in the Swedegas Group (Notes 1.5 and 3.5).

The following dividends were received:

	2018	2017
TgP	66,775	74,926
Grupo Altamira	3,942	3,248
Morelos EPC	7,340	-
Swedegas	6,339	7,540
BBG	3,750	4,000
Saggas	-	19,575
Other entities	3,087	3,578
Total	91,233	112,867

Appendix II to these Consolidated Annual Accounts provides disclosure on data relating to joint ventures, joint operations, and associates of the Enagás Group at December 31, 2018 and December 31, 2017.

The recoverable amount of investments in associates or business combinations is evaluated for each associate or business combination, unless the associate or business combination does not generate cash flows for continuous use which are largely independent of the cash flows arising from other Group assets.

With respect to the impairment analysis for affiliates, the discount rate applied (cost of equity) in 2018 ranged from 5-9%, depending on the country (5-9% in 2017). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2018 year-end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

1.7 Earnings per share

	2018	2017	Change
Net result of the financial year attributed to the parent company (thousands of euros)	442,626	490,837	(9.82%)
Weighted average number of outstanding shares (thousands of shares)	238,426	238,426	0.00%
Basic earnings per share (in euros)	1.8565	2.0587	(9.82%)
Diluted earnings per share (in euros)	1.8546	2.0587	(9.91%)

As indicated in **Note 3.1.b**, on May 25, 2016, Enagás, S.A. completed the process of acquiring 307,643 treasury shares. This acquisition is directly related with the Long-Term Incentive Plan explained in the aforementioned **Note 3.1.b**. The plan is based on the fulfilment of a series of objectives that are subject to the

1.8 Dividends distributed and proposed

a) Proposed distribution of profit attributable to the parent

The appropriation of 2018 profit corresponding to the parent Enagás, S.A. proposed by the Board of Directors and which will be submitted for approval by the General Shareholders Meeting is as follows (in thousands of euros):

	2018
To dividends	365,075
To voluntary reserves	6,147

At a meeting held on November 19, 2018, the Board of Directors of Enagás, S.A. agreed to distribute an interim dividend charged against 2018 profit, based on the necessary liquidity statement, expressed in thousands of euros, amounting to 145,917 thousands of euros (0.612 euros gross per share), in accordance with article 277 of the Spanish Corporate Enterprises Act.

The payment of the aforementioned interim dividend was made on December 19, 2018.

The provisional accounting records prepared by the parent of the Group, in accordance with legal requirements and which presented balances sufficient for the distribution of the interim dividend in 2018, were as follows:

approval of delivering the shares assigned to said plan. Based on the degree of compliance estimated at December 31, 2018, subject to approval by the defined bodies (98.03%), basic and diluted earnings per share as of December 31, 2018 are 1.8565 euros and 1.8546 euros, respectively.

Provisional accounting records at October 31, 2018	
Net accounting result	23,787
10% legal reserve	-
Interim dividend received from Group companies	358,600
Profit "available" for distribution	382,387
Forecast payment	(145,917)
Forecast cash balance for the period from October 31 to December 31:	
Cash balance	29,304
Projected collection for the period considered	261,253
Credit lines and loans available from financial institutions	1,500,000
Payments projected for the period under consideration (including the payment on account)	(112,556)
Estimated available financing before dividend distribution	1,678,001

The gross complementary dividend proposed (0.918 euros per share) is subject to approval by the ordinary General Shareholders' Meeting and is not included as a liability in these Consolidated Annual Accounts.

b) Total dividends paid

In addition to the aforementioned interim dividend for 2018, during 2018 Enagás, S.A. distributed the gross complementary dividend for 2017.

Said dividend amounted to 208,862 thousands of euros (0.876 euros per share) and was paid on July 5, 2018.

1.9 Commitments assumed and guarantees granted

Accounting policies

- A financial guarantee contract is a contract which requires that the issuer makes specific payments to repay the holder for losses incurred when a specific debtor does not fulfil payment obligations at maturity, in accordance with the original or modified conditions of a debt instrument. The rights and obligations associated with a financial guarantee will be considered as financial assets and financial liabilities. For subsequent valuation, a contract will be recognized as the greater amount of a) the amount resulting from standards relating to provisions (IAS 37) or b) accumulated amortization of the initial measurement and possible accrued income.

- An investment commitment corresponds to that obligation contracted with a related party which can give rise to outflows of funds or other resources in the future. The following is included amongst these: commitments not recognized in connection with contributing funds or resources as a consequence of incorporation agreements, capital intensive projects carried out by a joint venture, commitments not recognized in connection with providing loans or other financial support to the joint venture, or commitments not recognized in connection with acquiring a stake, regardless of whether a specific future event occurs or not.

Commitments assumed and guarantees granted	Group Employees, Companies or Entities (Note 4.3)	Other related parties (Note 4.3)	Third parties	Total
2018				
Guarantees for related party debts	452,589	-	-	452,589
Guarantees and sureties granted - Other	1,468	22,895	405,395	429,758
Investment commitments	61,592	-	22,596	84,188
2017				
Guarantees for related party debts	24,131	-	-	24,131
Guarantees and sureties granted - Other	8,376	130,212	319,571	458,159
Investment commitments	68,800	-	30,559	99,359

a) Guarantees for related party debts

The "Guarantees on debt of related entities" heading includes the corporate guarantee granted by Enagás S.A. for financial institutions acquired in the Financing Agreement of November 30, 2018 in the company TAP, through which the following items are basically guaranteed:

- Principal and interest of the Financing Agreement provided by TAP at any time;
- Market value of the hedging instrument over the interest rate of the Financing Contract.

The corporate guarantee has been granted by each TAP shareholder jointly, so that Enagás would only be held liable, in a hypothetical case, for the amount corresponding to its participation in the capital of TAP.

At December 31, 2018 the amount guaranteed by Enagás, S.A. to the creditors of TAP amounted to 452,589 thousands of euros.

This guarantee will be released subject to the fulfilment of certain conditions agreed with TAP's creditors, mainly related to the start-up of the project.

After the start-up and until the maturity of the financing, there will also be a shareholder support mechanism for the repayment of the TAP loan by means of capital contributions (Debt Payment Undertaking), which will be activated were certain extraordinary events to happen.

Both the guarantee during the construction period and this support mechanism during the operating period are contractually limited by a cap in force throughout the life of the financing arrangement, so that the amounts claimed from Enagás may never exceed a total amount of 903,322 thousands of euros, regardless of the market value of the derivative or any other contingency.

At December 31, 2017, the commitment acquired in the existing Financing Agreement with the company Knubbsäl Topholding AB (Swedegas Group) in the amount of 24,131 thousands of euros was included, through which the Enagás Group undertook to grant a corporate guarantee in favour of the financing entities if the Financing Agreement currently existing has not been cancelled or refinanced six months before its expiration, which is established for the month of July 2022.

In this respect, at November 21, 2018, the sale took place of the entire stake in the Swedegas Group to FS Gas Transport AB (**Note 1.5**), so that, at December 31, 2018, the Enagás Group does not have this guarantee.

b) Guarantees and sureties granted - Other

The following items are included:

Group Employees, Companies or Entities

- Guarantees and sureties granted to group companies at December 31, 2018 include the technical sureties granted to third parties by Gas to Move Transport Solutions, S.L. in the amount of 1,468 thousands of euros, counter-guaranteed by Enagás, S.A.
- At December 31, 2017 guarantees for full compliance granted to Group entities in connection with obligations acquired under concessions, counter-guaranteed by Enagás, S.A., in the amount of 8,376 thousands of euros, cancelled during financial year 2018.

Other related parties

- Technical guarantees granted by the related party Banco Santander to third parties in the amount of 6,411 thousands of euros (6,411 thousands of euros in 2017) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- Guarantees granted before the Federal Electricity Commission ("FEC") in connection with the service contracts relating to the Gasoducto de Morelos and Estación de Compresión Soto La Marina projects in the amounts of 8,737 thousands of euros and 7,747 thousands of euros, respectively.

Third parties

The following items, mainly, are included:

- Financial guarantees granted by financial entities to cover the loans granted by the European Investment Bank to Enagás Financiaciones, S.A. in the amount of 323,333 thousands of euros (258,667 thousands of euros in 2017).
- Technical guarantees granted by financial entities to third parties in the amount of 60,072 thousands of euros (56,954 thousands of euros in 2017) to cover certain responsibilities which may arise during the execution of the contracts constituting the activity of the Enagás Group.
- Guarantee agreed by Enagás S.A. regarding the obligations of Enagás Internacional, S.L.U. towards Hellenic Republic Asset Development Fund S.A. for its participation in the sale of 66% of DESFA, for the amount of 21,400 thousands of euros.
- Guarantee granted by Enagás Internacional S.L.U covering its obligations in the contract with Sound Energy Morocco for the development of a project in Morocco, amounting to 590 thousands of euros.
- No guarantees had been granted with respect to tender processes at December 31, 2018 and December 31, 2017.

c) Investment commitments

The following items are included:

- The Enagás Group has investment commitments amounting to 61,592 thousands of euros relating to the TAP project, corresponding to the capital contributions expected to be disbursed as shareholder, in order to comply with the shareholders' obligation to participate in the financing of the project jointly with the financial entities with which the Financing Agreement was signed on November 30, 2018. At December 31, 2017 the Enagás Group had investment commitments amounting to 68,800 thousands of euros in connection with the TAP project.
- The Enagás Group has firm investment commitments for investments in Economic Interest Groupings (EIG) amounting to 22,596 thousands of euros, to be disbursed during the 2019 and 2020 financial years (30,559 thousands of euros at December 31, 2017).

The Directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognized in the accompanying Consolidated Balance Sheet.

1.10 New accounting standards

a) Standards in force for the current financial year

The accounting policies used in the preparation of these Consolidated Annual Accounts, other than those applied in the Consolidated Annual Accounts for the year ended December 31, 2017, as they came into force on January 1, 2018 are the following:

Approved for use in the European Union		
Standards	Content	Mandatory application for periods beginning on or after:
IFRS 15	Revenue from contracts with customers	Annual periods beginning on January 1, 2018.
IFRS 9	Financial instruments	Annual periods beginning on January 1, 2018.

IFRS 15: Revenue from contracts with customers

Said Standard was approved by the European Union via the corresponding publication in the Official Journal of the European Union on October 29, 2016, stipulating its mandatory application for annual periods starting from January 1, 2018.

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and applies to all revenue arising from contracts with customers, with limited exceptions. IFRS 15 establishes a five-step model that applies to the accounting for revenue from customer contracts and requires revenue to be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It also requires entities to exercise judgement, taking into account all relevant facts and circumstances, when applying each stage of the model to contracts with their customers. The Standard also provides for the recognition of an asset for the incremental costs of obtaining a contract with a customer, if the customer expects to recover them; there is a practical solution to treat such incremental costs directly as expenses when their expected recovery period is one year or less.

The new model for ordinary revenue is applicable to all contracts with customers, except those that are within the scope of other IFRS, such as leases, insurance agreements, and financial instruments. Transfers of assets that do not correspond to the ordinary activities of the entity (such as the sale of PP&E items, real estate, or intangible assets) are also subject to some of the recognition and measurement requirements of the new model established by IFRS 15. However, the recognition of interest and revenue from dividends is beyond the scope of this Standard.

The Group adopted IFRS 15 using the amended retroactive method as at January 1, 2018. Under this method, the standard may be applied to all contracts existing on the date of initial application or only to contracts that have not been completed by that date. The Group has chosen to apply the standard to all contracts existing as of January 1, 2018.

The cumulative effect of the initial application of IFRS 15 is recognized at the date of initial application as an adjustment to Reserves. Therefore, comparative information has not been updated and continues to be presented in accordance with IAS 11, IAS 18 and related interpretations.

With respect to the specific risks relating to revenue for the Enagás Group, an analysis was performed to determine the impacts which may arise from implementation of said Standard and the following was identified:

- Regarding revenues from regulated activity, which are the biggest proportion in the Group, and whose regulatory development and recognition and valuation criteria are described in **Appendix III**, no significant differences resulting from the implementation of IFRS 15, instead of the standards that it replaces, have been identified, as there are no significant impacts on the recognition of income from this type of activity.
- Further, GNL Quintero revenue almost entirely corresponds to the Terminal Use Agreement (TUA) with GNL Chile. Once said contract had been analysed, the Group concluded that the related income was intrinsically linked to the leasing of the regasification terminal, thus not giving rise to changes in recognition criteria under IFRS 15.
- With regard to income from non-regulated activities included under Revenue in the Consolidated Income Statement, these

are the amounts received for the implementation of connections between the infrastructure of the basic network of

Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. and the networks of distribution companies, secondary transmission companies, gas shippers and qualified customers, initially recognized as deferred income and then applied to income, based on the service life of the assigned facilities.

Based on the types of contractual agreements supporting this type of income, it has been determined that there is an implicit financing component which, under the new regulatory requirements, must be recognized as a liability in the Consolidated Balance Sheet (**Note 2.7**).

- Additionally, "Other operating income" in the Consolidated Income Statement mainly includes deferred income corresponding to the "gas transportation rights" contracts signed with the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A., to which the proportionate consolidation method is applied using the percentage of interest held by Enagás Transporte, S.A.U. in said companies (**Note 1.3**). Said deferred income is released to the Consolidated Income Statement on a straight-line basis up to the year 2020, when the aforementioned transport contract terminates.

As in the case of executing infrastructure connections in the basic network, the Company determined that those types of contract include a component of implicit financing, which in accordance with the new regulatory stipulations must be recognized as a liability in the Consolidated Balance Sheet (**Note 2.7**).

- The Enagás Group does not have any significant incremental costs in obtaining contracts with customers that have to be registered as an increase in the value of the asset, and thus amortized over the life of the contracts with customers in the Consolidated Income Statement.
- Lastly, as regards the companies accounted for using the equity method, and for the purposes of consistency, the Group has carried out an analysis of potential impacts for each of the affiliates, with no adjustment derived from its implementation being identified.

Based on all the above, at January 1, 2018 the Company has recognized the accumulated effect of initial adoption of IFRS 15 as an initial negative Reserve, for an approximate amount of 28.2 million euros (net of tax effect), with a balancing entry of 37.6 million euros recognized as a liability, as indicated above and in **Note 2.7**. Said amount will subsequently be taken to the Consolidated Income Statement during the life of the corresponding contracts, having separated their components amongst greater operational income (transaction price) and greater financial expenses (significant financial component).

In relation to the foregoing, the main impact of the application of IFRS 15 during financial year 2018 in the Consolidated Income Statement was an increase of 951 thousands of euros in turnover, an increase of 13,616 thousands of euros in operating income, as well as an increase of 5,588 thousands of euros in financial expenses (**Note 2.7**).

The Contracts liabilities heading which amounts to 68,502 thousands of euros (79,971 thousands of euros at January 1, 2018) (**Note 2.7**) relates to the amounts received for the execution of infrastructure connections in the basic network of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. and for the "gas transmission right" contract, which were

recognized as deferred income (**Note 2.7**) and which, on the basis of the useful lives assigned, not being applied in its entirety to income at December 31, 2018. Revenue from contract liabilities applied in 2018 relates to contract liabilities included at the beginning of the year.

IFRS 9: Financial Instruments

As in the previous case, this Standard was approved by the European Union during 2016, via publication in its Official Journal on November 29, 2016, stipulating that its application would be obligatory for yearly periods starting from January 1, 2018. In accordance with the transitional provisions of the Standard, the Enagás Group has applied it without restating the comparative information for the year 2017, and therefore recognising the adjustment to the carrying amount of the financial assets and liabilities in reserves at January 1, 2018. However, to better compare 2018 and 2017, a reconciliation based on the new categories is shown in the Classification and Valuation section below.

This Standard substitutes the current IAS 39 "Financial Instruments: Recognition and Measurement." The conceptual changes are important in all sections of the Standard, changing the classification and valuation model for financial assets, adapted to the entity's business model and refocusing the accounting model for hedges to align it with the economic management of risk, as well as modifying the current model used for impairment based on losses incurred to a model based on expected losses.

Classification and valuation

The new Standard requires that financial assets be classified when they are initially recorded as valued at amortized cost or at fair value.

The classification depends on the business model of the entity and the existence or not of certain contractually agreed upon cash flows.

- If the objective of the business model is to maintain a financial asset for the purpose of collecting contractual cash flows, which are exclusively payments of the capital plus interest on that capital, the financial asset will be valued at amortized cost.
- If the business model's objective is both to obtain contractually agreed upon cash flows and income from their sale, the financial assets will be measured at fair value through profit or loss (equity).

In contrast, at the initial recognition of a financial asset, an entity may opt to measure it at fair value through profit or loss if this allows the entity to eliminate or reduce an accounting asymmetry.

All other financial assets are measured at fair value, recording the profits and losses resulting from the subsequent valuation in the Consolidated Income Statement.

By virtue of the analysis carried out, and except for derivative financial instruments, whose category would correspond to fair value with changes in the Consolidated Income Statement (or application of hedge accounting criteria if applicable), the category of amortized cost is that which applies to practically all of the Group's financial assets. This new category does not present significant differences in terms of measurement from the categories adopted under IAS 39 (**Note 3.3.a**).

The following is a breakdown of the classification and valuation of financial assets under IAS 39 and IFRS 9 on the date of first application:

Type of instrument	Classification at 12.31.2017 (IAS 39)	Classification at 01.01.2018 (IFRS 9)	Amount under IAS 39 (thousands of euros)	Amount under IFRS 9 (thousands of euros)
Credits to affiliates (Note 3.3.a)	Loans and receivables	Amortized cost	409,608	409,357
Derivatives (Note 3.3.a)	Fair value with changes in the Income Statement	Fair value with changes in the Income Statement	22,213	22,213
Other financial assets (Note 3.3.a)	Loans and receivables	Amortized cost	510,923	510,825
Trade and other receivables (Note 2.2)	Loans and receivables	Amortized cost	581,126	581,024
Cash and cash equivalents	Loans and receivables	Amortized cost	627,864	627,863

Expected losses

A new impairment model is introduced based on expected loss, unlike the current model under IAS 39 that is based on incurred loss.

To calculate this expected loss, the Enagás Group has developed its own financial model, based both on internal information (such as existing balances, guarantees received and contractual commitments) and on external amounts (such as credit assessments of clients and agencies, macroeconomic factors, etc.) that could impact on the credit risk of the Group's debtors.

Following the analysis described above, an increase of approximately 500 thousands euros has been registered in the provision for impairment of financial assets. This amount mainly affects "Other non-current financial assets" due to loans granted to affiliates and "Trade and other receivables", of the attached Balance Sheet.

Hedge accounting

The new model attempts to bring the accounting criteria in line with risk management. The three types of hedge accounting in use at present are maintained (cash flow hedges, fair value hedges, and net investment hedges).

In view of the Enagás Group's current portfolio of derivatives, the fundamental effect comes from the evaluation of the effectiveness, since the current rules are removed and evaluation criteria are established so that they are aligned with risk management through the principle of "economic relationship", thus eliminating the requirement for retrospective evaluation. However, in no case has the new hedge accounting model led to any substantial changes in the hedging relationships currently applied, and there have been no first-time impacts of the Standard.

Refinancing of financial liabilities

In application of the IASB's 2017 interpretation on the treatment of the refinancing of financial liabilities under IFRS 9, contractual flows of refinanced debt must be discounted at the original effective interest rate, revised with the associated commissions, in place of the new rate resulting from the refinancing operation.

The difference obtained will have an impact on the Consolidated Income Statement as an expense or income at the date of the refinancing, although, given the retroactive nature of this interpretation, for those transactions carried out prior to January 1, 2018, the existing difference will be recorded against Reserves.

The Enagás Group has three operations subject to the Interpretation mentioned above, two carried out by the subsidiary

Enagás Financiaciones, S.A.U. in financial year 2015, and another by GNL Quintero, S.A. in financial year 2014.

The impact on the Enagás Group of this Interpretation involves an initial Reserve of approximately 20 million euros (net of tax effect), 10.3 million euros of which affects the external partners, as well as a reduction in the amount of debt to approximately 24 million euros (**Note 3.4.c**). This lower value of debt will be reclassified to the Consolidated Income Statement as a greater financial expense with a view to recognizing the debt at the original effective rate in future periods.

The impact on the Consolidated Income Account in 2018 as a result of the aforementioned refinancing operations has led to an increase in finance costs of 3,602 thousands of euros.

b) Standards not effective for the current financial year

The Group intends to adopt the standards, interpretations, and amendments thereof issued by the IASB that are not mandatory in the European Union at the date these Consolidated Annual Accounts were prepared when they become effective, where applicable. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the Consolidated Annual Accounts, except for the following standard:

Approved for use in the European Union		
Standards	Content	Mandatory application for periods beginning on or after:
IFRS 16	New standard for leases substituting IAS 17. The main novelty of the new standard involves a single lessee accounting model, which includes all leases (with certain exceptions) in the balance sheet with a similar effect to financial leases (there will be amortization of assets for right-of-use and a financial expense for the amortized cost of the liability).	Annual periods beginning on January 1, 2019.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leases; IFRIC 4 - Determining whether an Arrangement contains a Lease; SIC-15 Operating leases - Incentives; and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 establishes the principles for recognition, measurement, presentation, and disclose requirements regarding leases and requires that lessees account for all leases under one single balance sheet model similar to the current accounting of financial leases in accordance with IAS 17.

On the start date of a lease, the lessee will recognise a financial liability for the payments to be made during the remaining life of the lease agreement and an asset that represents the right to use the underlying asset during the lease term. Lessees must also recognise the interest expense arising from the lease financial liability and the right of use amortization expense separately.

The lessees will also be obliged to re-evaluate the financial liability recognized for the lease when certain events occur (for example, a change in the duration, changes in future lease payments which result from changes in an index or rate used to determine the payments). The lessee will generally recognise the lease liability amount revaluation as an adjustment to the asset for the right of use.

The lessor's accounting under IFRS 16 is not substantially changed compared to the current accounting standards, so it will continue to classify leases using the same classification principles: operating and financial leases.

IFRS 16 is effective for those periods starting from January 1, 2019 or subsequently and allows for early application.

The Enagás Group has chosen not to apply the new standard early, and will do so for the first time for the year beginning January 1, 2019.

For transition purposes, the Enagás Group plans to apply the modified retroactive transition method for the most significant existing leases and the simplified method for the remaining leases, on a combined basis.

The Enagás Group mainly has operating leases in which it is a lessee, having carried out a detailed evaluation of the impact of this new Standard on the Consolidated Financial Statements through the following tasks:

- Analysis of the lease contracts entered into by the Group in order to determine if these are subject to the scope of the Standard.
- In relation to the foregoing point, the Enagás Group has decided to avail itself of the exemptions indicated in the Standard in relation to short-term leases (maturing in less than or equal to 12 months), as well as those in which the underlying asset has a low value (having a value of less than 5 thousands of US dollars).
- An exhaustive analysis of the different fees paid by the Enagás Group, after which it was concluded that the exclusive public domain occupation charges paid to the different Port Authorities where the Enagás Group has its LNG Regasification Plants located must be considered as a lease contract under IFRS 16. Up to now, these charges have been recorded as fees under the "Other operating expenses" heading in the Consolidated Income Statement.

- The Company decided not to record components that are not leases separately from those that are for those asset classes in which the relative importance of these components is not significant in relation to the total value of the lease.
- Estimated non-cancellable lease terms, i.e. considering the initial term of the contracts, except for those in which the Enagás Group has a unilateral option to extend or terminate the lease, in which case the term has been considered extended or terminated early if there is reasonable assurance that the option will be exercised.
- Identification of both the lease payments made in the past, necessary to make the required calculations for those contracts that have opted for the modified retroactive transition method, and the current and future lease payments committed, separating -where possible- the components of the contract that do not constitute a lease.
- Identification and estimation of the discount rates to be applied to each of the leases.
- Analysis of the impact of the Standard on the financial ratios and "covenants" of the Group.
- Review of processes, systems and internal control, in order to determine the most appropriate tool for future management of the implementation of the new Standard.

Accordingly, the reasonably estimated impacts of the initial application of IFRS 16 at January 1, 2019 on the Consolidated Balance Sheet are as follows:

- Recognition of assets under "Rights of use assets" in non-current assets amounting to 263 million euros and increase in debt under "Non-current and current financial liabilities" amounting to 293 million euros. These are, basically, leases of offices, fibre optics and vehicles, as well as the maritime-terrestrial occupancy rates described above.
- Also, the recognition of an initial negative reserve of 22 million euros, net of its tax effect, and therefore of a deferred tax asset of 8 million euros.

The application of IFRS 16 would have had the following impacts on the Consolidated Income Statement and the Consolidated Cash Flow Statement for 2018:

- Lower expenses for "Leases and royalties" amounting to 31 million euros, a higher amortization expense of 26 million euros on rights of use assets, as well as a higher finance cost of 7 million euros on lease liabilities; as a result, the consolidated profit for the year is not expected to be significantly affected.
- An increase in cash flows from operating activities of 31 million euros, which would be offset by a decrease in cash flows from financing activities by the same amount, since the repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, although cash generation will not be affected.

1.11 Business combinations

Accounting policies

Goodwill and business combinations

- The acquisition by the parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.

- The accounting policies that the Enagás Group applies to goodwill are described in **Note 2.5**.

During 2016 the Enagás Group acquired a 40% stake in addition to the 20.4% it already held in GNL Quintero, which resulted in total interest of 60.4%. Subsequently, all of the shareholders of GNL Quintero unanimously agreed to modify the existing shareholder agreement, effective from January 1, 2017. These amendments to the aforementioned shareholders' agreement gave Enagás Chile, SpA. control over GNL Quintero on 1 January 2017, as it was able to unilaterally adopt the relevant decisions of the company. This meant a change in the consolidation method from the equity method to the global integration with the recognition of the corresponding external partners.

In accordance with IFRS 3, this acquisition of control in 2017 represents a business combination carried out in stages, which requires measuring the interest formerly held in the equity of the acquired company at its fair value at the date of acquiring control. On January 1, 2017, the fair value of assets and liabilities acquired in the business combination were determined by the Enagás Group using the acquisition price in 2016 (400 million US dollars for a 40% stake) as a reference value, in the amount of 1,000 million US dollars for 100% of GNL Quintero.

Revaluation of the previous stake (60.40%) resulted in a positive impact of 33,831 thousands of euros, and cancellation of the translation differences accumulated in equity at the date of acquiring control of 18,575 thousands of euros of income. Both effects were recognized under "Finance revenue and similar income" in the Consolidated Income Statement at December 31, 2017. The gain generated was calculated in the following way:

	Thousands of euros
Fair value of previous net assets (60.4%) (1)	574,527
Net carrying amount of interest held at 12.31.2016 (60.4%) (2)	540,696
Total revaluation of initial net amount	33,831
Cancellation of accumulated translation differences in Equity at 12.31.2016	18,575
Impact on profit and loss	52,406

- (1)** Taking 1,000 million US dollars for the full 100% stake as a reference value (951 million euros at the exchange rate of January 1, 2017)
- (2)** Investment accounted at December 31, 2016 under the equity method for 60.4% of GNL Quintero.

No significant business combinations occurred in 2018.

2. Operational performance of the group

Relevant aspects

Operating profit

- Operating profit amounted to 691 million euros.

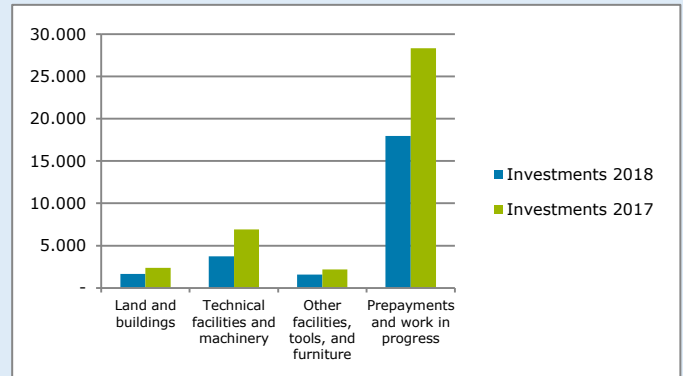
Trade receivables

- “Current receivables” include the balance pending settlement corresponding to the remuneration of regulated regasification, transmission and underground storage activities for 308.1 million euros corresponding to financial year 2018 (367.9 million euros at December 31, 2017), as well as the outstanding balance corresponding to the remuneration of the Technical Manager for 5.5 million euros (6.7 million euros at December 31, 2017) **(Note 2.2)**.

Property, plant, and equipment

- This heading involves, at December 31, 2018, 55% of total assets (57% of total assets at December 31, 2017) **(Note 2.4)**. The change is mainly due to:
 - Investments amounting to 24.4 million euros.
 - The provision for amortization for the period, in the amount of 271 million euros (277 million euros in 2017).
 - The impairment in Advances of fixed assets recorded during the year, for a total amount of 38.4 million euros.

- The distribution of investments by category was the following:



Current status of the Castor storage collection rights

- In relation to the Castor storage facility **(Note 2.4)**, the Enagás Group filed a claim for liability in December 2018 in order to recognise the right to remuneration for the entrusted operation and maintenance for the infrastructure.

Current status of the El Musel Port regasification plant (Gijón)

- In August 2018 a new administrative authorisation, approval of the execution project and environmental impact statement were requested for the El Musel regasification plant, as well as a favourable resolution on the technical and economic conditions for the provision of capacity services and for the start-up of the facilities **(Note 2.4)**.

2.1 Operating profit

Accounting policies

Revenue Recognition

- The Enagás Group measures revenue at the fair value of the consideration received or receivable and represents balances receivable for goods delivered and services provided in the normal course of business, net of discounts and amounts received from third parties such as VAT reimbursements.
- Ordinary revenue from the rendering of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.
- Specifically, income relating to Technical Management of the System (GTS) is regulated by a public body (**Appendix III**). This is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical Manager of the System, which includes coordinating the development, operation, and maintenance of the transmission network, supervising the safety of natural gas supply, carrying out plans for future development of gas infrastructure, and controlling third-party access to the network. The monthly attribution of this income to the Income Statement is carried out on a straight-line basis.
- Income arising from regasification, storage, and transmission activities in Spain is calculated based on a regulated remuneration system (**Appendix III**). Remuneration is comprised of a fixed portion for availability of the facility and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.

Inclusion of the variable portion with respect to remuneration for supply continuity allows for adjustment of system costs in situations of varying demand, balancing the differences between income and costs of the system, as well as transferring part of the risk relating to variable demand, which until now has been assumed by the end consumer, to the owner of the facilities.

This portion is based on the total changes in domestic consumption of natural gas excluding the supply through satellite plants in respect to prior year in the case of transmission facilities, of the variation in demand for regasified gas in all the plants operating in the system in the case of regasification facilities, and the change in usable gas held at the storage facilities, at November 1 of the corresponding year and including cushion gas mechanically extracted of the latter.

Remuneration for supply continuity is divided amongst all the facilities based on the weighting of their replacement value with respect to all facilities relating to the activity, calculating said values by applying the unit investment values prevailing for each year.

Once the regulatory useful life of the facilities has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the facility exceeds the regulatory useful life, not accruing any amounts as investment remuneration.

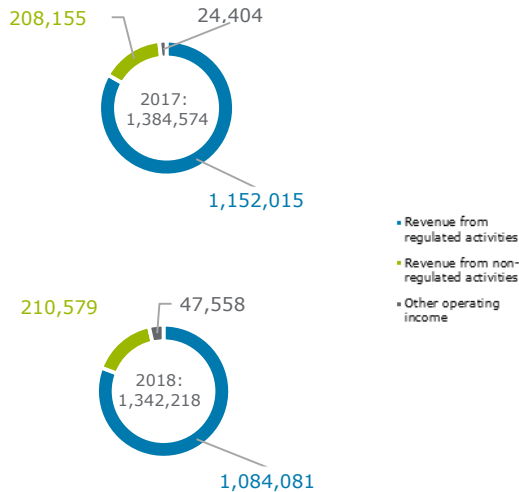
- Recognition of GNL Quintero income is regulated by the Terminal Use Agreement ("TUA"), which is the contract by virtue of which the company makes 100% of its regasification and storage capacity available to GNL Chile.
- In addition, the Group's deferred income mainly corresponds to the advanced amounts received for the natural gas transmission rights ceded to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and is taken to the income statement on a straight-line basis until 2020, the year in which the transmission contract expires.

Further, this heading includes the accrual of amounts received for connecting the basic network infrastructure of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. with networks of distribution companies, secondary transmission companies, gas shippers, and qualified clients. Said income is recognized based on the useful life of the assigned facilities.

Based on the types of contractual agreements supporting this type of income, it has been determined that there is an implicit financing component which, under the new regulatory requirements, must be recognized as a liability in the Consolidated Balance Sheet.

a) Revenue

The breakdown of Revenue is as follows:



The details of revenues with the breakdown of revenues from customer contracts at December 31, 2018 is as follows:

Revenue	2018
Regulated activities	1,084,081
From contracts with customers	-
Other	1,084,081
Non-regulated activities	210,579
From contracts with customers	36,138
Other	174,441
Total revenue	1,294,660

Other operating income	2018
From contracts with customers	30,781
Other	16,777
Total Other operating income	47,558

The distribution of the Revenue based on the Group Companies from which it comes is as follows:

Revenue	2018	2017
Regulated activities:	1,084,081	1,152,015
Enagás Transporte, S.A.U.	1,032,069	1,099,391
Enagás Transporte del Norte, S.L.	28,046	28,657
Enagás GTS, S.A.U.	23,966	23,967
Non-regulated activities	210,579	208,155
GNL Quintero	173,417	173,746
Enagás Transporte, S.A.U.	31,829	31,682
Enagás, S.A.	2,294	73
Enagás Internacional, S.L.U.	1,004	1,391
Enagás México	303	713
Enagás Transporte del Norte, S.L.	447	284
Enagás Perú	559	131
Remaining companies	726	135
Total	1,294,660	1,360,170

The breakdown required for the IFRS 15 application, regarding contracts with clients corresponding to the current year, is as follows:

	Nature	Geographical area	Counterparty	Segments (Note 4.7.a)			Total
				Technical Management of the System	Infrastructures	Other activities	
Net revenue from customer contracts							
Connections	Rendering of services	Spain	Third parties	-	2,173	-	2,173
Other services	Rendering of services	Spain	Intercompany	-	-	353	353
Other services	Rendering of services	Spain	Third parties	-	58	-	58
Corporate services	Rendering of services	America	Intercompany	-	-	1,469	1,469
Corporate services	Rendering of services	Spain	Intercompany	-	84	1,053	1,137
Corporate services	Rendering of services	Europe	Intercompany	-	-	928	928
Gas transmission services	Rendering of services	Spain	Third parties	-	30,020	-	30,020
Net revenue from customer contracts				-	32,335	3,803	36,138
Other operating income from customer contracts							
Usage rights	Usage rights income	Spain	Intercompany	-	17,802	-	17,802
Maintenance	Rendering of services	Spain	Intercompany	-	2,771	-	2,771
Maintenance	Rendering of services	Spain	Third parties	-	4,802	-	4,802
Other income	Rendering of services	Spain	Intercompany	5	-	135	140
Other income	Rendering of services	Europe	Intercompany	-	-	23	23
Other income	Rendering of services	Spain	Third parties	-	1,997	370	2,367
Other income	Rendering of services	Europe	Third parties	-	-	270	270
Corporate services	Rendering of services	Spain	Intercompany	-	2,466	99	2,565
Corporate services	Rendering of services	Europe	Intercompany	-	-	41	41
Total Other operating income from customer contracts				5	29,838	938	30,781

The Management of the Enagás Group considers that there is no collection uncertainty relating to the income indicated above and therefore has not ceased to recognise any type of income for this reason.

b) Personnel expenses

Personnel expenses	2018	2017
Wages and salaries	97,642	95,916
Termination benefits	7,338	7,153
Social Security	18,577	18,519
Other personnel expenses	9,253	9,769
Contributions to external pension funds (defined contribution plan)	2,658	2,428
Works for fixed assets (Note 2.4)	(4,230)	(4,846)
Total	131,238	128,939

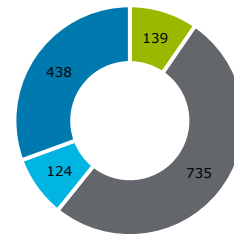
In 2018, wages and salaries include the fair value of services received as consideration for equity instruments granted, in the amount of 1,936 thousands of euros at December 31, 2018 (2,206 thousands of euros at December 31, 2017), corresponding to the portion of the long-term incentive plan payable in Enagás, S.A. shares and approved on March 18, 2016 for the executive directors and senior management, thus representing a share-based transaction. Services rendered corresponding to the portion of the incentive plan payable in cash were also recognized with a credit to "Provisions" under non-current liabilities, in the amount of 693 thousands of euros at December 31, 2018 (877 thousands of euros at December 31, 2017). (Note 2.8.a). In addition, the employee benefits expense arising from the bonus payable every three years for contribution to results and corresponding to the remaining staff of the Group was also included in the amount of 2,026 thousands of euros (2,344 thousands of euros in 2017).

The Enagás Group contributes, in accordance with the Pension Plan signed and adapted to the Law on Pension Plans and Funds, to an "Enagás Pension Fund" defined contribution plan, managed by Gestión de Previsión y Pensiones, S.A. with Banco Bilbao Vizcaya Argentaria, S.A. as custodian, which covers the Group's commitments to the workforce in question. The aforesaid plan recognizes certain vested rights for past service and undertakes to make monthly contributions averaging 3.90% of eligible salary (4.14% in 2017). It is a mixed plan covering retirement benefits, disability and death. The total number of people adhered to the plan at December 31, 2018 totalled 1,201 participants (1,190 participants at December 31, 2017). The contributions made by the Group under this heading each year are recorded in the "Personnel expenses" heading of the Consolidated Income Statement. At 2018 year-end there were no amounts pending payment with respect to this item.

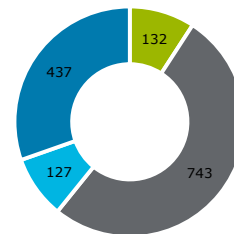
In addition, the Group has outsourced its pension commitments with respect to its executives through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death, and employment disability.

The average number of employees broken down by professional category is as follows:

2018: 1,436



2017: 1,439



- Management
- Technical personnel
- Administrative personnel
- Workers

At December 31, 2018 the Group has 1,452 employees under contract (1,426 employees at 2017), broken down by professional category and gender as follows:

Categories	2018		2017	
	Women	Men	Women	Men
Management	38	106	35	99
Technical personnel	231	509	220	516
Administrative personnel	102	21	102	23
Workers	20	422	17	414
Total	391	1,058	374	1,052

"Management" includes senior executive management of the Group, comprising eleven persons (nine men and two women).

The average number of staff during 2018 and 2017 employed by Group companies with disabilities greater than or equal to 33%, broken down by categories, is as follows:

Categories	2018	2017
Management	-	1
Technical personnel	3	4
Administrative personnel	2	2
Workers	5	4
Total	10	11

c) Other operating expenses

Other operating expenses	2018	2017
External services:		
R+D expenses	293	1,133
Leases and royalties	44,780	45,740
Repairs and conservation	48,591	50,052
Freelance professional services	32,391	29,799
Transport	31,475	32,159
Insurance premiums	9,241	9,825
Banking and similar services	342	347
Advertising, publicity and public relations	5,391	4,832
Supplies	22,462	20,874
Other services	16,958	14,790
External services	211,924	209,551
Taxes	13,842	16,669
Other current management costs	300	147
Other external expenses	16,855	16,116
Change in traffic provisions	566	36
Total	243,487	242,519

2.2 Trade and other non-current and current receivables

Accounting policies

- Financial assets are recognized in the Consolidated Balance Sheet at the transaction date when the Group becomes party to the contractual terms of the instrument.

Financial assets measured at amortized cost

- This heading comprises financial assets arising from the sale of goods or the rendering of services in the course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.
- The said financial assets are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. They are subsequently measured at amortized cost and related interest accrued at the corresponding effective interest rate is recognized in the Consolidated Income Statement.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.
- The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies transferring substantially all the risks and rewards inherent in ownership of the financial asset; this is the case in firm asset sales, trade receivable factoring transactions in which the Group retains neither credit risk nor interest rate risk, sales of financial assets with an agreement to repurchase them at their fair value, and securitizations in which the Group neither retains subordinated financing, grants any form of guarantee nor assumes any other type of risk.
- In contrast, the Group does not derecognize financial assets, but rather recognizes a financial liability at an amount equal to the consideration received, in the transfer of financial assets in which it retains substantially all the risks and rewards incidental to ownership, such as discounted bills, recourse factoring, disposals of financial assets under repurchase agreements at fixed prices or at the sales price plus interest, and securitizations of financial assets in which the Group retains subordinate liability or grants other types of guarantees which would substantially absorb all possible losses.

Significant estimates and judgements

- An impairment loss on financial assets measured at amortized cost arises when there is objective evidence that the Group will not be able to recover all the corresponding amounts in accordance with the original terms established. The impairment loss is recognized as an expense in the Consolidated Income Statement and is determined as the difference between the carrying amount and the present value of future cash flows discounted at the effective interest rate.
- If, in subsequent periods, the value of the financial asset measured at amortized cost recovers, then the impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the carrying amount had the impairment not been recognized. The reversal is recognized in the Consolidated Income Statement.
- As of January 1, 2018, with the application of IFRS 9, the Group will recognize a correction for credit losses expected from financial assets, in contrast to the loss model incurred in IAS 39 followed to the present.

The Group will assess the expected credit losses of a financial instrument in a way that reflects:

- an amount weighted based on probability and not biased, determined by evaluating a series of possible outcomes;
- the temporal value of money; and
- reasonable and well-founded information available on the date of information, without cost or disproportionate effort, on past events, current conditions and forecasts of future economic conditions.

Under the new standard, an entity will measure the value correction for losses of a financial instrument in an amount equal to the expected credit losses during the life of the asset, if the risk of that financial instrument has increased significantly since its initial recognition.

Conversely, that is, if the credit risk of a financial instrument has not increased significantly since the initial recognition, an entity will measure the value correction for losses at an amount equal to the expected credit losses in the next 12 months.

The gain or loss resulting from impairment of value, the amount of the expected credit losses (or reversals) by which it is required that the value adjustment for losses be adjusted on the posting date to reflect the amount to be recognized under this standard will be recorded in the income of the period.

In the case of the Enagás Group, practically all financial assets present a low credit risk at the date of posting, and their exposure to events that generate credit losses during the next 12 months is therefore calculated.

	12.31.2018	12.31.2017
Customer receivables for sales and services rendered	24,971	63,725
Accounts receivable from customer contracts	12,085	-
Group companies	8,099	9,090
Other receivables	315,776	390,364
Sub-total	360,931	463,179
Value added tax	27,979	15,708
Trade and other current receivables	388,910	478,887
Trade and other non-current receivables (Note 3.3.a)	137,125	117,947

"Trade and other receivables – non-current", in accordance with Royal Decree Law 8/2014 of July 4 and Law 18/2014 of October 15, mainly includes the long-term accumulated deficit corresponding to regulated activities amounting to 88,835 thousands of euros at December 31, 2018 (90,485 thousands of euros at December 31, 2017).

"Current receivables" include the balance pending settlement corresponding to the remuneration of regulated regasification, transmission and underground storage activities for 308,103 thousands of euros (367,856 thousands of euros at December 31, 2017), as well as the outstanding balance corresponding to the remuneration of the Technical Manager for 5,500 thousands of euros (6,650 thousands of euros at December 31, 2017). The

trade receivables related to regulated activities follow the settlement system established in Order ECO/2692/2002, of October 28, which regulates the settlement procedures for remuneration of regulated natural gas sector and fees for specific purposes (**Appendix III**).

"Accounts receivable from contracts with clients" include the following items, broken down in accordance with IFRS 15:

	12.31.2018	01.01.2018
Accounts receivable from long-term customer contracts	-	1,297
Accounts receivable from customer contracts	7,494	10,198
Accounts receivable invoices to be issued from contracts with customers	4,591	4,183

The Company has not registered assets under contracts at December 31, 2018 or January 1, 2018.

At December 31, 2018, the Company did not have significant impairment losses on balances receivable from contracts with customers, either registered as accounts receivable or as unissued invoices. However, in accordance with IFRS 9 requirements indicated below, an expected loss of approximately 100 thousands of euros was recognized in 2018.

2.3 Trade and other payables

Accounting policies

Trade and other payables are financial liabilities that do not accrue explicit interest and are recognized at their face value provided the effect of financial discounting is not significant.

Trade and other payables	12.31.2018	12.31.2017
Debts with related companies	1,704	3,876
Rest of suppliers	144,812	156,287
Other creditors	23,056	11,681
Subtotal (Note 3.3.b)	169,572	171,844
Value added tax	2,121	2,397
Tax Authorities creditor for withholdings and other	32,576	32,663
Total	204,269	206,904

"Other creditors" includes the amount pending payment related to the cash portion of the Long-Term Incentive Plan addressed to executive directors and members of the management team payable in cash (Note 2.1.b), as well as to the three-year bonus programme for contribution to income for the rest of the Company's staff that was reclassified from the long term during the 2018 financial year.

Information on average payment periods for suppliers

The disclosures required in the second additional provision of Law 31/2014 of December 3, are as follows:

Days	2018	2017
Ratio of payments made	33	32
Ratio of pending payments	45	37
Average supplier payment period (ASPP)	34	32

Amount	2018	2017
Total payments made	442,072	445,554
Total pending payments	27,803	32,852

2.4 Property, plant, and equipment

Accounting policies

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost, less the corresponding accumulated amortization and any impairment losses.
- Acquisition or production cost includes:
 - Financial expenses relating to the financing of infrastructure projects accrued only during the construction period when the building work lasts for more than one year, applying a net capitalization rate of 1.30% for 2018 (1.81% for 2017), amounting to 228 thousands of euros (2,652 thousands of euros at 2017).
 - Personnel expenses directly related to work in progress, lowering personnel expenses in the amount of 4,230 thousands of euros at December 31, 2018 (4,846 thousands of euros at December 31, 2017). (Note 2.1.b).
 - The book value of these assets includes an estimate of the current value of the costs to the Company for the dismantling tasks, credited to the "Long-term provisions" caption (Note 2.8.a) of the attached Balance Sheet. This provision is subject to periodic review, in order to monitor possible changes in any of the hypotheses used to estimate decommissioning costs, in this case assuming the corresponding change in book value, which would be made prospectively, as has been previously indicated in Note 2.8.a to the Consolidated Annual Accounts.
- Non-extractable gas required for exploitation of underground natural gas storage (cushion gas) is recognized under PP&E, amortized over the useful life specified in the prevailing regulation (20 years) or over the leasing period if less.
- Natural gas required for minimum levels in gas pipelines and minimum operating levels for regasification plants (heel gas) is recognized as PP&E that cannot be amortized given that it is not available for sale as indicated under current regulations. It is measured at the auction price as indicated in Order ITC/3993/2006 and the Resolution of April 18, 2007.
- The restatement of assets recognized under PP&E in accordance with Royal Decree Law 7/1996 of June 7, on balance sheet restatements, has an effect of 3,348 thousands of euros on amortization charges in 2018 (3,392 thousands of euros in 2017).

Grants

- The official grants relating to the assets recognized under PP&E lower the acquisition cost of said assets and are taken to the income statement over the foreseen useful lives of the corresponding assets, decreasing the related amortization.

Significant estimates and judgements

- PP&E items are amortized using the straight-line method, applying annual amortization rates that reflect the estimated useful lives of the corresponding assets.
- The Directors consider that the carrying amounts of the assets do not exceed the recoverable amounts which result from calculating discounted future cash flows generated by said assets based on foreseen remuneration under current regulations.
- Amortization is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
Buildings	2%-5%	50-20
Technical facilities (transmission network)	2.5%-5%	40-20
Tanks	5%	20
Underground Storage Facilities	5%-10%	20-10
Cushion gas	5%	20
Other technical facilities and machinery	2.5%-12%	40-8.33
Equipment and tools	30%	3.33
Furniture and fixtures	10%	10
Information technology equipment	25%	4
Transport equipment	16%	6.25

2018	Opening balance	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions (1)	Translation differences	Closing balance
Land and buildings	247,883	1,649	2,377	(6,022)	3,343	249,230
Technical facilities and machinery	9,710,631	3,749	(68,904)	(2,992)	38,559	9,681,043
Other facilities, tools, and furniture	93,295	1,560	76,255	(69)	89	171,130
Prepayments and work in progress	567,789	17,976	(9,728)	(285)	275	576,027
Capital grants	(600,387)	(552)	-	437	-	(600,502)
Total cost	10,019,211	24,382	-	(8,931)	42,266	10,076,928
Land and buildings	(91,101)	(6,771)	-	-	(968)	(98,840)
Technical facilities and machinery	(4,707,095)	(270,892)	(426)	20	(10,070)	(4,988,463)
Other facilities, tools, and furniture	(67,798)	(4,890)	426	66	(76)	(72,272)
Capital grants	408,060	11,160	-	-	-	419,220
Total amortization	(4,457,934)	(271,393)	-	86	(11,114)	(4,740,355)
Plant and machinery (2)	(13,719)	-	-	-	-	(13,719)
Prepayments and work in progress (2)	(46,207)	(38,432)	-	-	-	(84,639)
Total impairment	(59,926)	(38,432)	-	-	-	(98,358)
Land and buildings	156,782	(5,122)	2,377	(6,022)	2,375	150,390
Technical facilities and machinery	4,989,817	(267,143)	(69,330)	(2,972)	28,489	4,678,861
Other facilities, tools, and furniture	25,497	(3,330)	76,681	(3)	13	98,858
Prepayments and work in progress	521,582	(20,456)	(9,728)	(285)	275	491,388
Capital grants	(192,327)	10,608	-	437	-	(181,282)
Net carrying amount of property, plant, and equipment	5,501,351	(285,443)	-	(8,845)	31,152	5,238,215

- (1) The decrease entered in "Land and buildings" corresponds mainly to an adjustment in the cost of the land of the Denia Compression Station once the Supreme Court resolved the dispute that motivated said cost provision. On the other hand, the losses in "Plant and machinery", mainly represent the settlement of the provision for fair values of the final section of the Barcelona-Arbós gas pipeline, is pending resolution by the Expropriation Jury, amounting to 2,350 thousands of euros.
- (2) During the financial year 2018, the Enagás Group proceeded to carry out an analysis of both projects and inventories of materials stored in warehouses. After said analysis, the Group recognized impairment losses on both materials considered obsolete, as well as on those investments made that are most likely not going to be executed, amounting to 38,432 thousands of euros.

2017	Opening balance	Increases due to changes in consolidation scope (1)	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance
Land and buildings	165,309	87,258	2,370	4,375	(993)	(10,436)	247,883
Technical facilities and machinery	8,801,625	1,009,932	6,931	14,670	(2,064)	(120,463)	9,710,631
Other facilities, tools, and furniture	87,107	4,753	2,162	242	(377)	(592)	93,295
Prepayments and work in progress	559,003	6,657	28,323	(19,287)	(5,993)	(914)	567,789
Capital grants	(600,387)	-	-	-	-	-	(600,387)
Total cost	9,012,657	1,108,600	39,786	-	(9,427)	(132,405)	10,019,211
Land and buildings	(67,494)	(20,297)	(6,737)	-	856	2,571	(91,101)
Technical facilities and machinery	(4,244,269)	(210,915)	(278,386)	(809)	542	26,742	(4,707,095)
Other facilities, tools, and furniture	(61,045)	(3,374)	(4,920)	809	309	423	(67,798)
Capital grants	394,851	-	13,209	-	-	-	408,060
Total amortization	(3,977,957)	(234,586)	(276,834)	-	1,707	29,736	(4,457,934)
Technical facilities and machinery	(13,677)	-	(42)	-	-	-	(13,719)
Prepayments and work in progress	(18,136)	-	(28,071)	-	-	-	(46,207)
Total impairment	(31,813)	-	(28,113)	-	-	-	(59,926)
Land and buildings	97,815	66,961	(4,367)	4,375	(137)	(7,865)	156,782
Technical facilities and machinery	4,543,679	799,017	(271,497)	13,861	(1,522)	(93,721)	4,989,817
Other facilities, tools, and furniture	26,062	1,379	(2,758)	1,051	(68)	(169)	25,497
Prepayments and work in progress	540,867	6,657	252	(19,287)	(5,993)	(914)	521,582
Capital grants	(205,536)	-	13,209	-	-	-	(192,327)
Net carrying amount of property, plant, and equipment	5,002,887	874,014	(265,161)	-	(7,720)	(102,669)	5,501,351

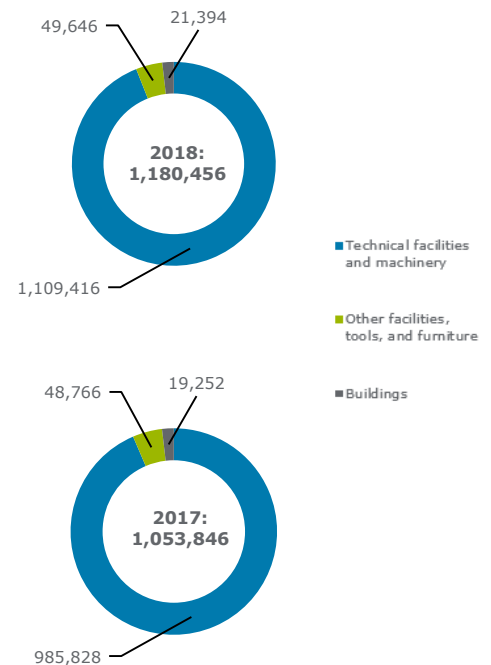
(1) "Increases due to changes in the consolidation scope" at December 31, 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company on January 1, 2017 (Note 1.11).

The year's increases in "Other facilities, equipment and furniture" due to transfers from "Plant and Machinery" and "Advances and Fixed Assets in Progress" are mainly due to the acquisition of the Cushion Gas Pipelines and Plants (75,748 thousands of euros), the start-up of the "Electricity generators in the Gaviota Underground Storage platform" projects (3,046 thousands of euros), and the "Adaptation of the Barcelona dock facilities for Small Scale" (1,244 thousands of euros).

There are no mortgages or encumbrances of any type on assets recorded as property, plant, and equipment.

The Group's policy is to provide sufficient insurance coverage for its assets so as to avoid any significant losses. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

Fully amortized PP&E items recognized by the Enagás Group and still in use at 2018 and 2017 year-end are broken down as follows:



a) Grants

Accumulated capital grants received at year-end which correspond to investments in gas infrastructure are broken down as follows:

	Grants received	Released to income	Closing balance
Regasification plants	79,216	(73,931)	5,285
Gas transmission infrastructure	503,778	(327,781)	175,997
Underground storage facilities	17,508	(17,508)	-
2018	600,502	(419,220)	181,282
Regasification plants	79,653	(72,614)	7,039
Gas transmission infrastructure	503,226	(317,938)	185,288
Underground storage facilities	17,508	(17,508)	-
2017	600,387	(408,060)	192,327

The breakdown at year-end of said capital grants by public body which grants them is as follows:

	Grants received	Released to income	Closing balance
Structural funds of the European Union	434,750	(286,962)	147,788
Official bodies of the Spanish Autonomous Regions	51,905	(32,014)	19,891
Spanish Government	113,847	(100,244)	13,603
2018	600,502	(419,220)	181,282
Structural funds of the European Union	434,634	(277,854)	156,780
Official bodies of the Spanish Autonomous Regions	51,905	(30,902)	21,003
Spanish Government	113,848	(99,304)	14,544
2017	600,387	(408,060)	192,327

The breakdown by timing criteria of the balance pending application at December 31, 2018 is the following:

	years		
	<1	2 to 5	>5
Government grants	940	3,760	8,903
Autonomous Regions Grants	1,110	4,385	14,397
FEDER grants	8,733	30,919	108,135
Total grants	10,783	39,064	131,435

Regasification plant - Port of El Musel (Gijón)

On March 1, 2016, Enagás Transporte received notification of the ruling handed down by the Supreme Court on February 29, 2016, dismissing the appeal filed by the central government and said company against the sentence of July 31, 2013 passed by the Madrid High Court which upheld the appeal filed by the Green Party of Asturias against the Directorate General for Energy Policy and Mining resolution of December 29, 2008 granting Enagás the prior administrative authorization for construction of the

regasification plant for liquefied natural gas in El Musel (Gijón), thereby nullifying said administrative authorization.

The Company understands that the Supreme Court ruling does not entail any changes to the technical or economic situation of the facility, as (i) the location and technical characteristics of the facility are perfectly in line with prevailing legislation in light of the replacement of the regulation relating to annoying, unhealthy, harmful or hazardous activities with Law 34/2007, of November 15, on air quality and protection of the atmosphere and the facility; and (ii) the facility has received the necessary commissioning certification for the sole purposes indicated in the Third Transitional Provision of Royal Decree Law 13/2012, and thus the remuneration recognized and received by the Company is justified on the basis of said Royal Decree and not the nullified authorization.

The Ministry for Energy, Tourism, and Digital Agenda pronounced itself similarly when it informed the High Court of Madrid in connection with the execution of the sentence requested by the Green Party of Asturias that "[...] it considers, at any rate, that the sentence has already been executed as the nullification does not involve or require the dismantling of the facility or the suspension of remuneration currently being received". This execution request has already been resolved in a firm manner by the High Court of Justice of Madrid, by Order of October 16, 2017, which has considered the ruling of the court already executed in its entirety after the declaration of nullity of the authorization of the regasification plant and its hibernation, without the need to perform any other action on it.

On the other hand, Royal Decree 335/2018, of May 25, has been published and has come into force, restoring the processing of the facilities affected by section 2 of the third transitory provision of Royal Decree-Law 13/2012, of March 30. This includes the El Musel regasification plant, determining the procedure and conditions thereof, with Enagás Transporte having requested, on August 6, 2018, in accordance with the provisions of the regulation and the LSH, a new administrative authorization, approval of the implementation project and environmental impact statement of the LNG regasification plant project. Enagás Transporte also requested a favourable resolution of the technical and economic conditions for the provision of capacity services and for the commissioning of the facilities. To date, the aforementioned requests are in procedure of the environment assessment to obtain the Environmental Impact Declaration ("DIA").

At December 31, 2018 and 2017 the carrying amount of said investment totalled 378,887 thousands of euros. Likewise, during 2018 and 2017 and in accordance with Royal Decree Law 13/2012, said regasification plant received both financial remuneration as well as remuneration for operating and maintenance costs in connection with the actions carried out by the Company to maintain the plant ready for service. Both of the aforementioned sources of remuneration have been recognized annually by the successive Ministerial Orders regarding remuneration and tolls.

Thus, the Directors of the Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any measurement adjustments.

Regasification plant - Granadilla (Tenerife)

No significant changes arose with respect to 2017 in connection with the project for construction of a regasification plant at the Granadilla port. Thus, on March 16, 2015, the Madrid Supreme Court of Administrative Appeals handed down a sentence annulling the Resolution passed by the Directorate General for Energy Policy and Mining on May 4, 2012, which granted Gascan the prior

administrative authorization for construction of a plant for receiving, storing, and regasifying liquefied natural gas in Granadilla (Tenerife), as well as the Environmental Impact Statement for said project, considered favourably in the Resolution passed on June 8, 2007 by the General Secretariat for the Prevention of Pollution and Climate Change.

Both Gascan and the Public Prosecutor filed an appeal against the aforementioned ruling, which was resolved by a Supreme Court ruling dated March 5, 2018 confirming the annulment of the aforementioned administrative authorisation and Environmental Impact Statement.

Note, however, that on June 22, 2015, Gascan proceeded to request a new administrative authorization for the LNG Regasification Plant project, in accordance with the energy plan approved by the Council of Ministers and also in accordance with a series of amendments of a technical nature that had been applied to it, with the result that, to date, an Environmental Impact Statement has already been formulated by the Ministry of Environment in favour of the amended facilities project, dated July 15, 2016 (BOE No. 176 of July 22), previous step along with the report of the National Markets and Competition Commission ("CNMC") in order to obtain the new administrative authorization.

Thus, the Directors of the Enagás Group, based on the legal opinions of internal and external advisors, do not consider it necessary to recognize any provision.

Situation of Castor Storage Facility

As explained in Notes 8.1 of the 2014 Consolidated Annual Accounts of the Enagás Group, on October 4, 2014 the Official State Gazette published the Royal Decree Law 13/2014 of October 3, by virtue of which urgent measures were adopted in connection with the gas system and title to the nuclear power plants, with a view to guaranteeing the security of people, goods, and the environment with respect to the Castor natural gas underground storage facility, which establishes, amongst other matters, the following:

- The termination of the operating concession for the Castor underground storage facility, granted by Royal Decree Law 855/2008, of May 16.
- The hibernation of the facilities associated with said concession.
- The appointment of Enagás Transporte, S.A.U. for administration of said facilities, for the sole purpose of carrying out the necessary measures for maintenance and operability during the hibernation period, prioritizing the objective of guaranteeing the security of the facilities for persons, goods, and the environment, while ensuring compliance with applicable regulations. Likewise, the decision included the stipulation that the maintenance and operational costs be paid to Enagás Transporte, S.A.U. with a charge to income from tolls and royalties of the gas system.
- The recognition of the investment made for the storage facility by the titleholder of the concession which was extinguished with 1,350,729 thousands of euros, and the establishment of a payment obligation for said amount by Enagás Transporte, S.A.U. to the titleholder of the extinguished concession. As a result of assuming the payment obligation, Enagás Transporte, S.A.U. enjoys the right to collect access tolls and royalties from the gas system's monthly invoicing for 30 years, for the amount paid to the titleholder of the extinguished concession plus the financial remuneration which the Royal Decree Law expressly recognizes. Likewise, this Royal Decree Law contains the necessary measures to guarantee full effectivity of this

collection right, that said right could be freely available to Enagás Transporte, S.A.U. or its third-party titleholders, and could consequently be totally or partially, ceded, transferred, discounted, pledged, or taxed in favour of any third parties, including securitization funds or other vehicles or companies with a special purpose, either domestic or international. The cession of the collection right will be effective with respect to the gas system, which will pay the new titleholder the corresponding amounts.

In light of the above, on October 4, 2014, Enagás Transporte, S.A.U. signed an agreement with various financial entities by virtue of which it ceded the collection right awarded by the aforementioned Royal Decree Law, with said entities assuming the payment obligation imposed on Enagás Transporte, S.A.U. In this manner, on November 11, 2014, said financial entities made a payment of 1,350,729 thousands of euros to the titleholder of the extinguished concession.

Further, Enagás Transporte, S.A.U. transferred the aforementioned contractual obligations and rights inherent to ownership of the financial asset to said financial entities, thus derecognizing it from the balance sheet as the directors of the Group consider that all associated risks and benefits have been transferred.

On December 21, 2017 the Constitutional Court handed down a sentence no. 152/2017 declaring various provisions of Royal Decree Law 13/2014 as unconstitutional and null and void due to formal errors. Specifically, (i) acknowledgement of the investment made by the renouncing concessionaire and costs accrued up to the date of said norm becoming effective, and thus the consideration in the amount of 1,350,729 thousands of euros, as well as (ii) recognition of the correlated collection right of Enagás Transporte, S.A.U. with respect to the gas system for the amount of consideration cited, considering that in both cases the reasons given for the urgency were not justified and therefore said measures should be excluded from the ordinary legislative procedure.

Notwithstanding the foregoing, the Constitutional Court did declare the following as constitutional and valid: (i) adoption of the decision to hibernate the underground storage facility; (ii) the declaration of the extinction of the concession; and (iii) the appointment of Enagás Transporte, S.A.U. for administration of the facilities to the extent the hibernation is prolonged; as well as (iv) recognition of the right to obtain remuneration for the maintenance and operability costs for Enagás Transporte, S.A.U., including any costs incurred for the administration and other related work which said Royal Decree Law established as a requirement.

In accordance with the analysis carried out by the Company's external legal advisors, the purchase-sale contract for the collection rights signed by Enagás Transporte, S.A.U. with the financial entities represents the transfer of rights and obligations to the financial entities and in no case does it enable the buyers (or their possible transferees) the possibility of claiming reimbursement for the price received or payment of any other amounts from the seller. Thus, in no case can adverse effects arise in connection with the financing of the operation for the Company due to the sentence of the Constitutional Court, as Enagás Transporte, S.A.U. is not titleholder of the collection right which was annulled nor is it obliged to pay the titleholder of the extinguished concession.

Likewise, in accordance with said analysis and conclusions, the aforementioned sentence does not give rise to any negative effect on the right of Enagás Transporte, S.A.U. to obtain remuneration for the administration and operations necessary for maintenance and operability of the infrastructure, as the Royal Decree Law was

not affected in such a manner by the declaration of unconstitutionality.

In this sense, with regard to the remuneration payable to Enagás Transporte for 2014 and annual instalments from 2015 to 2018, the Supreme Court, based on the declaration of unconstitutionality of Article 6 of RD-Law 13/2014, handed down the judgements of November 7 and 12, 2018 (CA Appeals Nos. 3814/2015 and 4383/2015), nullifying the provisions that specified the terms of the remuneration to be received by Enagás Transporte, SAU, as of December 1, 2014 and for 2015, in payment of the administrative obligations imposed by Article 3 of the aforementioned RD-law and by virtue of the latter's right recognized by the final paragraph of section 2 of the same Article, whose constitutionality was confirmed by the Constitutional Court in judgement No. 152/2017, of December 21, 2017.

In addition, the Supreme Court issued the judgements of November 15 and 29, 2018 (CA Appeals Nos. 648/2016 and 3572/2016), which annul the provisions that specified the terms of the remuneration to be received by Enagás Transporte, S.A.U. for 2016 under the aforementioned legal basis, as it judged the same doctrine contained in the judgements referred to in the previous paragraph to be applicable.

With regard to these costs for 2014 and annual instalments for 2015 and 2016, in October 2018 the CNMC started an ex officio review procedure of the final approved settlements, with the purpose of recovering the definitive amounts received by Enagás Transporte as well as the corresponding legal interest calculated from the date of the instalments until the date of the return of the amounts to the settlement system.

Finally, in relation to the costs recognized for the 2017 and 2018 annual payments, the appeals filed against Order ETU/1977/2016, referring to the remuneration of the costs payable to Enagás Transporte, S.A.U., for 2017, and against Order ETU/1283/2017, referring to the costs recognized for 2018 are still pending. Notwithstanding the fact that the judgement has not yet been handed and that these costs are recognized in the aforementioned Ministerial Orders and the validity of the collection right has been confirmed by the Constitutional Court, the CNMC deducted (through compensation) the amounts provisionally received in 2017 by Enagás Transporte, S.A.U., for costs recognized for 2017 (not included in the final settlement of the regulated activities of the Natural Gas Sector for 2017) and omitted the inclusion of any payment for the costs of the administration of the storage corresponding to 2018.

Notwithstanding the foregoing, it should be noted that Enagás Transporte, S.A.U., continues to perform the functions of storage administrator, to which it is legally bound; and that it will continue to provide these functions throughout the period until the end of the hibernation period, which can only take effect by the Agreement of the Council of Ministers authorizing the decommissioning of the storage or integration of the facilities into an operating concession, all in accordance with articles 1.2 and 3.1 of RD-law 13/2014. All this unless a new provision of the same legal status is enacted that alters this situation.

And given that, as a result of this administration, Enagás Transporte, S.A.U., has assumed the costs derived from the imposed maintenance and operability operations, as well as those of storage administration; and since, in addition, the right of the aforementioned trading company to obtain a fee for the functions commissioned by RD-law 13/2014 and carried out in relation to the Castor storage remains in force, because it does not derive from Article 6, annulled by the Constitutional Court, but is expressly recognized in Article 3.2 of that decree, which remains unchanged, it is considered that the right of Enagás Transporte,

SAU to receive the corresponding payment for the costs incurred is beyond doubt, the only question being about the specific terms in which this right is specified, as that article 6 has been annulled.

In the light of the above and in view of the need to implement an alternative mechanism through which the corresponding remuneration for the legally entrusted tasks is received, on December 21, 2018, Enagás Transporte, SAU, presented a claim of material responsibility to the Ministry for the Ecological Transition requesting (i) the right of Enagás Transporte, S.A.U., to be compensated for the damages suffered as a result of the facilities administration tasks, plus corresponding legal interests, (ii) payment of the amounts corresponding to the remuneration for the costs assumed by Enagás Transporte, S.A.U., up to the moment when the resolution is issued, plus the corresponding legal interest, and (iii) the right of Enagás Transporte, S.A.U., to be compensated for any damages incurred as a result of the facilities administration tasks up to the moment at which the Council of Ministers adopts the agreement that puts an end to the storage hibernation.

According the legal conclusions of the external and internal advisors, it is considered that this damages lawsuit represents a virtually certain mechanism for recovering both the amounts deducted from the remuneration corresponding to fiscal year 2017, the amounts not paid referring to 2018 and the amounts that could be refunded in the future as a result of the review actions by the CNMC in relation to the definitive settlements corresponding to 2014 and the 2015 and 2016 years, as well as their possible interests. This implies that an account receivable for the right of Enagás Transporte, S.A.U., to be paid for the Castor underground storage administration, must be kept on the balance sheet, the conclusion being that there is no negative impact on the Group's financial statements as a result of the judgements of the Constitutional Court or the Supreme Court referred to above.

As of December 31, 2018, the amount recorded as income of the Company during financial years 2014 to 2018 pending recovery amounts to 15.1 million euros.

As the estimate of the claims of Enagás Transporte, S.A.U., is highly probable, if the legal assumptions for their recognition are fulfilled, no material loss will result from this at the end of 2018.

2.5 Intangible assets

Accounting policies

Goodwill and business combinations

- The acquisition by the parent of control of a subsidiary constitutes a business combination, which is recognized using the acquisition method.
- Goodwill or negative goodwill arising on the combination is calculated as the difference between the fair value of the assets acquired and liabilities assumed which meet the relevant recognition criteria and the cost of the business combination, all measured at the acquisition date.
- Goodwill that arises upon acquisition of companies whose functional currency is not the euro is recognized in the functional currency of the acquired company, translating to euros at the exchange rate prevailing at the balance sheet date.
- Goodwill is not amortized and is subsequently measured at cost less any impairment losses. Goodwill impairment losses are not reversed in subsequent periods.

Other intangible assets

- The cost model is applied for measuring PP&E items, that is, the corresponding assets are measured at acquisition or production cost less the corresponding accumulated amortization and any impairment losses.
- Development costs are capitalized by amortizing on a straight-line basis over the corresponding useful life, provided they are specifically related to projects, their amounts can be clearly established, and technical success and economic feasibility of the project are reasonably assured.

- The Group recognizes all research expenses in the Consolidated Income Statement, including those development costs for which technical and commercial viability cannot be established. The amount recognized in the accompanying consolidated income statement in connection with research expenses totals 293 thousands of euros for 2018 (2017: 1,133 thousands of euros).
- Concessions can only be included under assets when acquired for consideration separately by the Company and corresponding to concessions that can be transferred, or in the amount of expenses incurred to acquire them directly from the corresponding State or Public Authority. Should circumstances involving non-compliance with stipulated conditions arise which lead to the loss of rights related to a concession, the corresponding carrying amount for the concession will be written down in order to cancel the net carrying amount. Said concessions are amortized based on their remaining useful life.
- Acquisition and development costs incurred with respect to basic IT systems used for management are recognized with a charge to "Intangible assets" in the Consolidated Balance Sheet. Maintenance costs of IT systems are recognized in the Consolidated Income Statement for the year in which they are incurred. They are measured at the amount disbursed for ownership or right-of-use of the IT programs, as well as their production cost if they are developed by the Group.

Significant estimates and judgements

- Amortization of intangible assets is carried out on a straight-line basis in accordance with the following useful lives:

	Annual rate	Useful life (years)
IT applications	10%-25%	10-4
Development costs	5%-50%	20-2
Port concessions	1.28%-7.6%	78-13

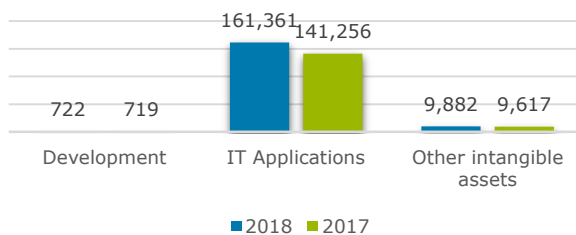
2018	Opening balance	Increases due to changes in consolidation scope	Additions or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance
Goodwill (1)	181,704	-	-	-	-	6,741	188,445
Other intangible assets							
Development	8,125	-	-	-	(24)	-	8,101
Concessions	741,506	244	-	-	-	31,811	773,561
IT applications (2)	212,944	1	11,937	(874)	(26)	152	224,134
Other intangible assets	17,082	-	3,624	874	-	384	21,964
Total cost	1,161,361	245	15,561	-	(50)	39,088	1,216,205
Other intangible assets							
Development	(3,370)	-	(755)	-	-	-	(4,125)
Concessions	(43,666)	-	(22,019)	-	-	(2,423)	(68,108)
IT applications	(174,569)	-	(14,337)	-	-	(135)	(189,041)
Other intangible assets	(9,867)	-	(305)	-	-	(100)	(10,272)
Total amortization	(231,472)	-	(37,416)	-	-	(2,658)	(271,546)
Total Goodwill	181,704	-	-	-	-	6,741	188,445
Total Other intangible fixed assets	748,185	245	(21,855)	-	(50)	29,689	756,214
Net carrying amount of intangible assets	929,889	245	(21,855)	-	(50)	36,430	944,659

- (1) It includes the amounts corresponding to the goodwill arising from the acquisition of ETN (17,521 thousands of euros), from the acquisition of control of Gascán (8,291 thousands of euros), and goodwill from the assignment of the purchase price of GNL Quintero (162,633 thousands of euros).
- (2) Among the entries for the year, the most important ones are those related to IT Systems, such as the security software for industrial systems (1,025 thousands of euros), the re-engineering of the Orion software (899 thousands of euros), the development of GSMM (906 thousands of euros), the Implementation of the Capacity Contracting Platform (719 thousands of euros), the implementation of Workday (771 thousands of euros), the start-up of IT services for Saggas (622 thousand), the adaptation of distribution and balance processes to NGTS-06 and NGTS-0, PD-02 and CNMC Resolution (583 thousands of euros) and the upgrading of IT Infrastructures 2018 (568 thousands of euros).

2017	Opening balance	Increases due to changes in consolidation scope (2)	Additions or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance
Goodwill (1)	25,812	184,950	-	-	-	(29,058)	181,704
Other intangible assets							
Development	7,418	-	720	-	(13)	-	8,125
Concessions	5,871	835,441	-	-	-	(99,806)	741,506
IT applications	198,009	3,848	11,905	-	-	(818)	212,944
Other intangible assets	7,837	10,096	-	-	-	(851)	17,082
Total cost	244,947	1,034,335	12,625	-	(13)	(130,533)	1,161,361
Other intangible assets							
Development	(2,798)	-	(572)	-	-	-	(3,370)
Concessions	(3,912)	-	(23,024)	(20,405)	-	3,675	(43,666)
IT applications	(154,127)	(2,447)	(18,315)	-	-	320	(174,569)
Other intangible assets	(7,691)	(2,093)	(348)	-	-	265	(9,867)
Total amortization	(168,528)	(4,540)	(42,259)	(20,405)	-	4,260	(231,472)
Total Goodwill	25,812	184,950	-	-	-	(29,058)	181,704
Total Other intangible fixed assets	50,607	844,845	(29,634)	(20,405)	(13)	(97,215)	748,185
Net carrying amount of intangible assets	76,419	1,029,795	(29,634)	(20,405)	(13)	(126,273)	929,889

- (1) It includes the amounts corresponding to the goodwill arising from the acquisition of ETN (17,521 thousands of euros), from the acquisition of control of Gascán (8,291 thousands of euros), and goodwill from the assignment of the purchase price of GNL Quintero (184,950 thousands of euros), as a result of the acquisition of control over the company at January 1, 2017.
- (2) "Increases due to changes in the consolidation scope" for 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control.

Fully amortised elements



2.6 Impairment of non-financial assets

Accounting policies

- With respect to goodwill, at the closing of each year, or more frequently if certain circumstances or changes arise which indicate that the net carrying amount of said goodwill may not be entirely recoverable, and when there are indications of impairment losses on the remaining non-current assets, the Company analyses the corresponding recoverable amounts to determine the possibility of impairment.
- The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units) to which the goodwill relates when originated.
- The period used by the Enagás Group to determine the projected cash flows of the cash-generating units corresponds to the period in which the asset accrues revenue associated with the investment (Appendix III). At the closing of this period, the Enagás Group considers residual values based on the cash flows of the last period with a growth rate equal to zero.

Significant estimates and judgements

Determination of impairment losses on non-current assets other than financial assets is based on fulfilment of a series of hypotheses which are described below in this note and are revised annually. The Group identifies its operating segments based on internal reports relating to the companies comprising the Group which are regularly reviewed, discussed, and evaluated in the decision-making process, as indicated in **Note 4.7**.

To the extent that assets grouped within a segment are at the lowest level at which independent cash flows can be identified, the segment is identified as a cash generating unit (CGU).

The CGUs identified by the Enagás Group in 2017 and 2018 are shown below:

- Infrastructure activity in Spain (includes transmission, regasification, and storage).
- Technical management of the system.
- Chile (GNL Quintero).

To estimate value in use, the Enagás Group estimates projections regarding future cash flows after taxes based on the most recent budget forecasts approved by the Directors. The best estimates available for income, costs, and investments relating to CGUs are used for said forecast, making use of past experience, sector projections, and future expectations, in accordance with the prevailing regulatory framework and corresponding contracts.

With respect to infrastructure activity, once the regulatory useful life of the facilities has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the facility exceeds the regulatory useful life, not accruing any amounts as investment remuneration, amortization, or financial remuneration. In addition to said fixed remuneration, the Remuneration for Supply Continuity (RSC) will be maintained as it is independent of the regulatory useful life of the asset in question.

Thus, when determining residual value, the following is taken into consideration:

- The projection for the last estimated cash flow corresponding to Remuneration for Supply Continuity ("RSC"), calculated in accordance with the regulatory parameters established and described in **Appendix III**.
- The remuneration for operating and maintenance costs of the last projected period, applying the prevailing regulatory framework for the fully amortized elements described in the aforementioned **Appendix III**.
- Financial remuneration or remuneration related to amortization was not taken into account as said remuneration will end when the regulatory useful life of the facilities elapses.

The last period considered for projections is the one corresponding to the year in which the regulatory useful life ends, based on the age of the facilities at the time.

With respect to the activities corresponding to Technical Management of the System, residual values were calculated based on the cash flows of the last period, using a zero-growth rate and no normalization adjustments. This is due to the fact that, as indicated in **Appendix III**, revenue corresponding to this activity is meant to settle the obligations of Enagás GTS, S.A.U. as Technical Manager of the System, which is the same as that calculated annually based on the accredited costs for each year. For the last period, the same criteria were applied as those used for infrastructure activity, under the understanding that while the gas infrastructure is operational and there is demand for gas, technical management of the gas system will continue.

The cash generating unit corresponding to LNG Quintero integrates the terminal's plant, property and equipment for the reception, unloading, storage and regasification of Liquefied Natural Gas as well as the intangible assets corresponding to the Terminal Use Agreement ("TUA"), the maritime concession, the rights relating to the gas transmission contract and the Esva rights.

As can be deduced from the previous paragraph, said assets generate cash flows through the TUA contract (**Note 2.1**), which are considered for the evaluation of the recovery of the aforementioned assets, during the original contract extension in addition to the other extensions of the same.

The Directors consider that their forecasts are reliable and that past experience, taken together with the nature of the business, make it possible to predict cash flows for the periods under consideration.

The most representative hypotheses used in the projections, based on business forecasts and past experience, are the following:

- Regulated remuneration was estimated in accordance with the remuneration approved by law for the years in which it is available while the same mechanisms for updating said remuneration as established in legislation were used for subsequent years.
- Investment: the best available information on investment plans in assets and maintenance of infrastructures and systems has been used, based on the one hand on the history of investment in maintenance and systems and, on the other, in new projects that are highly likely to be executed in accordance with the work in progress being developed with the Ministry and the CNMC.
- Operating and maintenance costs were estimated considering the prevailing maintenance contracts, as well as remaining estimated costs based on the knowledge of the sector and past experience. The projections made were consistent with the growth expected as a result of the investment plan.
- Other costs were projected based on sector knowledge, past experience, consistent with the growth expected as a result of the investment plan.

In order to calculate present value, projected future cash flows are discounted at an after-tax rate which reflects the weighted average cost of capital (WACC) corresponding to the business and the geographical area in which the business is carried out. For its calculation, the time value of money is taken into consideration together with the risk-free rate and risk premiums generally used by analysts of the business and geographic area in question. The risk-free rate corresponds to the sovereign bonds issued by each country in the corresponding market, with sufficient depth and solvency. However, associated country risk is also taken into consideration for each geographical area. The risk premium of the asset corresponds to the risks specific to the asset, calculated taking into consideration the estimated betas in accordance with

the selection of comparable businesses dedicating themselves to a similar main activity.

The after-tax discount rate for regulated activities in Spain is between 3.44% and 3.94% for both 2018 and 2017 (the pre-tax discount rate for both 2018 and 2017 is between 5.60% and 6.60%). In addition, the after-tax discount rate used for Chile in 2018 is 6.28% (5.78% was the before-tax discount rate used in 2017). The sensitivity analysis of the discount rate with a +/- 0.5% variation carried out at 2018 year-end showed that the Group is not exposed to significant risk arising from reasonably possible changes. Thus, Group management considers that, within the specified ranges, there would be no changes in the impairment calculation.

2.7 Contractual liabilities and other non-current liabilities

	Royalties Gasoducto de Extremadura, S.A. (1)	Royalties Gasoducto Al-Andalus, S.A. (1)	Connections to basic network	Other	Total
Balance at December 31, 2016	3,801	8,621	33,786		46,208
Additions	-	-	1,126		1,126
Disposals	-	-	(746)		(746)
Taken to profit and loss	(950)	(2,155)	(1,144)		(4,249)
Balance at December 31, 2017	2,851	6,466	33,022		42,339
Additions	-	-	1,837	745	2,582
Effect of first application of IFRS 15 (Note 1.10)	13,370	18,637	5,625		37,632
Taken to profit and loss	(6,272)	(10,090)	(2,532)		(18,894)
Effect of financial restatement IFRS 15 (Note 1.10)	1,323	2,634	1,631		5,588
Balance at December 31, 2018	11,272	17,647	39,583	745	69,247
Of which: Customer contract liabilities	11,272	17,647	39,583		68,502
Other non-current liabilities	-	-	-	745	745

(1) The amounts recognized for royalties relating to Gasoducto de Extremadura, S.A. and Gasoducto Al-Ándalus, S.A. correspond to the balances pending application with respect to the contracts signed with said companies for "gas transmission rights," which are consolidated under the proportionate consolidation method applying the percentage of ownership interest held by Enagás Transporte, S.A.U. in said companies. This income is allocated and recognized on a straight-line basis up to 2020, the year in which the transmission contract terminates.

At December 31, 2018, the heading "Customer contract liabilities" includes performance obligations pending performance with an estimated term of more than one year, amounting to 2,023 thousands of euros.

It was determined that the amounts received for the execution of connections and those received for the gas transport contract have an associated significant financing component, which the Enagás Group recognized in the financial result of the consolidated income statement for 2018 for the sum of 5,588 thousands of euros.

At December 31, 2018, the Enagás Group had no refund or reimbursement rights associated with contracts with customers.

2.8 Provisions and contingent liabilities

Significant estimates and judgements

- The Consolidated Annual Accounts of the Group include all significant provisions when the Group considers that it will more likely than not have to settle the related obligations. Contingent liabilities are not recognized in the Consolidated Annual Accounts, but rather are disclosed, unless the possibility of an outflow of resources embodying economic benefits is considered remote.
- Provisions, which are quantified taking into consideration the best available evidence on implications of obligating events and that are re-estimated at each balance sheet date, are used to cover the specific obligations for which they were originally recognized and are partially or fully reversed when said obligations decrease or cease to exist.
- The compensation to be received from a third party when an obligation is settled is recognized as an asset, provided it is

certain that reimbursement will be received, unless there is a legal relationship whereby a portion of risk has been externalized as a result of which the Group is not liable, in which case, reimbursement will be taken into consideration in estimating the amount of any provisions. The policy followed with respect to the recognition of provisions for risks and expenses is to recognize the estimated amount required to settle probable or certain liabilities arising from litigation underway, pending indemnities or liabilities, sureties and similar guarantees. They are recognized upon emergence of the liability or obligation determining the indemnity or payment.

- At year-end 2018 and 2017, several legal proceedings were underway against the Group in connection with matters relating to the normal course of its activities. The Group's legal advisors and Directors consider that the final outcome of these proceedings and claims will not have a significant effect on its future Consolidated Annual Accounts.
- Decommissioning provisions are subject to periodic review, in order to monitor possible changes in any of the assumptions used, assuming in that case the corresponding change in book value, applied prospectively.

a) Provisions

The movements during the period under the heading "Non-current provisions" and "Current provisions" were as follows:

Current and non-current provisions	Opening balance	Provisions	Updates	Reclassification	Applications	Closing balance
Personnel remuneration	5,930	1,446	10	(7,386)	-	-
Other long-term liabilities	1,252	196	(9)		(534)	905
Dismantling	171,222	(363)	4,726		-	175,585
Total non-current provisions	178,404	1,279	4,727	(7,386)	(534)	176,490
Other short-term liabilities	-	3,369	-		-	3,369
Total current provisions	-	3,369	-		-	3,369
Total current and non-current provisions	178,404	4,648	4,727	(7,386)	(534)	179,859

The dismantling provisions correspond to the underground storage facilities of Gaviota, Yela, and Serrablo, as well as the regasification plants of Barcelona, Cartagena, Huelva, and El Musel (Gijón) in accordance with the prevailing regulatory framework (**Note 2.4 and Appendix III**).

Decommissioning provisions are subject to periodic review, in order to monitor possible changes in any of the assumptions used, assuming in that case the corresponding change in book value, applied prospectively.

In this periodic review of decommissioning provision corresponding to regasification plants and underground storage facilities, at December 31, 2018, the Company re-estimated the decommissioning provisions, resulting in a reduction of approximately 363 thousands of euros.

Additionally, this provision has been updated in the periods following its incorporation, applying a discount rate before taxes that reflects the current assessments that the market is making of the temporal value of money, and those specific risks related to the actual obligation subject provision. The discount rate used in the 2018 and 2017 financial years is 2.76%.

As a result of the effect of this restatement, at December 31, 2018 an increase of 4,726 thousands of euros was registered in the decommissioning provision.

Lastly, the Company has proceeded to perform the corresponding sensitivity analysis, showing that a change in the discount rate of +/- 0.05% would result in a change in the amount recognized for the provision of 1.4% and -1.4%, respectively.

The heading "Personnel remuneration" registered the cash portion of the Long-Term Incentive Plan for the executive directors and senior management (**Note 4.4**) as well as the three-year bonus plan for contribution to results aimed at the remaining personnel of the Company, which will be paid in 2019. During financial year 2018, the amount recorded in this heading was reclassified in the short term to the "Trade and other payable" heading (**Note 2.3**).

The Directors of the Company consider that the provisions recognized in the accompanying Consolidated Balance Sheet for litigation and arbitration risk as well as other risks described in this note are adequate and, in this respect, they do not expect any additional liabilities to arise other than those already recorded. Given the nature of the risks covered by these provisions, it is not possible to determine a reasonably reliable schedule of payment dates, if any.

b) Contingent liabilities

At December 31, 2018, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

3. Capital structure, financing and financial result

Relevant aspects

Financial leverage

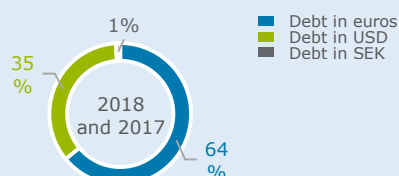
- Financial leverage at December 31, 2018 amounted to 61.7% (65.9% in 2017) **(Note 3.7)**.
- The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative outlook at December 31, 2018. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2018 with a stable outlook.

Equity

- At 31 December 2018, net equity has increased by 3% compared to the previous year-end, to a total of 3,039 million euros.
- The share capital of Enagás at December 31, 2018 was 358 million euros.
- The last closing price of Enagás, S.A. shares recognized at December 31, 2018 amounted to 23.61 euros per share.
- No individual or legal entity can invest directly or indirectly in a proportion in excess of 5% of the share capital of Enagás, S.A., nor exercise political rights in this company above 3% (1% for those subjects who, directly or indirectly, perform activities in the gas sector). These restrictions are not applicable to direct or indirect holdings corresponding to the public business sector **(Note 3.1)**.

Net financial debt

- Net financial debt is the main indicator used by Management to measure the Group's debt level. At December 31, 2018 net financial debt amounted to 4,275 million euros (5,008 million euros in 2017) **(Note 3.4)**.
- The average annual interest rate during 2018 for the Group's net financial debt amounted to 2.8% (2.7% in 2017) **(Note 3.4)**.
- More than 80% of net financial debt accrued fixed interest rates at December 31, 2018 and 2017, while the average maturity period at December 31, 2018 amounted to 6.1 years (6.8 years at December 31, 2017) **(Note 3.4)**.



Available funds

- The Group has available funds in the amount of 2,809 million euros at December 31, 2018 (2,484 million euros in 2017) **(Note 3.8)**.

Financial expenses

- Finance and similar expenses went from 186 million euros in 2017 to 155 million euros in 2018. This decrease is mainly due to the cancellation of the translation differences against financial result in 2017 due to the deconsolidation of GSP (8,248 thousands of euros) and also lower debt interest expenses because of the lower level of financial debt **(Notes 3.5)**.

Financial income

- Finance income and similar income went from 102 million euros in 2017 to 66 million euros in 2018. This decrease is mainly due to the full consolidation of Quintero from January 1, 2017 (restatement of the prior interest held and cancellation of translation differences) **(Note 3.5)**.

Derivative financial instruments

- The Group arranges cash-flow hedges, fair value hedges, and net investment hedges. At December 31, 2018, the net fair value of the Group's derivatives, including assets and liabilities derivatives, was 43 million euros of liabilities (24 million euros of liabilities at December 31, 2017) **(Note 3.6)**.

Gasoducto Sur Peruano, S.A. ("GSP")

- With respect to the situation arising in connection with the investment in GSP as a consequence of the termination of the concession agreement on January 24, 2017, there is currently a disagreement between the Peruvian authorities and Enagás with respect to applying the investment recovery mechanism established in the GSP concession contract. This entailed the beginning of an international arbitration by virtue of the Reciprocal Investment Promotion and Protection Agreement (hereinafter 'APPRI') between Spain and Peru as indicated in **Note 3.3.a** presented to the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2018.
- At December 31, 2018, the total amount to be recovered by GSP amounted to 408,285 thousands of euros (388,561 thousands of euros at December 31, 2017) relating to both the recovery of the financial investment in this company and the credit rights associated with the recovery of the guarantees executed against the Enagás Group as a result of the termination of the concession contract in GSP **(Note 3.3.a)**.

3.1 Equity

a) Share capital

At 2018 and 2017 year-end, the Company's share capital amounted to 358,101 thousands of euros, represented by 238,734,260 shares with a nominal value of 1.5 euros each, all of the same class, fully subscribed, and paid in.

All shares of the parent company Enagás, S.A. are listed on the four official Spanish Stock Exchanges and are traded on the continuous market. At the closing of December 31, 2018 the quoted share price was 23.61 euros, having reached a maximum of 25.71 euros per share on December 14.

It is worth noting that, subsequent to publication of Additional Provision 31 of Hydrocarbon Sector Law 34/1998, in force since enactment of Law 12/2011, of May 27, "no natural or legal person can participate directly or indirectly in the shareholder structure of Enagás, S.A with a stake exceeding 5% of share capital, nor exercise political rights in said parent company exceeding 3%. These shares cannot be syndicated under any circumstances." Furthermore, "any party operating within the gas sector, including natural persons or legal entities that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. Said limitations shall not be applicable to direct or indirect interest held by the public corporate sector."

At December 31, 2018 and 2017 the most significant shareholdings in the share capital of Enagás, S.A. were as follows (from the information published by the National Securities Market Commission (CNMV in Spanish) (1) at December 31, 2018):

Company	Interest in share capital (%)	
	12.31.2018	12.31.2017
Sociedad Estatal de Participaciones Industriales	5.000	5.000
Lazard Asset Management (2)	-	5.074
Bank of America Corporation	3.614	3.614
BlackRock Inc.	3.383	3.383
Fidelity International Limited (2)	-	1.906
State Street Corporation	3.008	3.008
Retail Oeics Aggregate	1.010	1.010

(1) Information extracted by the CNMV, obtained at the last notification that each subject obliged to notify sent to the organisation in relation to the provisions of Royal Decree 1362/2007 of October 19 and Circular 2/2007 of December 19.

(2) At December 31, 2018, both Lazard Asset Management and Fidelity International Limited held no significant stake in the share capital of Enagás, S.A.

b) Treasury shares

On May 25, 2016, Enagás, S.A. finalized the process for acquiring 307,643 treasury shares for an amount of 8,219 thousands of euros (including related expenses amounting to 8 thousands of euros) and representing 0.13% of the entire Group share capital. This acquisition took place within the framework of the "Temporary Treasury Shares Buy-Back Scheme", whose exclusive aim was to meet the obligations of delivering shares to the Executive Directors and members of the Enagás Group management team under the current remuneration scheme according to the terms and conditions of the 2016-2018 Long-Term Incentive Plan and Remuneration Policy approved at the General Shareholders' Meeting on March 18, 2016. The shares were purchased in compliance with the conditions set out in Article 5 of Regulation EC/2273/2003 and subject to the terms authorised at the General Meeting of Shareholders held on March 18, 2016. Management of the Temporary Treasury Share Buy-Back Scheme was entrusted to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the transaction on behalf of Enagás, S.A. independently and without exercising influence on the process (Note 4.4).

There were no more acquisitions or disposals of treasury shares during 2018.

c) Reserves

The Spanish Corporate Enterprises Act stipulates that 10% of profit for the year must be transferred to the legal reserve until it represents at least 20% of share capital. At 2018 and 2017 year-end, the legal reserve was fully allocated and totalled 71,620 thousands of euros.

The legal reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase. Except for this purpose, until the legal reserve exceeds the limit of 20% of capital, it can only be used to compensate losses provided there are no other reserves available.

In 2018, a positive reserve was recognized amounting to 2,176 thousands of euros as a consequence of the initial application of new accounting standards (Note 1.10).

In 2018 the Put option on Enagás Transporte del Norte, S.L. was recognized with a charge to reserves for 15,600 thousands of euros (Note 3.4.d).

d) Income and expenses recognized directly in equity

	Opening balance	Change in value	Taken to profit and loss	Closing balance
2018				
Cash flow hedges	24,506	(14,133)	13,118	23,491
Tax recognized in equity	(6,616)	3,676	(2,980)	(5,920)
Translation differences	(140,606)	20,345	(8,292)	(128,553)
Companies consolidated using the full consolidation method	(122,716)	9,888	1,846	(110,982)
Cash flow hedges	(2,299)	2,410	5,176	5,287
Tax recognized in equity	1,253	(1,003)	(1,146)	(896)
Translation differences	70,378	12,534	6,313	89,225
Companies accounted for using the equity method	69,332	13,941	10,343	93,616
Total	(53,384)	23,829	12,189	(17,366)
Total attributable to the parent company	(13,327)	7,778	12,189	6,640
Total attributable to minority interests	(40,057)	16,051	-	(24,006)
2017				
Cash flow hedges	16,840	(8,546)	16,212	24,506
Tax recognized in equity	(5,396)	2,600	(3,820)	(6,616)
Translation differences	(114,511)	(7,520)	(18,575)	(140,606)
Companies consolidated using the full consolidation method	(103,067)	(13,466)	(6,183)	(122,716)
Cash flow hedges	(6,361)	(462)	4,524	(2,299)
Tax recognized in equity	2,029	123	(899)	1,253
Translation differences	181,958	(119,828)	8,248	70,378
Companies accounted for using the equity method	177,626	(120,167)	11,873	69,332
Total	74,559	(133,633)	5,690	(53,384)
Total attributable to the parent company	74,559	(93,576)	5,690	(13,327)
Total attributable to minority interests	-	(40,057)	-	(40,057)

3.2 Result and variation in minority interests

Accounting policies

- Minority interests are those that can be attributed to shareholders who have no control over the subsidiary.
- They are recognized under equity as a line item separate from the net equity attributable to the parent.
- In business combinations, minority interests are measured at fair value or the proportional part of net assets acquired.
- The amount corresponding to minority interests relating to the change in equity of the subsidiary is attributed based on the percentage of interest held in the subsidiary.
- Changes in the percentage of ownership interest held by the parent in the subsidiary which do not represent a loss of control are recognized as equity transactions.
- The amount corresponding to minority interests is calculated for the whole Enagás Group based on the carrying amounts of the companies in which minority interest is held. However, the amount recognized under "Changes in consolidation scope" for 2017 corresponding to GNL Quintero was determined based on the fair value of the company at the date control over it was acquired, that is, January 1, 2017.

	% of Minority interests	Opening balance	Changes in scope of consolidation	Dividends distributed	Translation differences	Share of results	Other adjustments (1)	Closing balance
2018								
ETN, S.L.	10%	14,978		(786)		1,091	(62)	15,221
GNL Quintero, S.A.	54.6%	353,808		(21,166)	16,051	19,822	(10,304)	358,211
Other companies		186	541			(212)	26	541
Total 2018		368,972	541	(21,952)	16,051	20,701	(10,340)	373,973
2017								
ETN, S.L.	10%	14,618	-	(689)	-	1,049	-	14,978
GNL Quintero, S.A.	54.6%	-	396,031	(15,364)	(40,057)	13,198	-	353,808
Other companies		78	116	-	-	(8)	-	186
Total (2017)		14,696	396,147	(16,053)	(40,057)	14,239	-	368,972

(1) "Other adjustments" includes the impacts corresponding to "external partners" applicable with effect from January 1, 2018, both of IFRS 9 and IFRS 15. Given that both regulations enter into force retroactively, the impact on reserves, net of tax effect, has been recorded.

The financial information of the main subsidiaries with significant minority interests is shown below:

	2018	2017
Accumulated balances of significant minority interest		
ETN, S.L.	14,130	13,929
GNL Quintero, S.A.	338,389	340,610
Other companies	753	194
Total	353,272	354,733
Gains (losses) attributed to significant minority interest		
ETN, S.L.	1,091	1,049
GNL Quintero, S.A.	19,822	13,198
Other companies	(212)	(8)
Total	20,701	14,239

The summarized financial information of these subsidiaries is shown below. This information is based on the amounts recognized before eliminations amongst Group companies:

Condensed income statement	2018		2017	
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.	GNL Quintero, S.A.
Revenue	28,500	173,506	29,057	173,746
Cost of sales	(7,537)	(46,647)	(7,563)	(48,187)
Administrative expenses	(4,331)	(16,774)	(4,316)	(16,605)
Financial expenses	(3,197)	(60,553)	(3,203)	(63,973)
Profit /(loss) before tax	13,435	49,532	13,975	44,981
Income tax expense	(2,521)	(13,228)	(3,480)	(13,349)
Profit /(loss) for the year from continuing operations	10,914	36,304	10,495	31,632
Net Profit	10,914	36,304	10,495	31,632
Attributable to minority interests	1,091	19,822	1,049	13,198
Dividends paid to minority interests	786	21,166	689	15,364

Condensed balance sheet	12.31.2018		12.31.2017	
	ETN, S.L.	GNL Quintero, S.A. (1)	ETN, S.L.	GNL Quintero, S.A. (1)
Inventories, treasury, and current accounts (current)	10,242	370,980	11,147	301,383
PP&E and other non-current assets (non-current)	254,101	762,974	262,055	765,275
Suppliers and payables (current)	6,167	33,256	7,411	32,585
Loans, credits, and deferred tax liabilities (non-current)	105,986	1,063,801	115,983	993,402
Total equity	152,190	36,897	149,808	40,671
Attributable to:				
Shareholders of the Parent	136,969	16,751	134,830	18,465
Minority interest	15,221	20,146	14,978	22,206

(1) The calculation of equity attributable to the parent and the minority interests of GNL Quintero does not include the amount corresponding to the Purchase Price Allocation.

Cash flow statement	2018		2017	
	ETN, S.L.	GNL Quintero, S.A.	ETN, S.L.	GNL Quintero, S.A.
From operating activities	14,991	101,898	17,850	96,989
From investing activities	(493)	(8,947)	(921)	(14,972)
From financing activities	(17,864)	(42,611)	(15,889)	(15,364)
Effect of changes in scope of consolidation	-	-	-	243,092
Effect of exchange rate fluctuations	-	1,620	-	(31,555)
Total net cash flows	(3,366)	51,960	1,040	278,190

3.3 Financial assets and liabilities

Accounting policies

Financial assets

- Financial assets are recognized in the Consolidated Balance Sheet at the transaction date when the Group becomes party to the contractual terms of the instrument.
- Financial assets are classified under "Financial assets measured at amortized cost" except for the investments accounted for using the equity method (Note 1.6) and derivative financial instruments (Note 3.6).

Financial assets measured at amortized cost

- Items recognized under this heading are initially recognized at fair value of the consideration paid, plus transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost.
- Receivables which do not bear explicit interest are recognized at their face value whenever the effect of not discounting the related cash flows is not significant. Subsequent measurement in this instance is still carried out at face value.

Fair value measurement

- In accordance with IFRS 13, for purposes of financial disclosure, the measurement of fair value is classified as Level 1, 2, or 3, based on the degree that the inputs applied are observable and their importance in measuring fair value in its totality, as described below:
 - Level 1** – Inputs are based on quoted prices (unadjusted) for instruments of an identical nature traded in active markets.
 - Level 2** – Inputs are based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data.
 - Level 3** – Inputs are not generally observable and generally reflect estimates regarding market movements for determining the price of the asset or liability.

Trade and other payables

- Trade and other payables that do not accrue explicit interest are measured at their face value when the effect of financial discounting is not significant.

a) Financial assets

Financial assets at December 31, 2018 have been reclassified for presentation purposes based on the approach established in the new IFRS 9 standard (**Note 1.10**). Accordingly, the current and non-current detail of "Financial Assets", under IFRS 9, of the Enagás Group as of December 31, 2018 is as follows:

Categories	Class		
	Amortized cost	Fair Value with changes in the income statement (*)	Total
	12.31.2018	12.31.2018	12.31.2018
Loans	96,753	-	96,753
Trade and other receivables (Note 2.2)	137,125	-	137,125
Derivatives (Note 3.6)	-	22,928	22,928
Other	417,345	-	417,345
Total non-current financial assets	651,223	22,928	674,151
Loans	9,160	-	9,160
Other	3,637	-	3,637
Total current financial assets	12,797	-	12,797
Total financial assets	664,020	22,928	686,948

(*) In the specific case of those derivatives to which cash flow hedges or net investment are attributed, the accumulated amounts in equity are transferred to the Consolidated Income Statement in the periods when the covered items affect the Consolidated Income Statement.

Meanwhile, the current and non-current detail of "Financial Assets", under IAS 39, of the Enagás Group as of December 31, 2017 is as follows:

Categories	Class			
	Equity instruments	Loans and other	Derivatives	Total
	12.31.2017	12.31.2017	12.31.2017	12.31.2017
Loans	-	402,913	-	402,913
Trade and other receivables (Note 2.2)	-	117,947	-	117,947
Derivatives (Note 3.6)	-	-	22,213	22,213
Other	4,573	388,403	-	392,976
Total non-current financial assets	4,573	909,263	22,213	936,049
Credits	-	6,695	-	6,695
Total current financial assets	-	6,695	-	6,695
Total financial assets	4,573	915,958	22,213	942,744

The Directors estimate that the fair value of the financial assets at December 31, 2018 does not differ significantly with respect to their book value.

Loans

This mainly includes loans granted to group companies consolidated using the equity method and therefore not eliminated in the consolidation process, the details of which are as follows:

	Interest rate	Maturity	12.31.2018	12.31.2017
Non-current credits to related parties (*)			96,877	402,892
Trans Adriatic Pipeline AG	FTA + spread	July-2043	1,322	293,921
Estación de Compresión Soto La Marina S.A.P.I. de C.V.	5.03%	Dec-2032	52,329	52,781
Gasoducto de Morelos, S.A.P.I. de C.V.	7.50%	Sep-2033	16,091	29,316
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	June-2025	26,785	26,874
Gas to Move Transport Solutions, S.L.	1.80%	Nov.-2021	350	-
Current loans to related parties			9,160	6,695
Trans Adriatic Pipeline AG	FTA + Spread	July-2043	6,405	4,188
Estación de Compresión Soto La Marina S.A.P.I. de C.V.	5.03%	Dec-2032	2,743	2,495
Planta de Regasificación de Sagunto, S.A.	Eur6m + Spread	June-2025	12	12
Total			106,037	409,587

(*) With no impact of the expected loss.

At December 27, 2018 following fulfilment of the preceding conditions, TAP made the first provision of funds under the financing agreement signed by said company on November 30, 2018. The financing was subscribed with multilateral entities as well as with commercial entities that also have sections insured by three European Export Credit agencies. This first provision on the part of TAP under the financing agreement, meant a cash inflow of 415,187 thousands of euros for Enagás as a partial refund of the loans granted to TAP during recent years for the execution of the project.

Other

"Other non-current financial assets" include an amount of 7,822 thousands of euros (4,478 thousands of euros at December 31, 2017) corresponding to the investment made by the Group in Economic Interest Groups (EIG) whose activity is the leasing of assets managed by another entity unrelated to the Group and which retains both the majority of profits as well as the risks related to the activities, with the Group only availing itself of the regulated tax incentives in Spanish legislation. The Company attributes the tax loss carry forwards generated by these EIGs against shares and taking into account the debt registered with the Tax Authorities, recognizing the corresponding financial income. The main change with respect to 2017 is due to the disbursement of pending contributions by Enagás Financiaciones during 2018.

This heading also includes the accounts receivable for the both the corporate guarantee granted in connection with GSP financial debt as well as the guarantee for full compliance with respect to the concession agreement, executed to the Enagás Group as a consequence of the GSP concession agreement being terminated. At December 31, 2018, the total amount to be recovered by GSP amounted to 408,285 thousands of euros (388,561 thousands of euros at December 31, 2017) relating to both the recovery of the financial investment in this company and the credit rights associated with the recovery of the guarantees executed against the Enagás Group as a result of the termination of the concession contract in GSP, both amounts being financially updated considering the recovery period on December 31, 2021.

Gasoducto Sur Peruano ("GSP")

In relation to the investment in Gasoducto Sur Peruano, S.A. (hereinafter 'GSP') on January 24, 2017, the General Directorate of Hydrocarbons of the Peruvian Government's Ministry of Energy and Mines (hereinafter the 'State of Peru') sent an official letter to GSP stating 'the termination of the concession agreement owing to causes attributable to the concession holder', in accordance with the terms of Clause 6.7 of the 'Improvements to the Energy Security of the Country and the Development of the Gasoducto Sur Peruano' (hereinafter "the Project") concession agreement, because the financial close had not been evidenced within the period established in the agreement (January 23, 2017), and proceeded to the immediate enforcement of the totality of the guarantee for full compliance given by GSP (262.5 million dollars), to ensure fulfilment of the obligations relating to the concession, which in the case of Enagás generated a payment of 65.6 million dollars. Also in January 2017, they paid bank financing sureties to Enagás amounting to 162 million dollars, including both debt principal and interests pending to be paid. In December 2017, the process for delivering the Concession Assets held by GSP was substantially completed with the Peruvian State assuming control over them.

As a result of the termination of the concession contract, the Peruvian State had the obligation to apply clause 20 of the Concession Contract, calculating the Net Carrying Amount (hereinafter NCA) of the Concession Assets, calling three auctions to award the Concession, with the auction result being to pay GSP the NCA, based on the opinion of the external and internal legal advisors of Enagás. With the amount that GSP would have received for the NCA of the Concession Assets, it would have been able to settle its obligations to third parties and, if possible, reimburse the capital contributions made by its shareholders, as explained in the Consolidated Annual Accounts of the Enagás Group for 2016 and 2017.

As a result of inaction by the State of Peru in relation to the aforementioned procedure, on December 19, 2017, Enagás notified the Peruvian State about the existence of a dispute relating to the investment in GSP with a view to reaching an

amicable agreement on the terms of article 9.1 of the Agreement for the Reciprocal Promotion and Protection of APPRI in Spanish signed by the Republic of Peru and the Kingdom of Spain. This notification represented the beginning of the six-month period for direct contact prior to initiating international arbitration in which the APPRI acts as the mechanism for recovering the investment in GSP.

Once the required six months of direct contact between Enagás and the Peruvian State had elapsed without reaching an amicable settlement of this dispute, on July 2, 2018, an application for the initiation of arbitration against the Peruvian State regarding its investment in GSP was filed with the CIADI.

Through this arbitration procedure, it is expected that the Peruvian State will reimburse Enagás for its investment in GSP, this being the mechanism by which the financial assets recorded in the balance sheet would be recovered. Thus, it is expected that the Arbitration Court that hears the arbitration procedure in the CIADI will uphold the arguments of Enagás, issuing an award recognizing that the Peruvian State has not protected Enagás' investment under the APPRI and, therefore, it must compensate it by paying it the value of that investment.

Currently, the procedure before the CIADI is in the phase of being constituted at the Arbitration Court. Once it has been established, the written and oral proceedings phase will begin, which is expected to occur in the second quarter of 2019.

The main argument of Enagás is that, if the Peruvian State had complied with its obligation under the Concession Contract, it would have calculated the NCA and organised the three auctions, which it was obliged to do, to award the Concession, and the proceeds of the auction would have been delivered to GSP, which would have applied the amount delivered to pay its creditors and return the capital to its shareholders. The origin of the cascade of payments is 100% of the NCA, as on January 24, 2018 a year had transpired without any announcement of auctions. The absence of an auction means that the legal advisors of Enagás believe that it should be considered that GSP would have received 100% of the NCA because it was deprived of the possibility of receiving it when the auctions were not convened. Therefore, starting from the NCA considered, a certain payments waterfall would have been applied.

Enagás considers that, taking into account the NCA of the Concession Assets determined by an independent expert, and also taking into account the payment waterfall as per the terms of the insolvency legislation, as well as the contracts between Enagás and the members of GSP relating to subordination and credit agreements, if the State had satisfied their obligations, and thus paid GSP, Enagás would have recovered its investment.

Regarding the NCA amount, on December 12, 2018, GSP and the Consortium Constructor Ductos del Sur (hereinafter CCDS), responsible for the construction of the GSP project, signed the termination of the lump-sum Turnkey-EPC contract for the engineering, procurement and construction of the transmission system of the Project signed between both parties. By virtue of said termination, and considering the value of the assets that could not be delivered to the Peruvian State, a new valuation by a firm of independent experts contracted by Enagás was made by December 2018, ascertaining an updated VCN value of 1,977 million dollars.

Taking into account this updated NCA, if the payment waterfall were to be applied to it as per the terms of the insolvency laws, the subordination and the assignment of credit agreements entered into by Enagás and its aforementioned partners in GSP, Enagás would recover the total value of its investment.

In relation to the aforementioned contracts of subordination of rights and assignment of credits, their effectiveness and form of application has been questioned successively by the partners of Enagás in GSP through different arbitration procedures. In this regard, the arbitrations filed by Odebrecht were withdrawn in December 2018, although Graña y Montero has submitted new claims and a new request for arbitration also in December 2018. With respect to these arbitration proceedings, the Peruvian legal advisors consider that, according to the arguments raised to date, the possibility of their effectiveness and application being different from that envisaged by Enagás is remote, considering that the aforementioned agreements are fully valid and applicable.

As regards the arbitration proceedings against the State of Peru, based on the conclusions determined by the external and internal legal advisers, the recoverability of the totality of the Enagás investment in GSP, consisting of receivables in relation to the aforementioned enforced guarantees to the total of 226,8 million dollars, interests of 1.8 million dollars, various invoices for professional services provided to the amount of 7.6 million dollars and the share capital contributed to GSP for the amount of 275.3 million dollars, is considered likely.

With regard to the recovery period, considering the time it takes to resolve a dispute of this complexity in international arbitration proceedings, the estimated date for the recovery of the investment made by Enagás in GSP is thought to be December 31, 2021 from the lodging of the request to the commencement of arbitration proceedings. Based on this, the amounts outlined in the preceding paragraph are recorded at their updated value in the Consolidated Balance Sheet dated December 31, 2018 for a total amount of 408,285 thousands of euros (388,561 thousands of euros at December 31, 2017).

Other related matters

On March 12, 2018, Law no. 30737 was published guaranteeing immediate payment to the Peruvian government to repair civil damage caused by corruption and related crimes". On May 9, 2018, Supreme Decree 096-2018-EF was published, enacting the regulations of the aforementioned law.

In accordance with Article 9 of Law no. 30737, legal persons and legal entities in the form of partnerships, consortiums and joint ventures who may have benefited from the awarding of contracts, or subsequent to it, jointly with persons who have been convicted or who may have acknowledged having committed crimes against the public administration, asset laundering or related crimes, or their equivalents against the State of Peru, in Peru or abroad are classified as Category 2, and therefore fall within its scope of application.

Even without evidence of a criminal conviction or a confession of the commission of crimes, as required under Article 9 of Law No. 30737, on 28 June 2018, the State of Peru classified Enagás Internacional on the 'List of Contracts and Subjects of Category 2 indicating the legal person or legal entity included under Section II of Law no.30737' in relation to the concession contract awarded to GSP. The application of the mentioned standard involves different measures such as setting up an escrow account, reporting information, the limitation of transfers to other countries or the preparation of a compliance programme.

According to different communications media in Peru and news items that have arisen during December 2018, the Odebrecht Group would have signed, in February 2019, a collaboration agreement with the Attorney General's Office of Peru in which the GSP project would not be included as one of the projects affected. As of today, there is still no evidence - or knowledge thereof -

that consistently or demonstrably relates GSP to corruption, so there would also be no reason to execute that escrow.

The total amount of the Trust, estimated at 50% of the total average net equity, corresponding to its participation in GSP, will be communicated by the Ministry of Justice, given that the amount is estimated to be less than 65 million dollars. Currently, the Ministry of Justice has been notified of the necessary information for the calculation of the estimated amount, which to date is pending confirmation for subsequent formalization of the escrow.

Moreover, Law no. 30737 also imposes a ban on companies included on the list from making transfers outside of Peru, which, based on the conclusions of the external and internal legal advisers, would only be applicable to investment in GSP, notwithstanding a restriction on dividends to pay for the COGA and TGP societies, also considering that investment in the latter is protected by the Legal Stability Agreement in Peru.

In light of the above, the Enagás Group believes that these regulations do not have a negative effect on the recovery of accounts receivable through the arbitration process indicated above.

Notwithstanding the above comments on the Effective Collaboration Agreement signed by Odebrecht and the Public Prosecutor of Peru, regarding the actions of the Office of the Prosecutor of the Nation of Peru on the investigation of Odebrecht's activities in Peru and other Investigations carried out by various bodies of the Peruvian Prosecutor's Office for alleged crimes that could somehow be related to the award of the project "Improvements to the country's energy security and development of the Southern Peru Gas Pipeline", there have been no developments to date and the situation described in Note 1.6 of the Annual Accounts of the Enagás Group for the year 2017 remains the same. In that note the existence of two ongoing investigations was recorded: the first signed with File 321-2014, relating to aggravated collusion between a former Odebrecht employee and a public official, whose stage of control and

disencumbrance was rendered ineffective until the Supreme Court's ruling on the appeal filed Ad Hoc by the Prosecutor's Office of Peru to include one of Odebrecht's subsidiaries as a third-party civilian. In this phase it is expected to decide on the opening of oral proceedings, during the second half of 2019.

Based on the opinions of Enagás external advisors of Peruvian criminal code, the possibility of sentencing Odebrecht's former employee is considered to be remote. In this same case, the preparatory investigative court has declared the incorporation of GSP as a liable third party as wrongful. The second investigation underway, identified by File 12-2017, is in its preliminary stage at the level of the Attorney General's office and involves investigation of an Enagás employee. Based on the opinions of our external legal advisors for the Peruvian criminal code, there are no indications that these investigations may conclude negatively for Enagás.

Based on all of the above, the directors of Enagás, in line with the opinion of their external and internal legal advisers, and of an independent expert and independent expert accountant, consider these facts to have no bearing on the estimation for recovery of the investment in the stake in GSP and the previously mentioned receivables to the amount of 408,285 thousands of euros (388,561 thousands of euros at December 31, 2017).

Impairment losses on assets

During financial year 2018, the group recorded, in accordance with the provisions of IFRS 9, the impact resulting from analysis of the expected loss due to loans granted to group companies consolidated using the equity method and that are not, therefore, eliminated in the consolidation process. At December 31, 2018 this amount was 124 thousands of euros.

Furthermore, and except for the recording of the expected loss, as per IFRS 9, during the first twelve months of 2018, there were no additional movements with respect to the provisions which cover impairment losses of assets held by the Group.

b) Financial liabilities

The current and non-current detail of "Financial Liabilities", of the Enagás Group as of December 31, 2018 and December 31, 2017 is as follows:

Categories	Classes	Fair value with changes in Profit and Loss		Amortized cost		Derivatives designated as hedging instruments		Total	
		2018	2017	2018	2017	2018	2017	2018	2017
Debts with credit institutions (Note 3.4)		-	-	1,077,508	1,429,236	-	-	1,077,508	1,429,236
Debentures and other marketable securities (Note 3.4)		162,023	153,501	3,876,889	3,847,161	-	-	4,038,912	4,000,662
Derivatives (Note 3.6)		-	-	-	-	51,158	32,845	51,158	32,845
Trade creditors		-	-	40	73	-	-	40	73
Other financial liabilities (Note 3.4)		15,600	-	5,354	5,994	-	-	20,954	5,994
Total non-current financial liabilities		177,623	153,501	4,959,791	5,282,464	51,158	32,845	5,188,572	5,468,810
Debts with credit institutions (Note 3.4)		-	-	285,527	152,883	-	-	285,527	152,883
Debentures and other marketable securities (Note 3.4)		-	-	50,618	49,864	-	-	50,618	49,864
Derivatives (Note 3.6)		-	-	-	-	14,392	12,994	14,392	12,994
Trade creditors (*) (Note 2.3)		-	-	169,572	171,844	-	-	169,572	171,844
Other financial liabilities (Note 3.4)		-	-	13,849	14,262	-	-	13,849	14,262
Total current financial liabilities		-	-	519,566	388,853	14,392	12,994	533,958	401,847
Total financial liabilities		177,623	153,501	5,479,357	5,671,317	65,550	45,839	5,722,530	5,870,657

(*) The amount of "Trade creditors" does not include the balance with the Public Administrations as it is not a financial liability.

The breakdown by maturities for this heading in 2018 and 2017 is as follows:

	2019	2020	2021	2022	2023 and beyond	Valuation adjustments and/or other transaction costs	Total
Debentures and other marketable securities	50,618	-	66,516	863,031	3,203,703	(94,338)	4,089,530
Debts with credit institutions	285,527	321,707	121,742	111,742	527,578	(5,261)	1,363,035
Trade creditors and others (*)	183,421	2,390	15,954	20	2,630	-	204,415
Total	519,566	324,097	204,212	974,793	3,733,911	(99,599)	5,656,980

	2018	2019	2020	2021	2022 and beyond	Valuation adjustments and/or other transaction costs	Total
Debentures and other marketable securities	49,864	-	-	64,173	4,020,735	(84,246)	4,050,526
Debts with credit institutions	152,883	546,006	121,742	121,742	646,445	(6,699)	1,582,119
Trade creditors and others (*)	186,106	2,610	451	354	2,652	-	192,173
Total	388,853	548,616	122,193	186,269	4,669,832	(90,945)	5,824,818

(*) Does not include derivatives.

3.4 Financial debts

Accounting policies

- Financial liabilities are initially measured at the fair value of the consideration received less directly attributable transaction costs.
- Subsequently, financial liabilities are recognized at amortized cost, except for derivative financial instruments and the yen bond which are recognized at fair value.
- Financial liabilities are derecognized when the related contractual obligations are cancelled or expired.
- Options on interest held by minority shareholders are accounted for by recognizing the minority interests arising in a business combination and recognizing a financial liability against equity. The changes in fair value of the financial liability are accounted for in the Consolidated Income Statement.

	2018	2017
Debentures and other marketable securities	4,089,530	4,050,526
Debts with credit institutions	1,363,035	1,582,119
Other receivables	34,803	20,256
Total financial debts	5,487,368	5,652,901
Non-current financial debts (Note 3.3)	5,137,374	5,435,892
Current financial debts (Note 3.3)	349,994	217,009

The fair value of debts owed to credit institutions as well as other debentures and marketable securities at December 31, 2018 is the following:

	2018	2017
Debts with credit institutions	1,371,792	1,591,908
Debentures and other marketable securities	4,065,207	4,271,395
Fair value total	5,436,999	5,863,303
Carrying amount total	5,452,565	5,632,645

a) Net financial debt

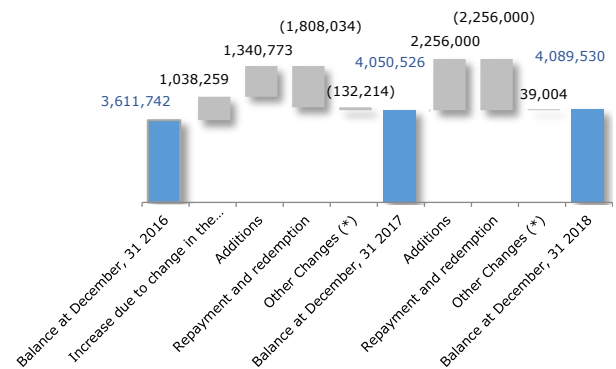
Net financial debt is the main indicator used by Management to measure the Group's debt level. It is comprised of gross debt less cash in hand:

	2018	2017
Debts with credit institutions (Note 3.3)	1,363,035	1,582,119
Debentures and other marketable securities (Note 3.3)	4,089,530	4,050,526
- Adjust for amortized cost of Bonds(*)	(10,300)	(1,587)
Loans from the General Secretariat of Industry, General Secretariat of Energy and Oman Oil.	3,931	4,509
Gross financial debt	5,446,196	5,635,567
Cash and other cash equivalents (Note 3.8)	(1,171,543)	(627,864)
Net financial debt	4,274,653	5,007,703

(*) Includes the adjustment to record the yen bond of the Enagás Group at amortized cost as well as the adjustment made on the GNL Quintero bond to show its fair value at the date of the business combination (January 1, 2017). As of the date of said business combination, the GNL Quintero bond is recorded at amortized cost.

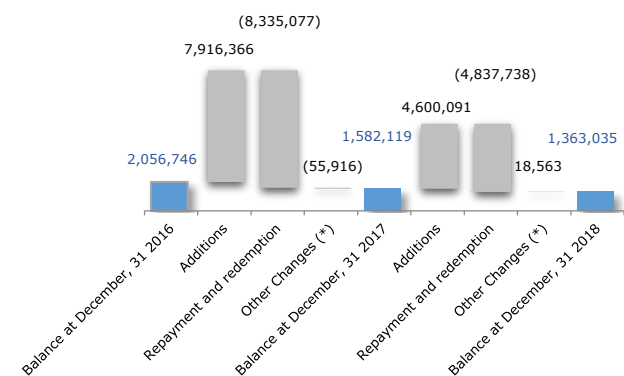
The net finance cost during 2018 for the Group's net financial debt amounted to 2.8% (2.7% in 2017). The percentage of net financial debt at fixed interest rates at December 31, 2018 amounted to more than 80%, while the average maturity period at that date amounted to 6.1 years (2017: 6.8 years). The net financial costs are determined by dividing net financial expenses by the average net debt multiplied by the number of effective days in the year (360 days) divided by the natural days of the period (365 days), where net financial expenses correspond to interest on loans and derivatives, decreases due to income in cash and other cash equivalents. Further, average net debt is calculated as the daily average of nominal amounts of net financial debt.

b) Debentures and other marketable securities



(*) Includes payment of interest, accrued interest, valuations, and other.

c) Debts with credit institutions



(*) Includes payment of interest, accrued interest, valuations, and other.

The following are among the most significant events of financial year 2018:

- On May 9, 2018, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) programme for the amount of 4 billion euros, registered in the Luxembourg Stock Exchange in 2012, with Enagás, S.A. as guarantor.
- Additionally, on 10 May 2018, Enagás Financiaciones, S.A.U. renewed the Euro Commercial Paper (ECP) programme for a maximum amount of 1 billion euros, registered in the Irish Stock Exchange on 4 May 2017.

At December 31, 2018, the Group had access to credit lines in the amount of 1,980,576 thousands of euros (2,260,656 thousands of euros at December 31, 2017), of which 1,637,786 thousands of euros had not been drawn down (1,856,393 thousands of euros in 2017) (**Note 3.8**).

Lastly, as indicated in **Note 1.10** the initial application on January 1, 2018 has resulted in approximately 24 million euros of lower financial debt.

d) Other financial debts

	2018	2017
Loans from the General Secretariat of Industry, General Secretariat of Energy and Oman Oil.	3,931	4,509
Fair value of sales option on interest held by EVE	15,600	-
Other	15,272	15,747
Total other financial debts	34,803	20,256

Sales option on interest held by EVE

On July 20, 2018, the Shareholders' Agreement between the Company and Ente Vasco de Energía (EVE), which hold 90% and 10%, respectively, of the shares in Enagás Transporte del Norte, S.L. (ETN), was renewed. In said agreement, whose initial expiration is established for the month of July 2022, the Company grants a sales option to EVE, whereby the latter has the right to sell, and the Company has the right to purchase, all or part of ETN's shares owned by EVE at the time of granting said option. In order to exercise the sales option right, EVE must report its decision to exercise said right at least 12 months before the expiry of the Shareholders Agreement.

Based on this, the group has recorded a financial liability against Reserves for the present value of the amount to be reimbursed from this option, which as of December 31, 2018, amounts to 15,600 thousands of euros (**Note 3.1.c**).

3.5 Net financial result

	2018	2017
Income from associates	11,292	10,590
Income from third parties (3)	24,587	73,268
Income in cash and cash equivalents	5,508	2,259
Other (1)	24,459	16,259
Financial income	65,846	102,376
Finance and similar expenses (2)	(9,458)	(29,710)
Loan interest	(141,030)	(156,648)
Capitalized interest	209	2,632
Other	(4,378)	(2,446)
Financial expenses	(154,657)	(186,172)
Gains (losses) on hedging instruments	(15,412)	(18,123)
Exchange gains (losses)	(373)	1,013
Net financial result	(104,596)	(100,906)

(1) Financial income derived from the sale of the Swedegas Group in November 2018 (**Note 1.5**).

(2) As of December 31, 2018, 2,774 thousands of euros are included in the expense derived from the financial discount effect of the credit recorded for the recovery of the guarantees provided by the Company for GSP (16,919 thousands of euros as of December 31, 2017), with the estimated date of recovery considered to be December 31, 2021. In addition, at December 31, 2017 a financial expense is also included in the amount of 8,248 thousands of euros due to the cancellation of translation differences against financial results, as a consequence of excluding GSP from the consolidation scope.

(3) The change with respect to 2017 is mainly due to the consolidation of GNL Quintero under the full consolidation method from January 1, 2017 (restatement of previous interest held in the company and cancellation of translation differences) (**Note 1.11**).

3.6 Derivative financial instruments

Accounting policies

- The Enagás Group contracts derivative financial instruments to cover its exposure to financial risk arising from fluctuations of interest rates and/or exchange rates, and does not use derivative financial instruments for speculative purposes. All derivative financial instruments are measured, both initially and subsequently, at fair value. The differences in fair value are recognized in the Consolidated Income Statement except in the case of specific treatment under hedge accounting.

- The measurement and recognition criteria for derivative financial instruments in keeping with the different types of hedge accounting are as follows:

a) Fair value hedge

These instruments hedge against changes in the fair value of an asset or liability recognized, or a specific portion of said asset or liability, which can be attributed to a particular risk and can affect profit for the period.

Changes in the fair value of a hedging instrument and changes in the fair value of hedged items attributable to the hedged risk, are recognized in the Consolidated Income Statement.

b) Cash flow hedges

Hedges for exposure to changes in cash flows that: (i) are attributed to a specific risk associated with an asset or liability recognized for accounting purposes, with a highly likely expected transaction or with a firm commitment if the hedged risk is an exchange rate and (ii) may affect profit for the period.

The effective portion of the changes in fair value of the hedging instrument are recognized under Equity, and the gains and losses relating to the ineffective portion are recognized in the Consolidated Income Statement. The accumulated amounts under Equity are transferred to the Consolidated Income Statement in the periods in which the hedged items affect the Consolidated Income Statement.

c) Net investment coverage in a foreign operation

These instruments hedge the foreign currency risk arising from net investments in foreign operations.

The hedges for net investments in transactions carried out abroad are accounted for in a similar manner to cash flow

hedges, though the valuation changes in these transactions are accounted for as translation differences under "Adjustments for changes in value" in the accompanying Consolidated Balance Sheet.

These translation differences are taken to the Consolidated Income Statement when the gain or loss on disposal of the hedged item occurs.

- 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 Group 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.

Any remaining loss or gain from the hedging instrument will represent an ineffectiveness of the hedge to be recognized in income of the period.

- Hedge accounting is discontinued when the hedging instrument expires, or when it is sold, or exercised, or when it no longer qualifies for hedge accounting (after taking into account any rebalancing of the hedging relationship, if applicable). At that time, any accumulated gain or loss on the hedging instrument recognized in equity is retained in equity until the hedged transaction occurs.
- In accordance with IFRS 13, for purposes of presenting financial information, the measurements of fair value are classified as Level 1, 2, or 3, as indicated in **Note 3.3**.

Significant estimates

- The Group determined that the majority of inputs employed for determining the fair value of derivative financial instruments are classified as Level 2; however, the adjustments to credit risk use inputs corresponding to Level 3 for assessing credit based on credit ratings or comparable companies for evaluating the probability of a company

or counterparties to the company going bankrupt. The Group evaluated the relevancy of the inputs and recognized the corresponding adjustments to credit risk for the evaluation of the derivative financial instrument, which were not significant.

- Thus, the entire portfolio of derivative financial instruments is classified under Level 2 of the hierarchy.

Category	Type	Maturity	Notional contracted	Fair value 12.31.2017	Income and expenses recognized directly in equity		Amounts transferred to the income statement			Fair value 12.31.2018
					Hedging transactions	Translation differences	Changes in results	Counterparty risks and other	Other changes (*)	
Cash flow hedges										
Interest rate swap	Floating to fixed	Dec-19	150,000	(1,250)	(811)	-	117	-	1,248	(696)
Interest rate swap	Floating to fixed	Jan-20	150,000	(767)	(720)	-	395	-	680	(412)
Interest rate swap	Floating to fixed	Mar-20	65,000	(722)	(438)	-	55	-	626	(479)
Fair value hedge										
Cross Currency Swap	Fixed to floating	Sep-39	147,514	2,173	-	-	-	60	8,503	10,736
Net investment coverage										
Cross Currency Swap	Fixed to fixed	Apr-22	400,291	(39,201)	(14,851)	(14,030)	8,398	(28)	-	(59,712)
Cross Currency Swap	Fixed to fixed	May-28	237,499	16,141	2,687	(15,040)	4,153	-	-	7,941
Total			1,150,304	(23,626)	(14,133)	(29,070)	13,118	32	11,057	(42,622)

(*) Includes interest accrued and not paid, other commissions relating to derivative financial instruments, as well as changes in the fair value of the hedging derivative.

The breakdown by maturity is as follows:

2018	2019	2020	2021	2022	2023	Total
Derivatives	(14,392)	(12,028)	(11,243)	(39,226)	34,267	(42,622)

2017	2018	2019	2020	2021	2022 and later years	Total
Derivatives	(13,000)	(12,171)	(10,680)	(9,867)	22,092	(23,626)

a) Cash flow hedges

With respect to cash flow hedges, the breakdown by period in which the related cash flows will arise is as follows:

Contracted amount (thousands of euros)	Total	2019	2020	2021 and later years
150,000	(696)	(696)	-	-
65,000	(479)	(382)	(97)	-
150,000	(412)	(396)	(16)	-
365,000	(1,587)	(1,474)	(113)	-

b) Fair value hedge

During 2009, the Enagás Group contracted a cross currency swap (CCS) to cover changes in the fair value of a yen-denominated bond arising from euro-yen exchange rate risk and the related interest rate risk. The fixed yen (JPY) component of this CCS covers changes in the value of the bond with respect to the specified risks. Said bond is recognized under "Non-current financial liabilities" in the Consolidated Balance Sheet.

At the initiation date of the CCS, the principal exchange was carried out so that Enagás received 147,514 thousands of euros and paid 20,000 million JPY, with the Group recognizing said item at fair value through profit and loss in the Consolidated Income Statement. Likewise, Enagás will receive interest at a fixed rate in JPY and pay six-month Euribor until maturity. When the contract

matures, Enagás will receive the principal in JPY and will return the principal in euros.

The changes in fair value experienced by the hedging instrument as well as the changes in the value of the hedged instrument are broken down as follows:

	Fair value 12.31.2017	Fair value 12.31.2018	Change (Income statement)
Valuation of derivative (+assets/-liabilities)	2,173	10,736	8,563
Valuation of instruments hedged (liabilities)	(153,596)	(162,099)	(8,503)
Total net amount recognized in Results (expenses)			60

c) Net investment coverage in foreign operations

The main characteristics of the two derivative financial instruments contracted as net investments hedges are the following:

Category	Contracted amount in Euros	Contracted amount in USD	Type	Maturity
Cross Currency Swap	400,291	550,000	Fixed to fixed	April 2022
Cross Currency Swap	237,499	270,000	Fixed to fixed	May 2028
Total	637,790	820,000		

The investments considered as hedged items in the aforementioned hedging relationships are the following:

Project	Investments hedged in USD
GNL Quintero, S.A.	179,989
Altamira LNG, C.V. sub-group	52,423
TgP	587,588
Total	820,000

3.7 Financial and capital risk management

a) Qualitative information

The Enagás Group is exposed to certain risks which it manages with a risk control and management model which is directed towards guaranteeing achievement of the Company's objectives in a predictable manner with a medium-low risk profile. This model allows you to adapt to the complexity of your business activity in a globalised competitive environment, in a complex economic context, where the materialization of risks is faster and with an evident contagious effect.

The model is based on the following:

- The consideration of some standard types of risk to which the Company is exposed.
- Segregation and independence of risk control and management functions articulated in three lines of "defence".
- The existence of governing bodies responsible for matters relating to risk exposure.
- Establishing a risk-prone framework which defines the risk levels considered acceptable and that are in line with established business objectives and the market environment in which the Group carries out its activities.
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The integral analysis of all risk permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. Enagás has established a regulatory framework through its "Risk control and management policy" and "General risk control and management standards," which define the basic principles to be applied and identify the responsibilities of the different departments of the Company.

As explained in **Note 3.7** below, the Enagás Group directly finances part of the foreign investments with foreign currency, which is then designated as a net foreign investment.

By this means, the Enagás Group tries to designate exchange rate hedges to cover fluctuations in the exchange rates of its investments in foreign currency. As required by IFRS 9, an eligible hedged item and hedging instrument have to be designated. By this means, the exchange fluctuations of the investment in foreign currency are associated with the fluctuations due to the debt obtained to finance the acquisition, which is also in that currency (**Note 3.7**), in such a way that there is no impact on the income statement.

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

- First line of defence: organizational units which assume risks in the normal course of their activities. The organizational units are responsible for identifying and measuring their respective risk exposure.
- Second line of defence: the Sustainability and 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: the Internal Audit Department, responsible for supervising the efficiency of the established risk controls.

The Governing Bodies responsible for risk control and management are the following:

- The Board of Directors is responsible for approving the risk control and management policy. Other responsibilities with respect to risks are delegated in the Audit and Compliance Committee.
- Audit and Compliance Committee: the main function is to supervise the efficacy of the risk control and management systems as well as evaluating Group risk exposure (identification, measurement, and establishment of management measures).
- Risk Committee: the main functions include establishment of global risk strategies, establishing the global risk limits, revising the level of risk exposure, and acting to correct any instances of non-compliance.

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

Credit risk

Credit risk relates to the possible losses arising from the non-payment of monetary or quantifiable obligations of a counterparty to which the Enagás Group has granted net credit which is pending settlement or collection.

Credit risk in connection with trade receivables arising from its commercial activity is historically very limited as the Group operates in a regulated environment (Note 1.1). However, regulations have been developed establishing standards for managing guarantees in the Spanish gas system and which oblige gas supply companies to provide guarantees for: (i) contracting capacity in infrastructure with regulated third-party access and international connections, (ii) settlement of imbalances; and (iii) participation in the organized gas market.

The Enagás Group is also exposed to the risk of its counterparties not complying with obligations in connection with financial derivatives and placement of surplus cash balances. In order to mitigate this risk, these transactions are carried out in a diversified manner with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of those assets and liabilities that accrue interest at fixed rates, and the future cash flows from assets and liabilities that accrue interest at floating rates.

The objective of interest rate risk management is to create a balanced debt structure that minimizes financial costs over a multi-year period while also reducing volatility in the Consolidated Income Statement.

Based on the Enagás Group's estimates and debt structure targets, hedges are put in place using derivatives that reduce these risks (Note 3.6).

Exchange rate risk

Exchange rate fluctuations may affect positions held with regard to debt denominated in foreign currency, certain payments for services and the purchase of capital goods in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of converting the financial statements of those companies whose currency is not the euro during the consolidation process. With a view to mitigating said risk, the Group can avail itself of financing obtained in US dollars and Swedish kronas, as well as contracting derivative financial instruments which are subsequently designated as hedging instruments (Note 3.6). In addition, the Enagás Group tries to balance the cash flows of assets and liabilities denominated in foreign currency in each of its companies.

Liquidity risk

Liquidity risk arises as a consequence of differences in the amounts or payment and collection dates relating to the different assets and liabilities held by the Group.

The liquidity policy followed by the Enagás Group is oriented towards ensuring that all short-term payment commitments acquired are fully met without having to secure funds under burdensome terms. For this purpose, different management measures are taken such as maintenance of credit facilities ensuring flexibility, sufficient amounts and sufficient maturities, diversified sourcing for financing needs via access to different

markets and geographical areas, as well as the diversification of maturities in debt issued.

The financial debt of the Group at December 31, 2018 has an average maturity of 6.1 years (6.8 years at December 31, 2017 (Note 3.4)).

Tax risk

The Enagás Group is exposed to possible modifications in tax regulatory frameworks and uncertainty relating to different possible interpretations of prevailing tax legislation, potentially leading to negative effects on results.

Other risks

Given the dynamic nature of the business and its risks, and despite having a risk management and control system that responds to the best international recommendations and practices, it is not possible to guarantee that some risk may exist that is not identified in the risk inventory of the Enagás Group.

In addition, the internationalization process carried out by the Enagás Group in recent years means that a part of its operations are carried out by companies over which it does not exercise control and which perform their activities within different regulatory frameworks and with different business dynamics, so that potential risks may arise relating to financial investment.

b) Quantitative information

Interest rate risk

The percentage of net debt at fixed interest rates at December 31, 2018 and 2017, amounted to more than 80%.

Taking into account these percentages of net financial debt at fixed rates, and after performing a sensitivity analysis using a range of +1/-1% changes in market interest rates, the Group considers that, according to its estimates, the impact on results of such variations on financial costs relating to variable rate debt could be as follows:

	Interest rate change			
	2018		2017	
	25 bps	-10 bps	25 bps	-10 bps
Change in financial costs	2,328	(931)	2,709	(1,083)

In addition, the aforementioned changes would not produce any significant changes in the Company's equity position in connection with contracted derivatives.

Exchange rate risk

The Enagás Group mainly obtains its financing in euros, though certain financing is also obtained in US dollars, Japanese yen and Swedish kronas. The currency exposed to the greatest variations in its exchange rate is the US dollar, given that financing in yen is hedged via the use of exchange rate hedges (Note 3.6).

The exposure of the Group to changes in the US dollar/ euro exchange rate is mainly determined by the effect of translating the financial statements of the companies whose functional currency is the US dollar. In addition, there are Group companies whose functional currency is the Peruvian nuevo sol and Swedish krona.

Further, the Group also holds loans denominated in US dollars granted by Enagás, S.A. to companies in which it does not control a majority stake.

The sensitivity of profit/(loss) for the year and equity to exchange rate risk, via appreciation or depreciation of exchange rates and based on the financial instruments held by the Group at December 31, 2018, is shown below:

	Thousands of euros			
	Appreciation / (Depreciation) of the euro against the dollar			
	2018		2017	
	5.00%	5.00%	5.00%	-5.00%
Effect on net profit	3,347	(3,347)	3,779	(3,779)
Effect on equity	25,005	(25,005)	22,078	(22,078)

c) Capital management

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

3.8 Cash flows

Accounting policies

- Under this heading of the Consolidated Balance Sheet the Group recognizes cash in hand, sight deposits, and other highly liquid short-term investments that can be readily converted into cash and are not exposed to the risk of changes in value.

a) Cash and cash equivalents

	12.31.2018	12.31.2017
Treasury	1,171,543	627,864
Total	1,171,543	627,864

"Other liquid assets" includes those deposits that have a maturity of less than three months.

Generally, the banked cash accrues interest at rates similar to daily market rates. The deposits maturing in the short term are easily convertible into cash, and accrue interest at the going market rates. There are no significant restrictions on the availability of cash and bank balances.

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 shareholders equity).

The Group's financial leverage, calculated as the ratio of net financial debt and total financial debt plus shareholders' equity at December 31, 2018 and 2017, is as follows:

	2018	2017
Net financial debt (Note 3.4)	4,274,653	5,007,703
Shareholders' equity	2,658,758	2,585,639
Financial leverage	61.7%	65.9%

The credit rating agency Standard & Poor's maintained the long-term "A-" rating it issued for Enagás, S.A. with a negative outlook at December 31, 2018. In contrast, another credit rating agency, Fitch Ratings, continued to issue an "A-" rating at December 31, 2018 with a stable outlook.

b) Available funds

In order to guarantee liquidity, the Enagás Group has arranged loans and credit lines which it has not drawn down. Thus, liquidity available to the Enagás Group is broken down as follows:

Available funds	12.31.2018	12.31.2017
Cash and cash equivalents	1,171,543	627,864
Other available funds (Note 3.4)	1,637,786	1,856,393
Total available funds	2,809,329	2,484,257

In the opinion of the Directors of the Company, this situation allows for sufficient funding to meet possible liquidity requirements in the short term considering its current obligations.

c) Reconciliation of movements in liabilities arising from financing activities and cash flows

		Debts with credit institutions	Debentures and marketable securities	Total
12.31.2017		1,582,119	4,050,526	5,632,645
Cash flows	Issues	4,600,091	2,256,000	6,856,091
	Repayment and redemption	(4,837,738)	(2,256,000)	(7,093,738)
	Payment of interest	(18,779)	(91,340)	(110,119)
Without an impact on cash flows	Changes in scope of consolidation	-	-	-
	Interest expense	20,044	107,220	127,264
	Exchange rates and others concepts	17,298	23,124	40,422
12.31.2018		1,363,035	4,089,530	5,452,565

The information for the 2017 year is detailed below:

		Debts with credit institutions	Debentures and marketable securities	Total
12.31.2016		2,056,746	3,611,742	5,668,488
Cash flows	Issues	7,916,366	1,340,773	9,257,139
	Repayment and redemption	(8,335,077)	(1,808,034)	(10,143,111)
	Payment of interest	(21,474)	(114,220)	(135,694)
Without an impact on cash flows	Changes in scope of consolidation	-	1,038,259	1,038,259
	Interest expense	20,543	120,820	141,363
	Exchange rates and others concepts	(54,985)	(138,814)	(193,799)
12.31.2017		1,582,119	4,050,526	5,632,645

4. Other information

Relevant aspects

Remuneration for Board of Directors and Senior Management

- Remuneration to the Board of Directors, without taking into account the insurance premium, amounted to 4,615 thousands of euros (4,220 thousands of euros in 2017) (Note 4.4).
- Remuneration to the Senior Executives, without taking account of pension plans and insurance premiums, amounted to 3,873 thousands of euros (3,290 thousands of euros in 2017) (Note 4.4).

4.1 Investment properties

Accounting policies

Investment properties

- The cost model is applied for measuring investment property, that is, the corresponding assets are measured at acquisition cost less the corresponding accumulated amortization and any impairment losses. However, as one plot of land is not currently in use, it was measured at its recoverable amount, calculated as the fair value less the necessary costs for its sale.
- Market valuations carried out by the independent expert were carried out in accordance with the standards established in the Regulations of the Royal Institution of Chartered Surveyors ("RICS") and can be found in the so-called "Red Book" - Valuations Manual (RICS Valuation - Professional Standards, January 2014). Said market valuations defined by RICS are internationally recognized by advisors and accountants providing services for investors and corporations that own investment properties, as well as by The European Group of Valuers (TEGoVA) and The International Valuation Standards Committee (IVSC).

	Balance at December 31, 2016	Impairment allowances 2017	Balance at December 31, 2017	Impairment allowances 2018	Balance at December 31, 2018
Cost (1)	47,211	-	47,211	-	47,211
Impairment	(22,311)	(5,290)	(27,601)	-	(27,601)
Net value	24,900	(5,290)	19,610	-	19,610

- (1) Corresponds entirely to a plot of land located at km 18 of the A-6 in Las Rozas (Madrid). At December 31, 2018, Jones Lang LaSalle España, S.A. issued a valuation report dated December 31, 2018, which concluded that the recoverable amount of the plot at that date amounted to 19,610 thousands of euros (19,610 thousands of euros in 2017). It is worth noting that the aforementioned independent expert's report did not include any scope limitations with respect to the conclusions reached. There are no mortgages or encumbrances of any type on said property. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

4.2 Tax situation

Accounting policies

- Income tax expense for the year is calculated as the sum of current tax, resulting from applying the corresponding tax rate to taxable income for the year (after applying any possible deductions) and any changes in deferred tax assets and liabilities.
- Income tax is recognized in the Consolidated Income Statement or in equity accounts in the Consolidated Balance Sheet depending on where the related profits or losses were recognized.
- Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the book value of assets and liabilities and their tax bases, as well as any unused tax credits. These amounts are measured by applying the tax rate to the corresponding temporary differences or tax credits at which they are expected to be realized or settled.
- Deferred tax assets are only recognized when the Group expects sufficient future taxable profits to recover the deductible temporary differences. Deferred tax liabilities are recognized for all taxable temporary differences except for those arising from the initial recognition of goodwill.
- Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability.
- The Group offsets deferred tax assets and deferred tax liabilities corresponding to one and the same tax authority, as established in IAS 12.74.

Significant estimates

- In accordance with prevailing legislation in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. However, the four-year period can vary in the case of Group companies subject to other fiscal regulations. The Directors of the Company consider that all applicable taxes open to inspection described in this note have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying Consolidated Annual Accounts.
- The deferred tax assets were recognized in the balance sheet as the Directors believe, based on the best estimate of future profits and reversals of deductible temporary differences, that it is probable that these assets will be recovered.

a) Balances with Tax Authorities

	2018	2017
Credit balances		
Deferred tax assets (4.2.f)	100,360	96,910
Income tax and other taxes (1)	1,799	-
Value added tax	27,979	15,709
Total	29,978	15,709
Debit balances		
Deferred tax liabilities (4.2.f)	566,693	562,154
Income tax (1)	3,733	19,736
Value added tax	2,121	4,765
Tax Authorities creditor for withholdings and other	32,576	30,295
Total	38,430	54,796

- (1) It corresponds mainly to the Income Tax of the entities in the Tax Consolidation Group, amounting to 1,394 thousands of euros of balances receivable (15,648 thousands of euros of balances payable at December 31, 2017); and outside the tax group, to 3,492 thousands of euros (4,088 thousands of euros at December 31, 2017).

b) Tax returns

Enagás S.A. has been the parent company of the Tax Consolidation Group 493/12 for Corporate Income tax from January 1, 2013, comprised of the following subsidiaries at December 31, 2018:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.
- Gascan
- Enagás Empresa S.L.U.
- Infraestructuras del Gas, S.A.
- Scale Gas Solutions, S.L.
- Efficiency for LNG Applications, S.L.
- Smart Energy Assets, S.L.
- Enagás Services Solutions, S.L.
- Sercomgas Gas Solutions, S.L.

The Group's remaining companies file individual income tax returns in conformity with the applicable tax laws.

c) Corporate income tax

	2018	2017
Profit Before-tax	586,435	631,166
Permanent differences and consolidation adjustments (1)	(96,816)	(108,158)
Consolidated tax base	489,619	523,008
Tax rate	25%	25%
Adjusted results by tax rate (2)	(122,405)	(130,752)
Effect of applying different rates to tax base	(943)	(232)
Tax base	(123,348)	(130,984)
Effect of deductions	2,527	4,171
Other adjustments to corporate income tax	(2,287)	(723)
Corporate income tax for the period	(123,108)	(126,090)
Current income tax (3)	(109,056)	(121,192)
Deferred income tax	7,047	12,793
Adjustments to income tax rate	(21,099)	(17,691)

- (1) The permanent differences mainly correspond to the elimination of the results of companies consolidated under the equity method, as well as other consolidation adjustments relating to the reconciliation of Spanish GAAP and IFRS.
- (2) In order to determine income tax, a 25% rate was applied to all Spanish companies, except for those that file tax returns under the special regime of Vizcaya (Enagás Transporte del Norte, S.L) where a 26% rate is applied (28% for the year 2017). For 2017, the tax rates applicable to the foreign companies Enagás Perú, S.A.C.; Enagás Chile and S.P.A. GNL Quintero and Enagás México, S.A. de C.V. were 29.5%, 25.5%, and 30%, respectively, while for 2018 they were 28%, 27%, and 30%.
- (3) In 2018, 105,978.81 thousands of euros were paid (102,245.14 thousands of euros in 2017) in connection with the amount to be disbursed for settling 2018 corporate income tax, of which 99,819 thousands of euros correspond to the Tax Consolidation Group (96,264 thousands of euros in 2017).

d) Tax recognized in equity

	2018			2017		
	Increases	Decreases	Total	Increases	Decreases	Total
Income and expenses recognized directly in equity						
Tax effect on cash flow hedges	3,880	(1,207)	2,673	2,961	(238)	2,723
Amounts transferred to the income statement						
Tax effect on cash flow hedges	338	(4,464)	(4,126)	130	(4,849)	(4,719)
Total income tax recognized in equity	4,218	(5,671)	(1,453)	3,091	(5,087)	(1,996)

e) Years open to tax verification and inspections

In accordance with prevailing legislation in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. However, the four-year period can vary in the case of Group companies subject to other fiscal regulations.

In March 2017 a tax inspection was initiated by the Spanish Tax Authorities for general verification of Enagás, S.A., Enagás Transporte, S.A.U., and the Tax Consolidation Group 0493/12. The financial years and taxes subject to verification are Corporation Tax, financial years 2012 to 2015, Value Added Tax, financial years 2013 to 2015, withholdings and income on account of income from work, investment income, real estate capital and non-residents, financial years 2013 to 2015.

Additionally, in 2018 Enagás Transporte S.A.U. was notified by the Spanish Tax Authorities that a general tax inspection was being initiated with respect to the hydrocarbons tax corresponding to 2015 and 2016. Also, notification was received regarding the

initiation of a partial verification with respect to VAT on imports and inspection of importation rights corresponding to 2016.

At 2018 year-end the verification and inspection processes were still ongoing. At any rate, the Group does not expect any additional liabilities to arise, other than those already recognized, which may significantly affect its equity statement as a consequence of said verification and inspection processes.

Likewise, at 2018 year-end, the inspections for 2016 and 2018 are pending with respect to applicable taxes.

f) Deferred tax assets and liabilities

2018	Initial measurement	Recognized on profit and loss	Recognized in equity	Impact 1st application of new IFRS	Translation differences	Final value
Deductible temporary differences						
Capital grants and others	1,287	(101)	-	-	-	1,186
Amortization deduction limit R.D.L. 16/2012 (1)	29,772	(4,343)	-	-	-	25,429
Provisions for personnel remuneration	4,927	146	-	-	-	5,073
Fixed assets provision	16,937	10,747	-	-	-	27,684
Provisions for litigation and other	14,327	(2,235)	-	9,991	-	22,083
Derivatives	377	359	(374)	-	-	362
Deferred expenses	-	(962)	-	6,763	262	6,063
Tax loss carry forwards	23,328	(16,206)	-	-	267	7,389
Pending deductions and other (2)	5,955	(864)	-	-	-	5,090
Total deferred tax assets	96,910	(13,459)	(374)	16,754	528	100,360
Accelerated amortization (3)	(268,530)	13,769	-	-	-	(254,761)
Derivatives	(6,326)	-	(342)	-	-	(6,668)
Amortization of fixed assets (4)	(276,438)	3,637	-	-	(11,837)	(284,638)
Deferred expenses	-	1,792	-	(12,786)	-	(10,994)
Other	(10,860)	1,229	-	-	-	(9,631)
Total deferred tax liabilities	(562,154)	20,426	(342)	(12,786)	(11,837)	(566,693)
Net value	(465,244)	6,968	(716)	3,968	(11,309)	(466,333)

- (1) Arises from the limitation to tax deductible amortization with respect to the corporate income tax for the years 2013 and 2014. Said amortization is recoverable from a tax point of view from 2015 on a straight-line basis over 10 years.
- (2) In addition, it includes the deduction to be applied from 2015 in accordance with the thirty-seventh transitory provision of Law 27/2014, by virtue of which those contributors for whom limited amortization was applicable in 2013 and 2014 will have the right to a 5% deduction of the tax base with respect to the amounts included in the taxable income for the corresponding period.
- (3) Arising from application of accelerated amortization of certain assets for tax purposes during the period 2009-2014.
- (4) Includes deferred tax assets and liabilities of GNL Quintero, after the acquisition of control and its global consolidation dated January 1, 2017.

The Enagás Group offset deferred tax assets in the amount of 89,928 thousands of euros from the Consolidated Tax Group in Spain (76,998 thousands of euros in 2017) against deferred tax liabilities in its consolidated statement of financial position in accordance with IAS 12.

The Enagás Group has unregistered deferred tax assets and liabilities amounting to 14,066 thousands of euros and 15,167 thousands of euros, respectively, at the end of 2018 (9,190 thousands of euros and 12,664 thousands of euros, respectively, at the end of 2017). These correspond mainly to taxable temporary differences associated with investments in companies that are accounted for using the equity method and that meet the requirements established in IFRS to apply the registration exception.

	Final value of assets and deferred tax liabilities by nature	Offset of deferred tax assets and liabilities - Tax Group	Final value
Deferred tax assets	96,910	(76,998)	19,912
Deferred tax liabilities	(562,154)	76,998	(485,156)
Net carrying amount 2017	(465,244)	-	(465,244)
Deferred tax assets	100,360	(89,928)	10,432
Deferred tax liabilities	(566,693)	89,928	(476,765)
Net carrying amount 2018	(466,333)	-	(466,333)

4.3 Related party transactions and balances

Accounting policies

- In addition to subsidiaries, associates, and joint ventures, the Group's "related parties" are considered to be its "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control as established by Order EHA/3050/2004, of September 15, and Circular 1/2008 of January 30 of the CNMV.
- The terms of transactions with related parties are equivalent to those made on an arm's length basis and the corresponding remuneration in kind has been recorded.

Income and expenses	Directors and executives	Group employees, companies or entities	Other related parties	Total (1)
2018				
Expenses:				
Financial expenses	-	-	10,775	10,775
Services received	-	48,541	838	49,379
Other expenses	8,618	-	-	8,618
Total Expenses	8,618	48,541	11,613	68,772
Income:				
Financial income (2)	-	11,291	34	11,325
Provision of services	-	8,844	-	8,844
Other income	-	3,106	-	3,106
Total Income	-	23,241	34	23,275
2017				
Expenses:				
Financial expenses	-	-	8,715	8,715
Services received	-	48,604	207	48,811
Other expenses	7,617	-	-	7,617
Total Expenses	7,617	48,604	8,922	65,143
Income:				
Financial income (2)	-	10,590	7	10,597
Provision of services	-	7,563	-	7,563
Gains on the sale or derecognition of assets	-	14	-	14
Other income	-	3,106	-	3,106
Total Income	-	21,273	7	21,280

(1) No transactions were carried out during 2018 and 2017 with significant shareholders.

(2) The effective collection of interest on subordinated debt amounted to 12,474 thousands of euros in 2018 (3,128 thousands of euros in 2017).

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
2018				
Guarantees for related party debts (Note 1.9)	-	452,589	-	452,589
Guarantees and sureties granted - Other (Note 1.9)	-	1,468	22,895	24,363
Investment commitments (Note 1.9)	-	61,592	-	61,592
Dividends and other earnings distributed	56,892	-	-	56,892
2017				
Guarantees for related party debts (Note 1.9)	-	24,131	-	24,131
Guarantees and sureties granted - Other (Note 1.9)	-	8,376	130,212	138,588
Investment commitments (Note 1.9)	-	68,800	-	68,800
Dividends and other earnings distributed	58,624	-	-	58,624

The Banco Santander Group qualifies as a related party for the years 2018 and 2017.

Of the transactions disclosed in the above table, 11,238 thousands of euros of financial expenses correspond to this entity during 2018 (8,679 thousands of euros during 2017), including financial expenses arising out of the interest rate hedging contracts, and 14,158 thousands of euros in guarantees and sureties granted at December 31, 2018 (130,212 thousands of euros at December 31, 2017).

In addition, this banking entity carried out the following transactions with the Enagás Group:

- The Enagás Group maintains a multi-currency club deal for financing purposes, in which the related party represents 9.63% of all banks participating in this financing source.
- At the close of 2018, Enagás S.A. and Enagás Internacional S.L.U. had credit lines in dollars with the related entity in the amount of 235,000 and 315,000 thousand US dollars, respectively.

4.4 Remuneration to the members of the Board of Directors and Senior Management

Accounting policies

Share-based payments

- The Group classifies its share-based settlement plan for executive directors and senior management according to the manner of settling the transaction:
 - *With Company shares*: Personnel expense is determined based on the fair value of the shares to be delivered at the grant date, taking into account the degree to which the objectives relating to said plan have been fulfilled. This expense is recognized over the stipulated period during which employee services are rendered with a credit to "Other equity instruments" in the accompanying balance sheet.
 - *In cash*: Personnel expenses are determined based on the fair value of the liability at the date recognition requirements are met. Personnel expenses are recorded as services provided in the stipulated period (Note 2.8) with a credit to "Long-term provisions", until their settlement is

estimated at less than one year, when the associated provision is reclassified to the Personnel line under "Trade and other payables" of the liability of the accompanying Balance Sheet. The liability is subsequently measured at fair value at each balance sheet date, up to and including the settlement date, with changes in fair value recognized in the income statement.

- The Enagás Group used the Monte-Carlo model to evaluate this program. The fair value of the equity instruments at the granting date is adjusted to include the market conditions relating to this plan. Likewise, the Company takes into account the fact that the dividends accrued during the plan period are not paid to the beneficiaries as they do not become shareholders of the Company until the plan has effectively been settled.

Significant estimates and judgements

- The Enagás Group estimates fair value of the equity instruments granted on an accrual basis over the corresponding plan period (from January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.
- As for that part of the plan payable in shares, the Enagás Group estimates the fair value of the amount payable in cash on an accrual basis over the plan period (January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.
- At December 31, 2018, the estimate is made assuming that all the objectives relating to the plan have been 98.03% achieved.

Remuneration received	Salaries	Per diems	Other items	Pension plans	Insurance premiums
2018					
Board of Directors	2,366	2,054	195	-	47
Senior Management	3,709	-	164	72	37
Total	6,075	2,054	359	72	84
2017					
Board of Directors	2,215	1,844	161	-	21
Senior Management	3,162	-	128	65	21
Total	5,377	1,844	289	65	42

The remuneration of the members of the Board of Directors for their membership of the Board and those corresponding to the Chairman and the Chief Executive Officer for the exercise of their executive functions during the year 2018 have been approved in detail by the General Shareholders' Meeting held on March 18, 2016 as part of the "Directors' Remuneration Policy for 2016, 2017 and 2018", approved as item 7 of the Agenda.

The two executive directors are beneficiaries of the 2016-2018 long-term incentive plan approved by the General Shareholders' Meeting on March 18, 2016 under Agenda item number 8. In said meeting, a total of 97,455 rights relating to shares were assigned. These shares do not entail an acquisition of the shares until the end and settlement of the programme and the final remuneration depends on the level of achievement of the goals of the programme.

Senior Management saw a new member join the team starting from October 1, 2017.

Members of Senior Management (members of the Management Committee) are equally beneficiaries of the 2016-2018 long-term incentive plan. As approved by the General Shareholders Meeting, the Board has assigned them a total of 99,433 rights relating to shares as well as an incentive in cash amounting to 903 thousands of euros. Said rights do not constitute acquisition of shares or collection of any amounts until the programme has finalized and been settled, the final bonus depending on the degree to which the program objectives have been met.

Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2018, 390 thousands of euros correspond to Executive Directors (419 thousands of euros in 2017) and 652 thousands of euros to Senior Management (708 thousands of euros in 2017).

The aforementioned remuneration, broken down for each member of the Board of Directors, without taking into account insurance premiums, is as follows:

	2018	2017
Mr Antonio Lladén Carratalá, (Executive Director) (1)	1,896	1,793
Mr Marcelino Oreja Arburúa (Chief Executive Officer) (2)	925	818
Sociedad Estatal de Participaciones Industriales (Proprietary Director) (4)	155	140
Mr Luis García del Río (Independent Director) (4)	160	98
Mr Martí Parellada Sabata (External Director) (4)	160	148
Mr Luis Javier Navarro Vigil (External Director) (4)	160	144
Mr Jesús Máximo Pedrosa Ortega (Proprietary Director) (3) (4)	123	144
Ms Rosa Rodríguez Díaz (Independent Director) (4)	160	144
Ms Ana Palacio Vallelersundi (Independent Leading Director) (4)	190	166
Ms Isabel Tocino Biscarolasaga (Independent Director) (4)	172	157
Mr Antonio Hernández Mancha (Independent Director) (4)	157	144
Mr Luis Valero Artola (Independent Director) (3) (4)	44	144
Mr Gonzalo Solana González (Independent Director) (4)	160	144
Mr Ignacio Grangel Vicente (Independent Director) (3)	116	-
Mr Santiago Ferrer Costa (Proprietary Director) (3)	37	-
Total	4,615	4,221

- (1) The remuneration for the Executive Chairman in 2018 was approved in detail by the General Shareholders' Meeting on March 18, 2016 as part of the "Directors' Remuneration Policy for 2016, 2017 and 2018." During 2018, the Executive Chairman received fixed remuneration in the amount of 1,000 thousands of euros and variable remuneration in the amount of 593 thousands of euros; he also received 130 thousands of euros for Board membership and other remuneration in kind amounting to 173 thousands of euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totalled 1,896 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 47 thousands of euros for the period. The Group has outsourced its pension commitments with respect to its executives through a mixed group insurance policy for pension commitments, including benefits in the event of survival, death, and employment disability. The Executive Chairman is one of the beneficiaries covered by this policy, and of the total premium paid during the year, 240 thousands of euros correspond to the Executive Chairman. The Executive Chairman is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on March 18, 2016. Item 8 of its Agenda states that the meeting assigned him a total of 69,711 performance shares. These shares do not entail an acquisition of the shares until the end and settlement of the programme and the final remuneration depends on the level of achievement of the goals of the programme.
- (2) The remuneration for the Chief Executive Officer in 2018 was approved in detail by the General Shareholders' Meeting on March 18, 2016 as part of the "Directors' Remuneration Policy for 2016, 2017 and 2018." During 2018, the CEO received fixed remuneration in the amount of 500 thousands of euros and variable remuneration in the amount of 273 thousands of euros; he also received 130 thousands of euros for Board membership and other remuneration in kind amounting to 22 thousands of euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totalled 925 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.6 thousands of euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 149 thousands of euros for the period. The Chief Executive Officer is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on March 18, 2016. Item 8 of its Agenda states that the meeting assigned him a total of 27,744 performance shares. Said rights do not constitute acquisition of shares until the end of the programme and the final remuneration depends on the degree to which the program objectives have been met.
- (3) On March 22, 2018 Mr Luis Valero Artola resigned as Director and Mr Ignacio Grangel Vicente occupied his position.
On October 15, 2018 Mr Jesús Máximo Pedrosa Ortega resigned as Proprietary Director and Mr Santiago Ferrer Costa occupied his position.
- (4) The remuneration for these Directors relating to Board and committee membership was approved in detail by shareholders in the general meeting on March 18, 2016 as part of the "Directors' Remuneration Policy for the 2016, 2017 and 2018."

4.5 Other information concerning the Board of Directors

The information included below as required by article 229 and subsequent of the Spanish Corporate Enterprises Act was prepared considering that they are companies with similar or complementary activities to those carried out by Enagás, that is, natural gas transmission, regasification, distribution, and commercialisation activities regulated by Law 34/1998 of the Hydrocarbons Sector.

The interest held in companies performing the same, similar or complementary activities as communicated to the Group by the Board members at December 31, 2018 and 2017 was as follows:

Director	Company	No. of shares	% Stake
2018			
Mr Luis Javier Navarro Vigil	BP, PLC	17	0.00%

Share-based payments

On March 18, 2016, the Enagás, S.A. General Shareholders' Meeting approved a Long-Term Incentive Plan aimed at executive directors and senior management of the Company and its Group, with a view to maximizing motivation and loyalty as well as promoting the good results achieved by the Enagás Group, aligning its interests with the long-term value of shareholders.

The plan consists 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, the total number to be delivered will be 307,643 shares. The cash part of the plan is limited to an estimated maximum payment of approximately 2.5 million euros should all the objectives be fully met.

The part payable in shares in Enagás, S.A. accrued in 2018 is included in the Consolidated Income Statement, under the heading "Personnel Expenses", in the amount of 1,936 thousands of euros (2,206 thousands of euros in 2017), with a credit to "Other equity instruments" in the Consolidated Equity at December 31, 2018.

Likewise, and for the cash incentive part, the Company has recorded the provision of services corresponding to this incentive as a personnel expense in the Income Statement as of December 31, 2018 in the amount of 129 thousands of euros with payment to the Personnel line under "Trade and other payables" of the current liability of the accompanying Balance Sheet, since its settlement is estimated at a time prior to the year. At December 31, 2018, the amount corresponding to this item amounts to 393 thousands of euros (264 thousands of euros at December 31, 2017, which were recorded in the "Long-term provisions" caption). As for that part of the plan payable in shares, the Enagás Group estimates the fair value of the amount payable in cash on an accrual basis over the plan period (January 1, 2016 to December 31, 2018) plus the loyalty period of approximately four months for full disbursement.

At December 31, 2018, the estimate is made assuming that all the objectives relating to the plan have been 98.03% achieved.

Director	Company	No. of shares	% Stake
2017			
Mr Luis Javier Navarro Vigil	BP, PLC	17	0.00%
Mr Jesús Máximo Pedrosa Ortega	Iberdrola	4,019	0.00%
Mr Jesús Máximo Pedrosa Ortega (1)	Iberdrola	8,882	0.00%

- (1) Via the company Inversores Asfis, for which it acts as solidary Director, with a 60% stake.

The positions or functions of the Group's Board members in other companies with the same, similar or complementary activities, as communicated to Enagás, S.A. at December 31, 2018 and 2017, are the following:

DIRECTOR	COMPANY	POSITIONS
2018		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Director
Marcelino Oreja Arburúa	Enagás Emprende, S.L.U.	Joint Director
Marcelino Oreja Arburúa	Enagás Services Solutions, S.L.	Joint Director
Marcelino Oreja Arburúa	Enagás Transporte del Norte, S.L.	President
2017		
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Luis Javier Navarro Vigil	TLA Servicios, S. de R.L. de C.V.	Director
Marcelino Oreja Arburúa	Mibgas Derivatives, S.A.	Director
Marcelino Oreja Arburúa	MIBGAS	Director
Marcelino Oreja Arburúa	Enagás Emprende, S.L.U.	Joint Director
Marcelino Oreja Arburúa	Enagás Transporte del Norte, S.L.	President

4.6 Other Information

a) Environmental information

Activities for protection of the environment and biodiversity, energy efficiency, reduction in emissions, and the responsible consumption of resources are essential elements in the Enagás Group's environmental management to mitigate the impact of its activities.

The Group has integrated protection of the environment within its policy and strategic programs via implementation of an Environmental Management System developed and certified by LLOYD'S, in accordance with the requisites of standard UNE EN ISO 14001, which guarantees compliance with applicable environmental legislation and continuous improvement of its environmental behaviour with respect to the activities it carries out in the LNG storage and regasification plants of Barcelona, Cartagena and Huelva, the underground storage facilities of Serrablo, Gaviota, and Yela, the basic gas pipeline network facilities, the Olmos headquarters, the Zaragoza laboratory, and management of development projects for new infrastructure.

In 2018, the certifying company LLOYD'S issued the corresponding audit report on the Environmental Management System with favourable results, concluding that the system's maturity and degree of development ensure continuous improvement for the Company in this field.

The Enagás Group makes ongoing efforts to identify, characterize, and minimize the environmental impact of its activities and installations, evaluating the related risks and strengthening eco-efficiency, responsible management of waste and discharges, minimizing the impact in terms of emissions and climate change.

In addition, the Group incorporates environmental criteria in its relationship with suppliers and contractors, as well as in connection with decision-making with respect to the awarding of contracts for the provision of services and products.

During 2018, environmental actions were carried out in the amount of 4,009 thousands of euros, recognized as investments

There are no activities of the same, similar or complementary nature to those carried out by Enagás which are performed by its Board members, on their own behalf or on behalf of third parties, not included in the above section.

At 2018 year-end, neither the members of the Board of Directors of the Company nor any parties related to them, as defined in article 229 of the Corporate Enterprises Act, had notified the remaining Board members of any conflicts of interest, direct or indirect, with those of the Company.

under assets in the Balance Sheet (5,288 thousands of euros in 2017). The Company also assumed environmental expenses amounting to 2,325 thousands of euros in 2018, recognized under "Other operating expenses" (2,422 thousands of euros in 2017).

The Group has arranged sufficient civil liability insurance to meet any possible contingencies, compensation and other risks of an environmental nature which it might incur.

The Group did not benefit from any tax incentives during 2018 as a consequence of activities relating to the environment.

b) Greenhouse gas emission rights

Some of the Enagás Group's installations are included within the scope of Law 1/2005 of March 9, which regulates the commercial regime for greenhouse gas emission rights.

On November 15, 2013, the Council of Ministers approved the final assignation of free greenhouse gas emission rights to institutions subject to the greenhouse gas emission allowance trading regime for the period 2013-2020, amongst which the Enagás Transporte, S.A.U. facilities are included.

The total free rights assigned definitively to the Enagás Group's facilities amounted to 985,915 rights for the 2013-2020 period, with 70,320 corresponding to 2018 and 69,877 to 2017.

c) Audit fees

"Other operating expenses" includes the fees for audit and non-audit services provided by the auditor of the Group, Ernst & Young, S.L., or by a company belonging to the same network or related to the auditor, broken down as follows:

Within the Group, the rights assigned for 2018 and 2017, were valued at 7.57 euros/right and 6.11 euros/right, respectively, corresponding to the spot price of the first business day in 2018 and 2017 from RWE Trading GMBH, which represents additions during the period amounting to 630 thousands of euros (329 thousands of euros in 2017).

The Enagás Group consumed 163,473 greenhouse gas emission rights during 2018 while 158,910 rights were consumed during 2017.

During 2018 the Enagás Group did not engage in any negotiations for future contracts relating to greenhouse gas emission rights, nor were there any contingencies relating to penalties or provisional cautionary measures in the terms established by Law 1/2005.

Categories	2018		2017	
	Services rendered by the auditor of accounts and related companies	Services provided by other auditors of the Group	Services rendered by the auditor of accounts and related companies	Services provided by other auditors of the Group
Audit services (1)	1,012	169	1,259	95
Other assurance services (2)	347	-	229	-
Total audit and related services	1,359	169	1,488	95
Tax services (3)	20	-	-	-
Total other professional services	20	-	-	-
Total professional services (4)	1,379	169	1,488	95

(1) **Audit services:** This heading includes services rendered for the performance of statutory audits of the Group's Annual Accounts and the limited review work performed with respect to the interim and quarterly consolidated financial statements as well as the Certification of the Internal Control over Financial Reporting (ICFR) System.

(2) **Other audit-related assurance services:** This heading includes the work relating to the Annual Corporate Governance Report, the review of non-financial information included in the Annual Report, the Audit Reports for issuing Comfort letters, as well as the issuing of Agreed-Upon Procedures in relation to accounting regulatory information sent to the CNMC on June 30, 2018.

(3) **Tax services:** This heading includes other professional services rendered by the auditor and qualified as permitted services under Law 22/2015.

(4) Law 22/2015 on the Audit of Accounts establishes that non-audit services provided by the auditor must be less than 70% of the average fees paid for audit services for three consecutive years. The amount of non-audit services rendered by the auditor of accounts (Ernst & Young, S.L.) amounts to 36% of the audit service fees invoiced (31% for the Group).

4.7 Information by segments

Accounting policies

Basis of segmentation

- Segment reporting is structured based on the Group's various business lines as described in **Note 1.1**.

The Group identifies its operating segments based on internal reports relating to the companies comprising the Group which are regularly reviewed, discussed, and evaluated in the decision-making process.

a) Primary business segments

Regulated activities - Infrastructure Activity

Gas transmission: Represents the main activity, consisting in the delivery of gas via its transmission network, comprised of primary transmission pipelines (with maximum design pressure equal to or greater than 60 bars) and secondary transmission pipelines (with maximum design pressure ranging from 16 to 60 bars) up to the distribution points, as owner of most of the gas transmission network in Spain.

Regasification: The gas is transported from the producing countries in methane tankers at 160°C below zero in its liquid state (LNG) and is unloaded at the regasification plants where it is stored in cryogenic tanks. At these facilities, via a physical process which normally makes use of seawater vaporizers, the temperature of the liquefied gas is increased until it is transformed into its gaseous state. The natural gas is injected into the gas pipelines for transmission to the whole peninsula.

Storage of gas: The Enagás Group operates the following underground storage facilities: Serrablo (located between Jaca and Sabiñánigo - Huesca), Gaviota (offshore storage, located close to Bermeo - Vizcaya), and Yela (Guadalajara).

Regulated activities - Activity of the Technical Manager of the System

The Enagás Group continued carrying out its functions as Technical Systems Manager in 2018 in compliance with Royal Decree 6/2000

of June 23 and Royal Decree 949/2001 of August 3, with a view to guaranteeing supply continuity and safety, as well as the correct coordination amongst the access, storage, transportation, and distribution points.

Non-regulated activities

All non-regulated activities, as well as transactions related to investments in associates and joint ventures, except those corresponding to BBG, Saggas, MIBGAS and Iniciativas del Gas, S.L.

The above activities can be carried out by Enagás, S.A. itself or through companies with an identical or analogous corporate purpose in which it holds interest, provided they remain within the scope and limitations established by legislation applicable to the hydrocarbons sector. In accordance with said legislation, the activities related to transmission and technical management of the system which are of a regulated nature must be carried out by two subsidiaries entirely owned by Enagás, S.A. (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively).

The structure of this information is designed as if each business line were an autonomous business and had independent own resources distributed based on the assets assigned to each line in accordance with an internal cost distribution system by percentages.

INCOME STATEMENT	Infrastructures		Technical Management of the System		Other activities		Adjustments (1)		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income										
Third parties	1,128,147	1,170,280	23,976	23,984	177,655	179,640	-	-	1,329,778	1,373,904
Group	10,143	8,489	2,206	1,890	64,551	66,763	(64,460)	(66,472)	12,440	10,670
Provisions for amortization of fixed assets	(241,497)	(245,993)	(6,696)	(8,642)	(60,844)	(64,611)	228	153	(308,809)	(319,093)
Operating profit	588,330	644,740	1,704	(765)	99,946	81,292	1,051	6,805	691,031	732,072
Financial income	321	16,456	1	-	512,770	522,176	(447,246)	(436,256)	65,846	102,376
Financial expenses	(37,231)	(51,102)	(178)	(276)	(142,435)	(181,050)	25,187	46,256	(154,657)	(186,172)
Income tax	(134,049)	(148,144)	(369)	330	11,385	21,648	(75)	76	(123,108)	(126,090)
Net profit	416,377	461,117	1,158	(711)	446,174	413,550	(421,083)	(383,119)	442,626	490,837

(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted).

The breakdown of operating income by segment, with the breakdown according to IFRS 15 of income from customer contracts for 2018, is as follows:

IFRS 15 Operating income	Infrastructures		Technical Management of the System		Other activities		Adjustments (1)		Total Group	
	2018		2018		2018		2018		2018	
Operating income	1,138,290		26,182		242,206		(64,460)		1,342,218	
Revenue from contracts with customers	62,173		5		4,741		-		66,919	
Third parties	39,050		-		640		-		39,690	
Group	23,123		5		4,101		-		27,229	
Other	1,076,117		26,177		237,465		(64,460)		1,275,299	
Third parties	1,089,097		23,976		177,015		-		1,290,088	
Group	(12,980)		2,201		60,450		(64,460)		(14,789)	

(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted).

BALANCE SHEET	Infrastructures		Technical Management of the System		Other activities		Adjustments (1)		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Total assets	5,517,489	5,821,771	85,567	71,174	8,407,901	8,419,727	(4,484,756)	(4,740,036)	9,526,202	9,572,636
Acquisition of Fixed asset	16,799	34,347	5,000	5,755	19,070	12,729	(129)	(420)	40,740	52,411
Non-current liabilities (2)	439,403	437,016	(1,398)	(1,239)	284,955	268,916	(458)	1,206	722,502	705,899
- Deferred tax liabilities	194,145	221,036	(1,398)	(1,725)	284,476	264,639	(458)	1,206	476,765	485,156
- Provisions	176,011	173,641	-	486	479	4,277	-	-	176,490	178,404
- Other non-current liabilities	69,247	42,339	-	-	-	-	-	-	69,247	42,339
Current liabilities (2)	496,674	668,295	64,213	43,279	73,583	60,502	(430,201)	(565,172)	204,269	206,904
- Trade and other payables	496,674	668,295	64,213	43,279	73,583	60,502	(430,201)	(565,172)	204,269	206,904

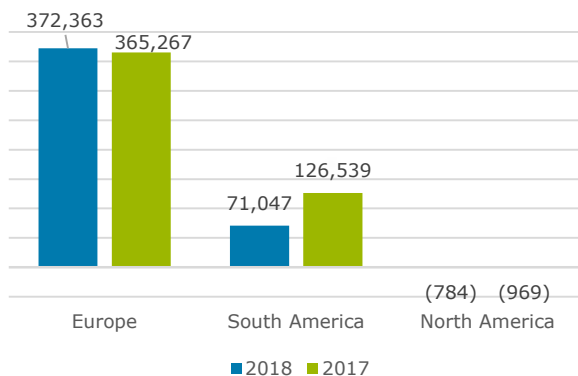
(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted) as well as the elimination of Investments-Shareholders equity.

(2) Financial liabilities are not included.

b) Segments by geographical information

The majority of companies in the Enagás Group operating outside Europe were consolidated under the equity method, with the corresponding expenses and income thus recognized under "Profit/(loss) from investments consolidated under the equity method" in the Consolidated Income Statement. In view of this, the information relating to geographical markets is based on net revenue.

The distribution of consolidated results for 2018 and 2017, broken down by geographical markets, is as follows:



4.8 Inventories

As established in Order IET/2736/2015 of December 17: "From October 1, 2016, the quantity of working gas is zero." At December 31, 2015, the Enagás Group, as Technical Manager of the System, maintained control of approximately 755 GWh of working gas necessary for enabling operation of the gas system as established in the fifth additional provision to Order ITC/3863/2007 of December 28. This gas is not reflected in the financial statements as it is gas available for the System and therefore not owned by the Enagás Group.

4.9 Subsequent events

On December 19, 2018, it was decided to extend the corporate purpose of GNL Quintero, S.A. in order to adopt a growth strategy for this company. In particular, certain activities have been incorporated into the corporate purpose of GNL Quintero, S.A. The most important concerns the power to develop or invest in businesses related to unloading terminals, storage, regasification and delivery of Natural Gas and LNG, and other types of infrastructure associated with natural gas.

In relation to this change, on February 15, 2019, the agreements that govern Terminal Bahía de Quintero, SpA. were adapted to conform to this business situation.

The foregoing entails the interest in this company becoming accounted for through the equity method from February 15, 2019, as the relevant unilateral decisions cannot be adopted by Enagás, without expecting significant effects on the net revenue.

On 22 February 2019, the Board of Directors, upon the report from the Appointments and Remuneration Committee, approved the proposal of a Long-Term Bonus plan for 2019 to 2021 to the General Shareholders' Meeting, scheduled for 29 March 2019, for its approval. The proposed plan consists of an extraordinary, multi-year and mixed bonus, payable in cash and shares in the company, linked to the achievement of strategic objectives, aligning the interests of the beneficiaries of the Plan with the achievement of value in the long-term for shareholders. The Plan may not exceed the delivery of as total of 501,946 shares.

In the case that the Bonus Plan is approved by the General Shareholders' Meeting, the basic characteristics of which shall be the object of development in its corresponding rules, which must also be approved by the Board of Directors.

Since 1 January 2019 and the date on which these Consolidated Annual Accounts were drawn up, no other events have occurred that would significantly affect the profit (loss) of the Group or its equity.

5. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (**note 1.2**). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I. Subsidiaries at December 31, 2018

Subsidiaries	Country	Activity	% stake and Voting Rights controlled by the Enagás Group	Amount of Share Capital in functional currency
Enagás Transporte, S.A.U.	Spain	Regasification, storage, and transmission of gas	100.00%	532,089,120 euros
Enagás GTS, S.A.U.	Spain	Technical Management of the Gas System	100.00%	5,914,451 euros
Enagás Internacional, S.L.U.	Spain	Holding	100.00%	125,659,767 dollars
Enagás Financiaciones, S.A.U.	Spain	Financial management	100.00%	890,000 euros
Enagás Transporte del Norte S.L.	Spain	Gas transmission	90.00%	38,501,045 euros
Compañía Transportista de Gas Canarias, S.A.	Spain	Regasification and storage of Gas	100.00%	1,600,000 euros
Enagás Chile, S.P.A.	Chile	Holding	100.00%	383,530,442 dollars
Enagás México, S.A.	Mexico	Holding	100.00%	2,696,880 dollars
Enagás Perú, S.A.C.	Peru	Holding	100.00%	7,154,428 dollars
Enagás USA, LLC	USA	Holding	100.00%	1,888,234 dollars
Infraestructuras de Gas, S.A.	Spain	Holding	85.00%	340,000 euros
Enagás Emprende, S.L.U.	Spain	Holding	100.00%	2,008,125 euros
Terminal Bahía de Quintero, SpA.	Chile	Holding	51.92%	102,628,824 dollars
Efficiency for LNG Applications, S.L.	Spain	Industrial projects with LNG terminals	92.00%	90,040 euros
Scale Gas Solutions, S.L.	Spain	Development and implementation of facilities for the supply of natural gas as fuel for vehicles.	90.00%	64,944 euros
GNL Quintero, S.A.	Chile	LNG reception, unloading, storage and regasification Development of or investment in unloading terminals, storage, regasification and delivery of Natural Gas and LNG (1)	45.40% and 50.40%	114,057,777 dollars
Terminal de Valparaíso, S.A.	Chile	Holding	100.00%	347,615,214 dollars
Vira Gas, SL	Spain	Development and commercialisation of technological activities	94.00%	400,000 euros
Enagás Services Solutions, S.L.	Spain	Holding	100.00%	1,483,500 euros
Hydrogen to Gas S.L.	Spain	Industrial projects related to hydrogen production and transmission.	60.00%	70,925 euros
Sercomgas Gas Solutions	Spain	Commercial services to improve the management of gas supply companies.	84.00%	52,500 euros
Smart Energy Assets, S.L.	Spain	Improvement and efficiency services in the measurement of gas at the delivery points of the transmission network.	87.50%	135,000 euros

(1) Since December 19, 2018 (Note 4.9).

Appendix II. Joint ventures, joint operations, and associates

Company	Country	Activity	%	% of voting rights controlled by the Enagás Group.	Thousands of euros (1)		Net carrying amount in functional currency		
					Net carrying amount	Dividends received	Thousands of euros	Thousands of dollars	Thousands of Swedish krona
Joint operations									
Gasoducto Al-Andalus, S.A.	Spain	Gas transmission	66.96%	66.96%	10,630	12,623	10,630	-	-
Gasoducto de Extremadura, S.A.	Spain	Gas transmission	51.00%	51.00%	3,862	6,868	3,862	-	-
Joint ventures									
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	50.00%	50.00%	54,884	3,750	54,884	-	-
Altamira LNG, C.V. sub-group	Netherlands/Mexico	Holding/Regasification	40.00%	40.00%	46,878	3,942	-	52,423	-
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transmission	50.00%	50.00%	14,576	-	-	16,205	-
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	50.00%	50.00%	3	7,340	-	4	-
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	50.00%	50.00%	12,250	-	-	12,250	-
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	50.00%	50.00%	362	401	-	409	-
Compañía Operadora de Gas del Amazonas, S.A.C.	Peru	Operation and maintenance	51.00%	51.00%	20,605	2,686	-	23,995	-
Tecgas, Inc.	Canada	Holding	51.00%	51.00%	1,120	-	-	1,191	-
EC Soto la Marina O&M SAPI de CV	Mexico	Operation and maintenance	50.00%	50.00%	1	-	-	2	-
Morelos O&M, S.A.P.I de CV	Mexico	Operation and maintenance	50.00%	50.00%	36	-	-	39	-
Iniciativas de Gas, S.L.(4)	Spain	Holding	60.00%	60.00%	46,648	-	46,648	-	-
Planta de Regasificación de Sagunto, S.A. (4)	Spain	Storage and regasification	72.50%	72.50%	1,500	-	1,500	-	-
Gas to Move Transport Solutions, S.L.	Spain	Industrial projects and activities relating to LNG terminals	59.40%	59.40%	268	-	268	-	-
Senfluga Energy Infrastructure sub-group	Greece	Holding	20.00%	20.00%	40,485	-	-	46,630	-
Axent Inf. Tel., S.A.	Spain	Operation of Radio and TV Telecommunications Network.	49.00%	49.00%	1,625	-	1,625	-	-
Associates									
Transportadora de gas del Perú, S.A.	Peru	Gas transmission	28.94%	28.94%	487,451	66,775	-	629,450	-
Trans Adriatic Pipeline, A.G. (2 and 3)	Switzerland (2 and 3)	Gas transmission	16.00%	16.00%	179,816	-	208,144	-	-
Mibgas Derivatives, S.A.	Spain	Operation of the organized gas market	28.34%	28.34%	432	-	432	-	-
Mibgas, S.A.	Spain	Operation of the organized gas market	13.34%	13.34%	417	-	417	-	-

(1) For those companies whose local currency is different to that of the Group, the euro (Note 1.3), the "net carrying amount" of the financial investment is shown in historic euros and includes the capitalized acquisition costs. The euros corresponding to "dividends received" are translated at the exchange rate corresponding to the transaction date.

(2) This company has three permanent establishments in Greece, Italy, and Albania.

(3) Both companies are owned together with other international industrial partners. Their activity consists in the development and operation of infrastructure projects, such as the regasification plant already operational in Altamira and the TAP trans-Adriatic gas pipeline project (declared Project of Common Interest by the European Union).

(4) Iniciativas de Gas, S.L. and Infraestructuras de Gas, S.L. each hold a 50% stake in Planta de Regasificación de Sagunto Gas, S.A. Both companies are in turn affiliates of the Enagás Group, which holds a 60% stake and an 85% stake in them, respectively. Thus, the indirect interest held by the Enagás Group in Planta de Regasificación de Sagunto Gas, S.A. amounts to 72.5%. The dividend distribution is carried out by Planta de Regasificación de Sagunto Gas, S.A.

Balance sheet figures 2018

Company	Thousands of euros								
	Figures for investee (1)(2)								
	Assets			Equity		Liabilities			
	Long-term	Short-term		Other results	Remaining equity	Long-term		Short-term	
Cash and cash equivalents		Remaining short-term assets	Financial liabilities			Remaining liabilities	Financial liabilities	Remaining liabilities	
Gasoducto Al-Andalus, S.A.	15,390	27,873	2,131	-	32,539	-	-	8,160	4,695
Gasoducto de Extremadura, S.A.	6,978	14,111	837	-	15,846	-	-	3,600	2,480
Bahía de Bizkaia Gas, S.L.	223,502	36,438	11,612	(4,435)	81,715	150,395	23,319	15,036	5,522
Altamira LNG, C.V. sub-group	301,747	6,365	8,294	389	174,402	44,597	64,001	25,605	7,412
Gasoducto de Morelos, S.A.P.I. de C.V.	260,085	15,486	15,247	(718)	29,484	132,061	40,432	2,689	86,871
Morelos EPC, S.A.P.I. de C.V.	519	7,470	926	-	8,130	-	-	-	785
EC Soto La Marina SAPI de CV	75,105	2,971	3,232	-	23,480	-	2,013	55,076	739
EC Soto La Marina EPC SAPI de CV	-	190	1,085	-	1,270	-	-	-	6
Transportadora de gas del Perú, S.A.	1,149,019	146,381	76,361	-	274,834	898,857	104,718	8,594	84,757
Trans Adriatic Pipeline, A.G.	3,603,205	43,509	64,855	623	835,051	2,537,397	81,143	48,300	209,055
Compañía Operadora de Gas del Amazonas, S.A.C.	1,908	10,882	19,805	-	2,914	-	-	-	29,681
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	2,728	3	388	-	219	2,707	-	-	193
Morelos O&M, S.A.P.I de CV	101	316	138	-	322	-	-	-	234
Iniciativas de Gas, S.L.	986	606	-	-	1,585	-	-	-	7
Planta de Regasificación de Sagunto, S.A.	281,228	45,932	32,757	(5,323)	75,481	229,919	24,864	24,577	10,399
Mibgas, S.A.	776	1,732	33,613	-	3,347	-	-	31,714	1,060
Gas to Move Transport Solutions, S.L.	347	22	286	-	(42)	350	-	-	347
Senfluga Energy Infrastructure sub-group	-	195,773	-	-	195,773	-	-	-	-
Axent Inf. Tel., S.A.	1,584	2,447	366	-	2,165	1,559	-	19	654

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2018

Company	Thousands of euros						
	Figures for investee (1)(2)						
	Income statement						
	Revenue	Amortization	Interest income	Interest expense	Income tax	Other expenses and income	Net profit (loss)
Gasoducto Al-Andalus, S.A.	39,052	(7,251)	-	(11)	(6,810)	(4,652)	20,328
Gasoducto de Extremadura, S.A.	25,993	(3,185)	-	(9)	(4,218)	(6,019)	12,562
Bahía de Bizkaia Gas, S.L.	55,627	(13,966)	153	(8,725)	(4,280)	(16,685)	12,124
Altamira LNG, C.V. sub-group	64,345	(12,783)	-	(4,530)	(11,921)	(11,273)	23,838
Gasoducto de Morelos, S.A.P.I. de C.V.	35,553	(12,608)	-	1,574	3,853	(24,911)	3,461
Morelos EPC, S.A.P.I. de C.V.	8,961	-	-	-	(689)	(7,583)	688
EC Soto La Marina S.A.P.I. de C.V.	11,054	(4,249)	47	(2,902)	906	836	5,693
EC Soto La Marina EPC S.A.P.I. de C.V.	53	-	-	(13)	-	3,400	3,440
Transportadora de gas del Perú, S.A.	585,172	(79,355)	2,505	(58,281)	(82,975)	(170,604)	196,462
Trans Adriatic Pipeline, A.G.	-	556	302	(840)	(890)	18,797	17,925
Compañía Operadora de Gas del Amazonas, S.A.C.	110,712	(618)	37	(27)	(1,247)	(106,458)	2,400
Tecgas, Inc.	-	-	-	-	-	N.A.	N.A.
EC Soto la Marina O&M S.A.P.I. de C.V.	1,822	-	-	(8)	(30)	(1,727)	56
Morelos O&M, S.A.P.I. de C.V.	1,801	(13)	-	-	(24)	(1,676)	89
Iniciativas de Gas, S.L.	-	-	-	-	-	(26)	(26)
Planta de Regasificación de Sagunto, S.A.	69,943	(21,489)	424	(11,545)	(5,329)	(16,623)	15,381
Mibgas, S.A.	4,113	(45)	-	-	(117)	(3,801)	150
Gas to Move Transport Solutions, S.L.	224	(2)	-	-	146	(805)	(437)
Senfluga Energy Infraestructure sub-group	-	-	-	-	-	(6,652)	(6,652)
Axent Inf. Tel., S.A.	282	(29)	-	(50)	-	(538)	(335)

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the income statement figures were translated at the average exchange rate for the reporting period.

Balance sheet figures 2017

Company	Thousands of euros								
	Figures for investee (1)(2)								
	Assets			Equity		Liabilities			
	Long-term	Short-term		Other results	Remaining equity	Long-term		Short-term	
Cash and cash equivalents		Remaining short-term assets	Financial liabilities			Remaining liabilities	Financial liabilities	Remaining liabilities	
Gasoducto Al-Andalus, S.A.	22,876	17,252	5,271	-	37,885	-	-	-	7,514
Gasoducto de Extremadura, S.A.	10,279	8,511	3,463	-	19,287	-	-	-	2,966
Bahía de Bizkaia Gas, S.L.	239,584	27,664	15,049	(4,711)	77,770	164,712	23,814	15,201	5,510
Altamira LNG, C.V. sub-group	299,098	11,449	15,404	170	153,806	67,264	62,216	33,140	9,356
Gasoducto de Morelos, S.A.P.I. de C.V.	269,821	21,564	45,254	(2,434)	24,497	132,697	63,079	5,250	113,549
Morelos EPC, S.A.P.I. de C.V.	(42)	3,615	30,610	-	23,913	-	-	-	10,271
EC Soto La Marina SAPI de CV	75,364	3,227	2,495	-	12,128	-	2,826	55,270	10,862
EC Soto La Marina EPC SAPI de CV	-	41	11,365	-	(2,031)	-	-	42	13,395
Transportadora de gas del Perú, S.A.	1,157,739	104,751	73,785	-	293,265	881,771	101,074	7,927	52,237
Trans Adriatic Pipeline, A.G.	2,758,971	44,133	62,072	(1,818)	661,414	1,863,105	61,811	-	280,664
Compañía Operadora de Gas del Amazonas, S.A.C.	1,669	9,131	14,347	-	5,888	-	-	-	19,259
Vira Gas, S.L.	251	102	142	-	392	-	-	-	104
Tecgas, Inc.	-	43	-	-	43	-	-	-	-
EC Soto la Marina O&M SAPI de CV	2,229	174	711	-	159	2,215	-	1	739
Morelos O&M, S.A.P.I de CV	142	735	111	-	199	-	-	-	789
Swedegas Subgroup	637,365	16,460	9,147	(7,693)	155,440	395,955	112,513	-	6,757
Iniciativas de Gas, S.L.	986	631	-	-	1,611	-	-	-	6
Planta de Regasificación de Sagunto, S.A.	302,392	22,572	37,658	(5,950)	60,102	252,343	25,830	25,546	4,750
Mibgas, S.A.	776	1,732	33,613	-	3,347	-	-	31,715	1,060

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the balance sheet figures were translated at the exchange rate prevailing at the closing date.

Income statement figures 2017

Company	Thousands of euros						
	Figures for investee (1)(2)						
	Income statement						
	Revenue	Amortization	Interest income	Interest expense	Income tax	Other expenses and income	Net profit (loss)
Gasoducto Al-Andalus, S.A.	39,602	(7,251)	-	-	(6,241)	(7,296)	18,813
Gasoducto de Extremadura, S.A.	26,129	(3,185)	-	-	(4,209)	(6,007)	12,728
Bahía de Bizkaia Gas, S.L.	55,893	(13,969)	141	(9,320)	(5,136)	(17,008)	13,209
Altamira LNG, C.V. sub-group	67,969	(13,223)	89	(4,724)	(11,631)	(15,172)	23,307
Gasoducto de Morelos, S.A.P.I. de C.V.	36,559	(13,103)	-	(11,692)	4,738	(13,111)	3,391
Morelos EPC, S.A.P.I. de C.V.	15,753	-	-	-	(4,133)	(970)	10,650
EC Soto La Marina S.A.P.I. de C.V.	11,588	(5,436)	1,319	(3,691)	2,701	20,667	27,148
EC Soto La Marina EPC S.A.P.I. de C.V.	-	-	864	(193)	(3,200)	10,444	7,914
Transportadora de gas del Perú, S.A.	598,653	(84,466)	638	(62,884)	(82,879)	(181,470)	187,591
Trans Adriatic Pipeline, A.G.	-	640	8	(297)	(3,202)	24,928	22,077
Compañía Operadora de Gas del Amazonas, S.A.C.	104,116	(630)	39	-	(1,029)	(100,343)	2,153
Tecgas, Inc.	-	-	-	-	-	N.D.	N.D.
EC Soto la Marina O&M S.A.P.I. de C.V.	2,592	-	-	(13)	(31)	(2,481)	67
Morelos O&M, S.A.P.I. de C.V.	2,356	(8)	-	-	(147)	(2,074)	126
Swedegas Subgroup	42,631	(13,658)	-	(9,886)	(846)	(15,522)	2,718
Iniciativas de Gas, S.L.	-	-	13,500	-	-	(70)	13,430
Planta de Regasificación de Sagunto, S.A.	77,017	(21,108)	388	(12,586)	(5,853)	(20,010)	17,849
Vira Gas, S.L.	134,345	-	-	-	-	(126,063)	8,282
Mibgas, S.A.	4,113	(45)	-	-	(117)	(3,801)	150

(1) Data provided as though companies were 100% invested, in accordance with IFRS and before carrying out prior standardizations for consolidation of the financial statements.

(2) For those companies whose local currency is different to the Group's functional currency, the euro (Note 1.3), the Income Statement figures were translated at the average exchange rate for the reporting period.

Appendix III. Regulatory framework

a) Economic sustainability of the gas system and regulatory framework

The regulatory framework applicable from 2002, based on Law 34/1998 of October 7, of the Hydrocarbons Sector, and later developments of said law, was updated subsequent to Royal Decree Law 8/2014 of July 4 becoming effective, approved by Parliament and subsequently passing into legislation, finally published as Law 18/2014 of October 15, on approving urgent measures for growth, competitiveness, and efficiency.

The basic principles of this new framework, which is applied to the remuneration period in force until 2020, are as follows:

- The principle of economic and financial sustainability of the gas system is established as a guiding principle for actions conducted by Public Administrations and other subjects participating in the gas system. By virtue of said principle, any regulatory measure with respect to the sector which involves an increased cost for the gas system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium in the system. In this manner, the possibility of deficits accumulating is definitively eliminated.

This principle is reinforced with the establishment of restrictions relating to the appearance of temporary annual imbalances, establishing a rebalancing mechanism via the obligation for automatic reviews of the corresponding tolls and royalties if certain limits are exceeded. The limits introduced allow for overruns provoked by temporary circumstances or the volatility for gas demand, which can be reversed in the following period without any need to modify tolls and royalties, while at the same time guaranteeing that imbalances may not arise which put the financial stability of the system at risk.

The temporary mismatches which arise subsequent to the present Royal Decree Law becoming effective, without exceeding the aforementioned limits, will be financed by all participants in the settlement system based on the collection rights they generate.

This principle of economic and financial sustainability must be understood in such a manner that income collected in connection with use of the facilities can cover the totality of costs generated by the system. The regulated remuneration methodologies in the natural gas sector consider the necessary costs for a company to manage its activities well and efficiently in accordance with the principle for performing its activities at the lowest cost for the system.

- Regulatory periods of six years are fixed to establish the remuneration of regulated activities, providing regulatory stability for said activities. The first regulatory period terminates on December 31, 2020. From January 1, 2021, the subsequent consecutive regulatory periods will each last six years.

Should there be significant variations in terms of income and costs, adjustments can be made every three years with respect to the remuneration parameters of the system, such as the unit reference values relating to clients, sales, operation and maintenance costs, improved productivity factors, etc.. In any case, during the regulatory period, neither the financial remuneration rate nor the efficiency coefficient for productivity improvements can be modified.

b) Remuneration of transmission, regasification and storage activities

The remuneration system for transportation, regasification, and storage installations was established under harmonized principles adapting the net carrying amount of the asset as a basis for calculating the remuneration on the investment. It also incorporates a variable remuneration based on the transmitted, regasified or stored gas, and the type of asset, with elimination of any procedure for automatic revision of values and remunerative parameters based on price indexes.

The methodology on which the current remuneration framework is based is the following:

- Remuneration is comprised of a fixed portion for availability of the facility and a variable portion for supply continuity. The fixed portion for availability includes operation and maintenance costs for each year, amortization and financial remuneration calculated by applying the annual net carrying amount of the investment and the financial remuneration rate determined for each regulatory period.

Inclusion of the variable portion for supply continuity in the remuneration for the facilities balances income and system costs by linking part of said costs to the changes in demand.

This portion is based on the total changes in domestic consumption of natural gas, excluding supply through satellite plants, with respect to the prior year in the case of transmission facilities, of the change in demand for regasified gas in all the plants operating in the system in the case of regasification facilities, and the change in useful gas held at the storage facilities, at November 1 of the corresponding year and including cushion gas mechanically extracted of the latter.

Remuneration for supply continuity is divided amongst all the facilities based on the weighting of their replacement value with respect to all facilities relating to the activity, calculating said values by applying the unit investment values prevailing for each year.

Once the regulatory useful life of the facilities has elapsed, and in those cases in which the asset remains operational, the operating and maintenance costs are established as fixed remuneration, increased by a coefficient based on the number of years by which the facility exceeds the regulatory useful life, not accruing any amounts as investment remuneration.

b.1) Accredited fixed cost Remuneration for Availability (RA)

This cost is determined individually for each of the assets in production. This parameter compensates the investment and operating costs of the assets used for operating in the gas system.

b.1.1. Remuneration for investment costs is comprised of the following:

- Value of assets recognized. The amounts recognized for assets in the previous regulatory framework are maintained. For facilities commissioned before 2002, the corresponding amounts are calculated based on the carrying amounts of the assets once the accounting restatement of 1996 is taken into account (Royal Decree Law 7/1996), less grants received for the purpose of financing said assets, applying a restatement coefficient comprised of the adjusted average Consumer Price Index (CPI) and Industrial Price Index (IPI) to this difference.

For the new facilities put to use from 2002, the standard value of each investment as established by the regulator is used, while for those which require expansion, the real cost is used.

Given that for investments in underground storage facilities there are no standard values, they are also measured at real cost.

Transmission facilities put to use from 2008 are measured by taking the average of the standard value and real cost.

Regasification facilities put to use from 2006 are measured at real cost plus 50% of the difference between the standard value and said real cost, up to a maximum of the standard value.

- **Remuneration for amortization of system assets.** The value of the resulting amount recognized for the investment is amortized applying a rate corresponding to its useful life, obtaining the related income in this manner.

The new framework maintains the useful lives of the assets except for gas pipelines, which are attributed a useful life of 40 years for all facilities, regardless of when they were put to use.

- **Financial remuneration of the amount invested.** This item is calculated by applying a financial remuneration rate to the net carrying amounts of the assets without restatement. During the first regulatory period, the remuneration rate for assets relating to transmission, regasification, and basic storage will be a right to remuneration on account of the gas system will be the average of the returns generated by the ten-year government bonds in the secondary market amongst titleholders of unsegregated accounts with respect to the previous 24 months preceding the regulation becoming effective, increased by a spread of 50 basis points. The financial remuneration rate for the regulatory period was set at 5.09% (ratified by Law 8/2015, of May 21).

- **Remuneration for fully amortized assets.** Once the regulatory useful life of each fixed asset finalizes, if the asset is still in use, the remuneration accrued for said facility corresponding to remuneration for investment, amortization, and financial remuneration will be nil.

In contrast, remuneration for operation and maintenance of the asset "i" each year "n" will be increased. In this manner, the value recognized will be the amount corresponding to it multiplied by a coefficient for increasing its useful life, μ_{in} .

This parameter will have the following values:

- During the first five years in which the regulatory useful life has been exceeded: 1.15.
- When the regulatory useful life has been exceeded by 6 to 10 years, the value of the coefficient for extending the useful life will be: $1.15+0.01 (X-5)$.
- When the regulatory useful life has been exceeded by 11 to 15 years, the value of the coefficient for extending the useful life will be: $1.20+0.02 (X-10)$.
- When the regulatory useful life has been exceeded by 15 years, the value of the coefficient for extending the useful life will be: $1.30+0.03 (X-15)$.

Where "X" is the number of years that the asset has exceeded its regulatory useful life. The parameter μ_{in} can never be greater than 2.

b.1.2. The remuneration for operating costs of the transmission and regasification assets is calculated by applying the operating unit costs of operation and maintenance in force, regardless of the start-up date of the fixed asset. For underground storage assets and for others for which the application of a singular system is

determined, operating costs are calculated based on the actual costs audited.

b.2) Remuneration for continuity of supply (RCS)

Remuneration for continuity of supply (RCS) is calculated as a whole for each of the activities: transmission, regasification, and underground storage.

The remuneration for this item in year "n" is in all cases calculated based on the remuneration for the previous year "n-1" multiplied by an efficiency factor and the change in demand.

The efficiency factor is set at a value of 0.97 for the first regulatory period and the changes in demand considered are the following:

- With respect to the gas pipeline transmission network, the change in total domestic demand for gas will be considered excluding the supply via satellite plants, with the following maximum and minimum limiting values for demand: 410 TWh and 190 TWh.
- With respect to regasification plants, the change in total demand for gas produced by all the regasification plants in the gas system will be considered, with the following maximum and minimum values of gas produced: 220 TWh and 50 TWh.
- With respect to storage facilities, the change in useful gas stored at November 1 of the corresponding year will be considered, including the portion of cushion gas that can be mechanically extracted, with the following maximum and minimum values for stored gas: 30 TWh and 22 TWh.

Remuneration for continuity of supply which results for each activity in year "n" will be divided amongst each of the facilities "i" which remain in operation, based on a coefficient, a_i , which results from dividing the replacement cost of facility "i" by the sum of the replacement costs for all facilities. This replacement cost is calculated based on the prevailing unit investment costs, except for singular facilities and underground storage, for which the investment value will be used.

b.3) Variable accredited cost for regasification and transfer of LNG to tankers

This amount is determined based on the kWh actually regasified as well as the kWh loaded in LNG cisterns for each period and the variable unit value for regasification in the period considered. For the 2018 financial year, this cost was set at € 0.000162/kWh regasified and € 0.000194/kWh loaded in tanks, increased for each plant and service, for assets that have exceeded the regulatory useful life, for the coefficients of extension of useful life corresponding to them. These useful life extension coefficients were set for 2018 in article 13 of Order TEC/1367/2018 of 20 December. The following table shows these coefficients for each plant and service.

	Regasification	Truck loading	Tanker reloading
Huelva	1.07	1.06	1.00
Cartagena	1.00	1.06	1.00
Barcelona	1.03	1.27	1.00

For the LNG vessel loading services from regasification plants or cooling down vessels, a cost is recognized identical to the variable cost of truck loading. For ship-to-ship transfer the cost is 80% of said value.

c) Income corresponding to Technical Management of the System (GTS)

Income from this activity is calculated annually based on the accredited cost for each year and is meant to repay the obligations of Enagás GTS, S.A.U. as Technical Manager of the System, which includes coordinating the development, operation, and maintenance of the transmission network, supervising the safety of natural gas supply (storage levels and emergency plans), carrying out plans for future development of gas infrastructure, and controlling third-party access to the network.

The fee assigned to the Technical Manager of the System for 2018 to be collected from companies that own regasification, transmission, storage, and natural gas distribution facilities as a percentage of billing for tolls and royalties associated with third-party access to the network amounts to 0.797%. This fee is paid into the CNMC account held for this purpose by said companies in instalments, as established in the settlement procedure.

The previous percentage over billing is calculated based on the result of applying maximum tolls and royalties to the amounts invoiced, without deducting possible discounts which may have been agreed upon by the owners and users of the facilities.

Without prejudice to the above, provisional remuneration recognized for the activity of the Technical Manager of the System in 2018 in accordance with ETU/1283/2017, of December 22, amounts to 23,966 thousands of euros.

The inter-monthly attribution of previous income to the Consolidated Income Statement is carried out on a straight-line basis.

d) Tolls associated with third party access to the gas system

The revenues collected from the application of tolls for third party access to gas facilities are exclusively used to support the remuneration of regulated activities for gas supply. On the other hand, since all the system costs of the gas system are financed by the revenues of the gas system, these must be sufficient to meet the overall costs of the gas system.

The tolls and fees are established so that their setting responds as a whole to the following principles:

- To ensure the recovery of the investments made by the titleholders during their useful life.
- Allow a reasonable return on financial resources invested.
- Determine the operating costs remuneration system in a way that encourages effective management and improvement of productivity that should be partly passed on to users and consumers.

In addition, tolls and fees will take into account the costs incurred by the use of the network in a way that optimizes the use of infrastructures and can be differentiated by pressure levels, consumption characteristics and duration of contracts.

In the same way as for the other years since the current regulatory period came into force, by 2018 the same pre-tax amounts of tolls and royalties for the use of network facilities have been applied for the basic network for secondary transmission and distribution of natural gas that were set in Order IET/2446/2013, of December 27.

e) System of settlement of costs and regulated revenues

The billing and collection of the remuneration of regulated activities are subject to the settlement procedure established through Ministerial Order ECO/2692/2002, of October 28, which regulates procedures for the settlement of the remuneration of regulated activities and establishes the information system that companies must present.

It is understood that there are annual mismatches between revenues and costs of the gas system if the difference between income and the payable costs of a financial year results in a negative amount.

Royal Decree Law 8/2014, of July 4, and Law 18/2014, of October 15, establish the principle of economic and financial sustainability in the gas system. In accordance with this principle, the system income will exclusively be dedicated to sustaining remuneration corresponding to regulated activities relating to gas supply. Further, this income must be sufficient to satisfy the totality of costs incurred by the gas system. In addition, in order to ensure economic sufficiency and avoid the appearance of new deficits *ex ante*, all regulatory measures relating to the gas system which involve an increase in costs for the system or a reduction of income must incorporate an equivalent reduction in other cost items or an equivalent increase in income which ensures equilibrium for the system.

In addition, the current remuneration framework establishes a specific methodology for resolving temporary imbalances between revenues and costs of the system, with a series of measures aimed at definitively ending the deficit of the gas system, such as:

- When the annual mismatch between income and costs exceeds 10% of revenues to be settled during the year, or when the sum of the annual mismatch plus the recognized annual amounts pending payment exceeds 15%, the tolls and royalties for the following year will be increased to recover the amount exceeding that limit.
- As long as there are annual amounts pending payment from prior years, tolls and fees cannot be revised downwards.
- A period of several years is established for the recovery of imbalances, also recognizing financial costs to the companies regulated by the financing of these imbalances.

The methodology established in articles 61 and 66 of Law 18/2014 distinguishes between the accumulated deficit at December 31, 2014 and the deficit which may be generated in subsequent years, so that:

- The targets of the settlement system will be entitled to recover the annual payments corresponding to the accumulated deficit of the gas system at December 31, 2014 in the payments corresponding to the fifteen years following the date of approval of the final settlement of that financial year, recognizing an interest rate in conditions equivalent to those of the market.

Definitive settlement in 2014 was approved by the Regulatory Oversight Chamber of the CNMC in its session held on November 24, 2016, recognizing 1,025,053 thousands of euros for the accumulated deficit of the natural gas system at December 31, 2014. Accordingly, this deficit has been recovered in 15 consecutive annual payments, from November 25, 2016 to November 24, 2031 (**Note 2.2**).

Order TEC/1367/2018, of December 20, which establishes the tolls and royalties associated with third party access to gas facilities and the remuneration of regulated activities for 2019, regulated the procedure for the transfer to third parties of collection rights corresponding to the deficit accumulated at December 31, 2014. It also established the methodology for

calculating the interest rate to be applied in the calculation of annual payments corresponding to collection rights, as well as the final interest rate for the accumulated deficit at December 31, 2014 (1.104%).

On December 1, 2017, Enagás Transporte, S.A.U. ceded the credit rights for the accumulated deficit at December 31, 2014 (**Note 2.2**).

- Furthermore, the temporary imbalances between income and expenses resulting for 2015 would be recovered during the following five years, also recognizing an interest rate in conditions equivalent to those of the market.

These imbalances were 27.2 million euros, 90 million euros and 24.8 million euros in the years 2015, 2016 and 2017, respectively. In the calculation of the amounts of the annual payments corresponding to these imbalances, an interest rate of 0.836% is applied for 2015, 0.716% for 2016 and 0.923% for 2017, as provided in Order TEC/1367/2018 (**Note 2.2**).

f) Income corresponding to heel gas and minimum gas levels for filling gas pipelines

Order IET/3587/2011 establishes in article 16 that the gas meant for minimum levels in gas pipelines for transport and regasification plants (heel gas) will be remunerated as a necessary investment for transport activity, recognizing financial remuneration

The remuneration of this item is maintained after the entry into force of the new remuneration framework, to which the same financial remuneration rate is applied as for the transmission, regasification and underground storage facilities. The acquisition cost will be that resulting from applying the price resulting from the auction to the amount acquired.

g) Establishment of the organized gas market

Law 8/2015 of May 21, amending Law 34/1998, of October 7, on the Hydrocarbons Sector, designates MIBGAS S.A. as Organized Gas Market Operator. This law was enacted by Royal Decree 984/2015, of October 30, which assigns the principal functions of the Organized Gas Market Operator to the mercantile company MIBGAS, establishing its functions and role within the gas sector.

It is worth noting that in its article 65 ter. "Operator of organized gas market," it establishes that a mercantile company will act as an operator in the organized gas market and that its shareholders will be made up of any natural or legal persons, with the direct interest held in said company by the Technical Managers of the Spanish and Portuguese gas systems equal to 20%. On June 14, 2016, in compliance with the stipulations of article 65 ter., the acquisition of 13.34% of said company by Enagás GTS, S.A.U. became effective.

Furthermore, as a regulatory novelty in 2018, it should be noted that Order ETU/1283/2017, of December 22, which establishes the tolls and fees associated with third party access to gas facilities and the remuneration of the regulated activities for 2018, enabled the negotiation in MIBGAS, S.A. of new gas transfer of title products with delivery in facilities not included in the Spanish gas system.

These products will be considered outside the natural gas regulated system, so they are not subject to the sectoral regulation specific to the Spanish gas system nor will they receive any compensation from the system.

It is therefore established that MIBGAS, S.A. has to carry separate accounts guaranteeing accounting separation between the costs

and revenues linked to the negotiation of the products authorized for trading in the organized gas market that receive temporary remuneration, and the remaining costs and revenues linked to the negotiation of the products authorized for trading in the organized gas market that are outside of it, as well as the rest of the activities that MIBGAS, S.A. performs on an ancillary basis, and that also fall outside of the temporary annual compensation.

h) Adjusting the agreements for international gas transit to the prevailing regulatory framework

The CNMC in its Board meeting of April 11, 2013 required Enagás, S.A. (currently succeeded in its transmission activity by Enagás Transporte, S.A.U.), Galp Gas Natural, S.A., and Gasoducto Al-Ándalus, S.A. to adjust the gas transit agreements to Portugal, signed in 1996 by Transgas, S.A. (currently Galp Gas Natural, S.A.) in order to adapt to the new regulatory framework introduced by Directive 2009/73/CE and Regulation (CE) 715/2009, of July 13, 2009, of the European Parliament and of the Council.

With a view to complying with said requirement, Galp Gas natural, S.A. and Enagás Transporte, S.A.U. signed a Framework Contract on February 27, 2014 for access to the transmission and distribution system of Enagás Transporte, S.A.U. via international gas pipeline connections with Europe. Subsequently, on November 18, 2014, both companies signed the corresponding long-term access contract to transmission and distribution networks and an addendum to the Framework Contract, which took effect on January 1, 2015, thereby complying with all CNMC requirements.

The CNMC considered the adjustments to said contracts for third-party access to the transmission and distribution system to be in compliance with prevailing regulations.

i) Development of the regulatory framework in 2018

The main regulatory developments applicable to the gas sector, approved in the course of 2018, were the following:

1. Supranational regulations

Commission Decision of January 30, 2018, establishing the Strategic Forum for Important Projects of Common European Interest.

Recommendation (EU) 2018/177 of the Commission, of February 2, 2018 on the elements to be included in the technical, legal and financial arrangements between Member States with a view to implementing the solidarity mechanism provided for in Article 13 of Regulation (EU) 2017/1938 of the European Parliament and of the Council on measures to ensure security of gas supply.

Delegated Regulation (EU) 2018/540 of the Commission of November 23, 2017 amending Regulation (EU) No 347/2013 with regard to the Union's list of projects of common interest.

Recommendation of the Commission of July 24, 2018, on Guidelines for the application of equal treatment and transparency criteria by ENTSOG and ENTSOE in the production of their TYNDPs in accordance with the provisions of Appendix III, section 2, point 5, of Regulation 347/2013 of the European Parliament and of the Council.

Regulation 2018/1504 of the European Parliament and of the Council of October 2, 2018, repealing Regulation 256/2014

on reporting investment projects in energy infrastructure in the European Union to the Commission.

Communication of November 28, from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank - A clean planet for all. Long-term European strategic vision of a prosperous, modern, competitive and climatically neutral economy.

Directive 2018/2001 of the European Parliament and of the Council of December 11, 2018, on the promotion of the use of energy from renewable sources.

Directive (EU) 2018/2002 of the European Parliament and of the Council of 11 December 2018, amending Directive 2012/27/EU on energy efficiency.

Regulation 2018/1999 of the European Parliament and of the Council of December 11, 2018, on the governance of the Energy Union and Climate Action.

2. Spanish Regulation

In relation to the general framework of the gas system and its facilities

Law 9/2018, of December 5, amending Law 21/2013, of December 9, on environmental assessment, Law 21/2015, of July 20, amending Law 43/2003, of November 21, on Forestry and Law 1/2005, of March 9, regulating the greenhouse gas emission rights trading system.

Royal Decree-Law 15/2018, of October 5, on urgent measures for the energy transition and the protection of consumers and **Resolution dated October 18, 2018**, of the Congress of Deputies, ordering the publication of the Convalidation Agreement of Royal Decree-Law 15/2018, of October 5, on urgent measures for energy transition and consumer protection.

Royal Decree 335/2018, of 25 May, amending different Royal Decrees that regulate the natural gas sector:

- The suspension of the Musel authorisation process has been lifted. To implement it, a favourable resolution on the technical and economic conditions must be implemented.
- The structure of service tolls in LNG plants is developed, which could boost the development of activities such as bunkering or vessel loading. These services can be given in aggregate form in one or more facilities. Likewise, other network services are envisaged, such as the entrance to VBP from the distribution grid (whose purpose is to facilitate the entry of biogas from those networks).
- The deregistering, for payment purposes, of end-of-life facilities is authorised, provided they are not necessary to guarantee the security of the energy supply.
- The procedure of closing, transfer and decommissioning of facilities is developed. Their titleholder will not accrue payment rights for it.
- The same authorisation procedure as for natural gas is established for transmission networks related to the geological storage of carbon dioxide, as well as for the facilities necessary for the supply of other alternative fuels, such as hydrogen.

- The process for the disqualification of traders is being developed, as well as for the transfer of customers from disqualified traders.

Royal Decree 1339/2018, of October 29, by which Royal Decree-law 16/2017, of November 17, is developed, establishing safety provisions in the research and operation of hydrocarbons in the marine environment

Order ETU/1367/2018, of December 20, establishing the tolls and royalties for third-party access to gas facilities and remuneration of regulated gas sector activities for 2019.

Order TEC/1368/2018, of December 20, which modifies Order ITC/1660/2009, of June 22, establishing the methodology for calculation of the last resort natural gas tariff.

Announcement of the Department of Industry and Energy of the Delegation of the Government in Asturias, of December 19, whereby the request for administrative authorization and approval of the project for the execution of the facilities is submitted to public consultation "Liquefied Natural Gas (LNG) Regasification Terminal of Gijón, Port of El Musel, in the municipality of Gijón (Asturias), as well as its environmental impact study.

In relation to the operation of the gas system

Resolution of 18 January 2018, of the CNMC, approving the framework contract for access to the transport and distribution system of Enagás Transporte, S.A.U., through international pipeline connections to Europe.

Resolution of January 30, 2018, of the DGEPM establishing the assigned and available capacity for basic underground storage of natural gas for the period from April 1, 2018 to March 31, 2019.

Resolution of the Port Authority of Cartagena, of February 16, which makes public the approval of the unification of various administrative concessions, all owned by the merchant "ENAGAS TRANSPORTE, S.A.U.", located at Escombreras Dock, Port of Cartagena.

Resolution of March 13, 2018, of the Secretary of State for Energy, publishing the Agreement of the Council of Ministers of March 9, 2018, which re-establishes the processing of the facilities associated with the gas interconnection with France.

Resolution of June 6, 2018, of the DGEPM, modifying Resolution of July 25, 2006, by virtue of which the conditions for assigning and the procedure applied for the interruptibility of the gas system are regulated.

Resolution of October 8, 2018 of the Directorate General of Energy Policy and Mines, amending the technical management of the system regulations NGTS-06, NGTS-07 and detailed protocols PD-01 and PD-02.

Circular 3/2018, of November 14, of the National Markets and Competition Commission, amending Circular 2/2015, of July 22, establishing the balancing rules for the gas system transmission network.

By Resolution of December 5, 2018, of the Secretary of State for Energy, amending that of December 4, 2015, the market rules, the accession contract and the resolutions of the organized gas market were approved.



2018

Consolidated Management Report

Energy for the future

Consolidated
Management Report

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CONSOLIDATED MANAGEMENT REPORT

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About our Consolidated Management Report

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

Standards and principles used

The Consolidated Management Report includes the non-financial information statement and complies with the requirements of Directive 2014/95/UE on non-financial information and diversity, as well as with associated Spanish legislation (Law 11/2018) and has been prepared by the Board of Directors on 22 February 2019. [GRI 102-32, GRI 102-49]

The following standards and principles were used in preparing this 2018 Annual Report:

- This report was prepared according to the GRI Sustainability Reporting Guidelines, comprehensive option. These guidelines from Global Reporting Initiative (GRI) define the principles and content for compiling sustainability reports, and are subjected to GRI's Context Index Service. The content of the report has been verified by EY. [GRI 102-56]
- The principles in the Integrated Reporting Framework, published by the International Integrated Reporting Council, IIRC (www.theiirc.org), for which Enagás participated in the Integrated Reporting Pilot programme.
- The principles of standard AA1000: inclusivity, materiality, responsiveness and impact.
- The Sustainable Development Goals approved by the United Nations General Assembly, which Enagás integrates in its strategy and are set out in the section 'Enagás in 2018'.
- The 10 principles of the UN Global Compact, as set out in the Appendix 'Global Compact content index'. [GRI 102-12]
- Recommendations of the Task Force on Climate Related Disclosures (TCFD).
- Recommendations included in the "Guide for preparing the management report of non-group companies" of the CNMV.
- EFQM model criteria, in which Enagás maintains its +500 certification.
- Elements of the EFR model (Family Responsible Company).



Scope of the financial and non-financial information

The scope of this report includes the information on FY 2018 of the Enagás Group (hereinafter 'Enagás'). The following criteria have been applied to the information reported herein:

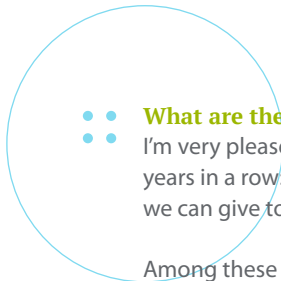
- The financial information is presented in accordance with the consolidation principles applied in the annual accounts.
- Non-financial information relates to operations over which Enagás maintains control (companies consolidated in the Consolidated Financial Statements in accordance with the full integration method). Accordingly, information concerning GNL Quintero (Chile) was consolidated. [GRI 102-45]

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

Interview with Antonio Llardén

Executive Chairman

[GRI 102-14]



•• **What are the main features of the 2018 results?**

I'm very pleased to have been able to give the same news twelve years in a row: we've met all our set targets. That's the best news we can give to our shareholders and investors year after year.

Among these fulfilled commitments, there are two main features to highlight from the year. First, we made a net profit of 442.6 million euros, achieving the average growth in accumulated profit of 3% a year we set for the 2016–2018 period.

And second, we increased our dividend by 5%, in keeping with our commitment until 2020.

What other aspects of the year stand out from a financial perspective?

The most noteworthy aspect is that we were able to significantly reduce our net debt by 733 million euros. This reduction in the debt allowed us to end the year with a net debt of 4.275 billion euros. This was possible thanks to our solid cash flow during the period.

What's more, we've kept the cost of servicing the debt very low, at 2.3%, and we have no other significant maturities until 2022.

Another milestone of note is that for another year, the two rating agencies that assess us, Standard & Poor's and Fitch, have confirmed our A- rating.

+5.1%

total shareholder return

€442.6 Mn

net profit

€4.275 Bn

net debt



+

“We've been meeting targets for twelve years running and have kept a 5% increase in our dividend.”

How did Enagás shares perform in 2018?

In a complex year for the stock market, with important downward corrections in the world's leading exchanges, Enagás shares performed more positively than the national benchmark index to which it belongs, the Ibex35, and its European sector index, EuroStoxx Utilities.

Taking into account the dividends paid out in 2018, the total return for Enagás shareholders for the year was +5.1%.

What can you tell us about Enagás international investments in the year?

There were two major operations, which fit with the strategy we announced in its day of considering the rotation of some of the assets we hold outside of Spain in order to make potential new international investments.

The first was the sale, jointly with our partner Fluxys, of our 50% stake in the Swedish operator Swedegas, which resulted in a TIR after tax of more than 10% and cash flow boost to Enagás of 100.5 million euros.

The second operation was our entry into Greece. Through a consortium of two European TSOs, Snam and Fluxys, we purchased a 66% stake in Desfa, the Greek natural gas transmission network operator. This purchase meant an investment for Enagás of 40.5 million euros.

As well, we've continued to invest in the Trans Adriatic Pipeline (TAP), a key piece of infrastructure in European energy development, which is already 85% complete. Financial close was successfully completed in December with 3.960 billion euros in project financing, a major milestone that underscores the trust and long-term support shown by the financial institutions involved in the project.

How did gas demand evolve?

Demand in 2018 was held at the level of 2017, which was a particularly positive year in which gas demand in Spain rose by 9%.

The engine driving this good evolution continues to be industrial demand, which has grown by 15% since 2014, and specifically in 2018, grew by 4.5%, even higher than GDP.

Industrial demand accounts for 60% of the total natural gas consumed in Spain, and it's a good indicator of how the Spanish economy is evolving, given that the main gas consumers are also the country's leading exporters.

Natural gas is key to the development of the competitiveness of industries and, given the calorific value in most of them, it is an irreplaceable energy at this time.

Enagás is one of the leading companies in sustainability. How is the company's strategy in this area evolving?

Sustainability is one of our strategic priorities and for years has been included among the company's goals, linked to the variable remuneration of Enagás employees. We work in very close alignment with the UN's 2030 Agenda and its Sustainable Development Goals.

Decarbonisation and the fight against climate change, to which we are strongly committed, mark the context in which we operate. This is why we updated our 2019–2021 Sustainability Strategy in 2018 and set out three long-term pillars: promoting the role of natural gas in a low-carbon economy and the development of renewable gases, such as biomethane and hydrogen; energy efficiency and emissions reduction; and people and corporate culture.



+

“Industrial demand accounts for 60% of the total natural gas consumed in Spain, grew by 4% in 2018, a good indicator of how the Spanish economy is evolving”



“Sustainability is one of our strategic priorities and we work in very close alignment with the UN’s 2030 Agenda and its Sustainable Development Goals”

We have been making good progress in all these areas, hence our high ranking in the main sustainability indices. In 2018, we were acknowledged world leader in our sector by one of the most important indices, the Dow Jones Sustainability Index (DJSI), and we were given a Gold Class rating for our performance in sustainability.

In the context of energy transition, how is Enagás positioned? What progress was made during the year in the environmental field?

Natural gas has a major part to play in the energy transition, as a safe, efficient, competitive and sustainable energy. We are promoting new services and uses for natural gas, for instance in transport, where it is greatly contributing to reduce emissions and improve air quality. This year, the European Commission has chosen the LNG HIVE2 project, led by the Spanish Ports Authority and coordinated by Enagás, to continue to promote LNG as a fuel for maritime and rail transport.

Moreover, we are continuing to innovate and find creative solutions in order to be a part of the more sustainable future that’s being built. In 2018, we signed agreements with public and private entities in order to undertake renewable gas projects, such as the one we signed with the government of the Balearic Islands for the development of a plant to produce green hydrogen using renewable energy.

What’s more, we’ve cut our carbon footprint in half in recent years; we’ve become world leaders in the reduction of fugitive emissions; and we’ve managed to make our regasification plants, head office and corporate fleet carbon neutral. In 2018, we were also able to meet our target for long-term emission reductions linked to the variable remuneration of employees.

What can you highlight as regards human resources and talent management?

People and the corporate culture play key role in allowing us to meet our targets, which is why we prioritise the offering of stable and quality employment. We are focused on attracting and retaining the best talent and on creating workplaces that enhance the well-being and motivation of our professionals, where diversity and equal opportunities are fully integrated.

This is reflected by the high satisfaction scores given in our workplace climate surveys, low rates of staff turnover and also external recognition. We are ranked highest among energy companies on the 100 Best Companies List compiled by Actualidad Económica, published only a few months ago. And more recently, we received again certification from Top Employers.

In addition, our efforts to promote diversity led us to become the first Spanish company among the top 200 companies in the Equileap 2018 gender equality ranking and, to be included, at the beginning of 2019 in the Bloomberg

Gender-Equality Index, with a score higher than our sector and the 230 companies included.

What measures were implemented in 2018 with regard to corporate governance?

We continued to align the interests of shareholders, management and all Enagás employees. After the end of the current Long-Term Incentive Plan, the Board of Directors approved a new plan for 2019–2021. This plan once again includes a programme for multi-annual remuneration for senior management and a triennial bonus for other employees, linked to fulfilment of the Enagás Strategic Plan. Besides a target for CO₂ emission reductions, there is another target for gender diversity.

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

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

The good results we present every year are only possible as a result of the commitment of the more than 1,400 people who make up the company, whom I would like to thank for their daily efforts that allow us to continue to take on challenges, meet goals and further the growth of Enagás.

Thank you also to all the members of our Board of Directors, for your responsibility and involvement. They are a key pillar for the implementation of our strategy and for the company’s good performance.

Enagás’ main objective is to continue to create value sustainably for our shareholders, whom I wish to thank on my behalf and on behalf of the Board of Directors for their trust and support.

Enagás in 2018

Attractive and sustainable shareholder remuneration

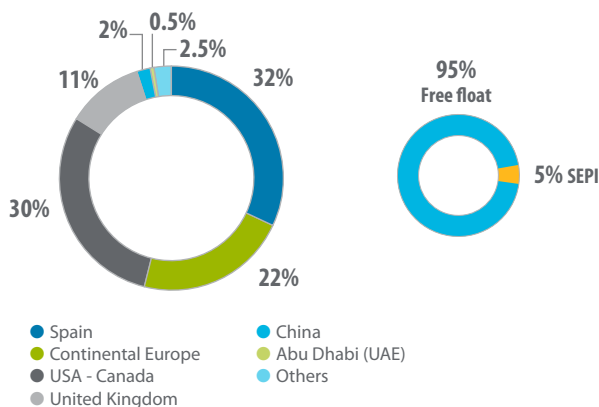
+5%

Dividend per share
(€1.53)

€23.61

Share at 31/12/2018

Distribution of capital



Sound financial and liquidity position

€442.6 Mn

Net profit

2.8%

Net cost of debt

18.8%

FFO (last 12 months) / Net Debt

Rating A-

Standard & Poor's

€4.275 Bn

Net debt

Rating A-

Fitch

Important circumstances arising after year-end: see 'Consolidated Annual Accounts', point "4.9 Subsequent events"

Growth and efficiency

13.2%

International acquisition
of DESFA - Greece

349.3 TWh

National demand for natural
gas (-0.5% vs 2017)

€100.5 Mn

Sale of Swedegas - Sweden

101.27 TWh

Regasification volume
in 100% Enagás-owned plants

7

Companies created
through Enagás
Emprende

+6%

Increase in storage capacity use
in 100% Enagás-owned plants (vs
2017)

+11.9%

number of truck loads vs 2017
(29,134 loads sent to 652 destinations)

Sustainability

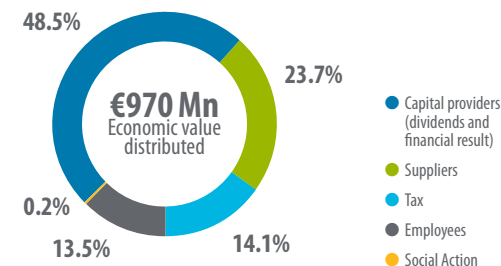
Indices **85** DJSI score
(Gold Class)

B CDP climate
change score

36.4%

Reduction in CO₂ emissions
(2016-2018 vs 2013-2015)

Contribution to society [GRI 201-1]



1,449

Employees
(27% women)

Our contribution to the SDG



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

Through the key activities of our business, we contribute directly to meeting SDGs 7 and 9. Furthermore, our management models allow us to contribute to meeting SDGs 13, 8, 5, 15 and 17.



Ensure access to affordable, reliable, sustainable and modern energy for all

22.7 GWh self-generated energy

40% of the electrical energy consumed with guarantees of origin

Natural gas is the key to achieving sustainable, safe and efficient energy, which is why we strive for energy efficiency and emission reductions, and to promote new uses for natural gas, such as LNG as a transport fuel, particularly for maritime and also rail transport. We also use our experience to offer new energy solutions that contribute to a low-carbon economy, namely renewable gases (biomethane and hydrogen).

Major 2018 milestones

- Signing of various agreements with public and private entities for the promotion of renewable gases (biomethane, hydrogen, etc.). (see the chapter 'Our project for the future').
- Selection by the European Commission of the Enagás-coordinated initiative 'LNG HIVE2', to promote LNG as an alternative fuel. (See the chapter 'Our project for the future').
- Signing of the Guiding Principles on Reducing Methane Emissions across the Natural Gas Value Chain, developed in partnership with different international companies and institutions in the sector. (See the chapter 'Climate change and energy efficiency').



Building resilient infrastructure, promote inclusive and sustainable industrialisation and promote innovation

1,382 authorised suppliers

95 suppliers externally audited in financial, ethical, environmental and social areas



Take urgent measures to combat climate change and its impacts

Reduction by **36.4%** of CO₂ emissions in the 2016–2018 period vs 2013–2015.

Our intention is to improve the competitiveness of the countries in which we operate, and contribute to the energy and decarbonisation process by developing and managing energy infrastructures. In addition, natural gas is of great importance for improving competitiveness, as it allows for the introduction of efficient industrial technologies which improve the intensity of energy usage and competitiveness in the industry, generating direct and indirect employment.

Major 2018 milestones

- Participation in new projects for gas infrastructure operation (Desfa). (see the chapter 'Our business model').
- Creation of a model for incorporating suppliers information that includes environmental, social and ethical criteria. (See the chapter 'Supply chain').
- Implementation of an electronic tool for monitoring supply chain-related risks, including environmental, social and ethical risks. (See the chapter 'Supply chain').

Energy efficiency is a key area in which Enagás continues to work by establishing annual energy-intensity targets at each of its facilities, and this is also linked to the variable remuneration of its employees. (See the chapter 'Climate change and energy efficiency').

Major 2018 milestones

- Approval of a plan to replace natural gas turbo-compressors with electric compressors.
- Achieving carbon neutrality in regasification plants, head office and corporate fleet.
- Adoption of TCFD guidance in climate change reporting.
- Enagás is ranked in the top 10 lbex35 companies for climate change reporting by EcoAct.



Promoting sustained, inclusive and sustainable growth, full and productive employment and decent work for everybody

7 start-ups created
97.52% permanent contracts
4.8% staff turnover

We believe people and culture play a key role in allowing us to meet our targets. In this sense, we are focused on attracting and retaining the best talent, and creating working environments that enable us to continue to transform ourselves and bring about creative solutions in order to form part of a more sustainable future.

Major 2018 milestones

- Promotion of corporate entrepreneurship with the third edition of *Ingenia Business*. (See the chapter 'Our project for the future').
- Achieving Top Employer España certification for the eighth consecutive year, a distinction that acknowledges companies for their commitment to offering the best human resource practices. Top Employer Institute has credited Enagás for the support and development of talent at all levels of the company. (See the chapter 'People').
- Ranked 11 on the list of the 100 Best Companies for employment compiled by Actualidad Económica, the highest ranked among energy companies.



Achieving gender equality and empower all women and girls

27.0% female employees
26.4% women in management

Enagás undertakes projects to identify and develop talent in women, which has gradually allowed the company to increase the presence of women in its workforce and in management positions. (See the chapter 'People').

Major 2018 milestones

- Ranked among the leading 200 companies in the world for gender equality, the first Spanish company to enter the Equileap ranking.
- Inclusion in the Bloomberg Gender-Equality Index.
- Setting long-term gender diversity targets linked to variable remuneration of employees.
- Company volunteers in workshops for women who are victims of gender violence.



Protecting, restoring and promoting the sustainable use of terrestrial ecosystems, managing forests sustainably, combating desertification, halting and reversing land degradation and curbing the loss of biological diversity

78.4% of waste recycled or reused
77,810 m³ water consumption
4 km² natural space occupation

Managing natural capital is a key aspect for Enagás. We control and minimise our environmental impact, improving the use of natural resources and developing measures aimed at preserving nature.

Major 2018 milestones

- Definition of an energy management system according to ISO 50001 (implementation in 2019). (See the chapter 'Climate change and energy efficiency').
- Start-up of a desalination plant in Barcelona for use of desalinated seawater to fight fires instead of drinking water. (See the chapter 'Natural capital management').
- Evaluation of the environmental risks associated with accident scenarios affecting plants, underground storage facilities and compressor stations, and quantifying economic impact. (See the chapter 'Natural capital management').
- Definition of framework for the development of a circular economy plan.



Enhancing the means for bringing about and revitalising the Global Partnership for Sustainable Development

23 volunteering initiatives
90% customer satisfaction
82% overall employee satisfaction

Dialogue and collaboration with our stakeholders enables us to establish partnerships for the creation of shared value, and consequently to meet set targets.

Major 2018 milestones

- Implementation of volunteering initiatives in collaboration with voluntary (third-sector) associations. (See the chapter 'Local communities').
- Enagás chaired the annual meeting of the Group of Experts on Gas at the UN European headquarters. This group, of which the company is a member, is entrusted with the role of examining the essential role gas plays in meeting SDGs.
- Companies4sdgs awareness campaign for professionals about the SDGs.

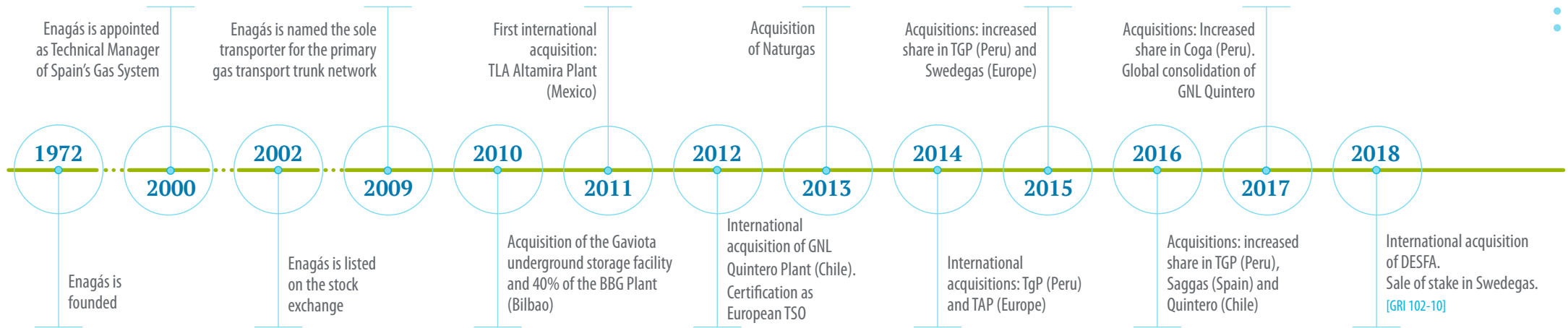


Chapter 1

Our business model



Our aims and activities



Our intention is to improve the competitiveness of the countries in which we operate, and contribute to the energy transition and decarbonisation process by developing and managing energy infrastructures.

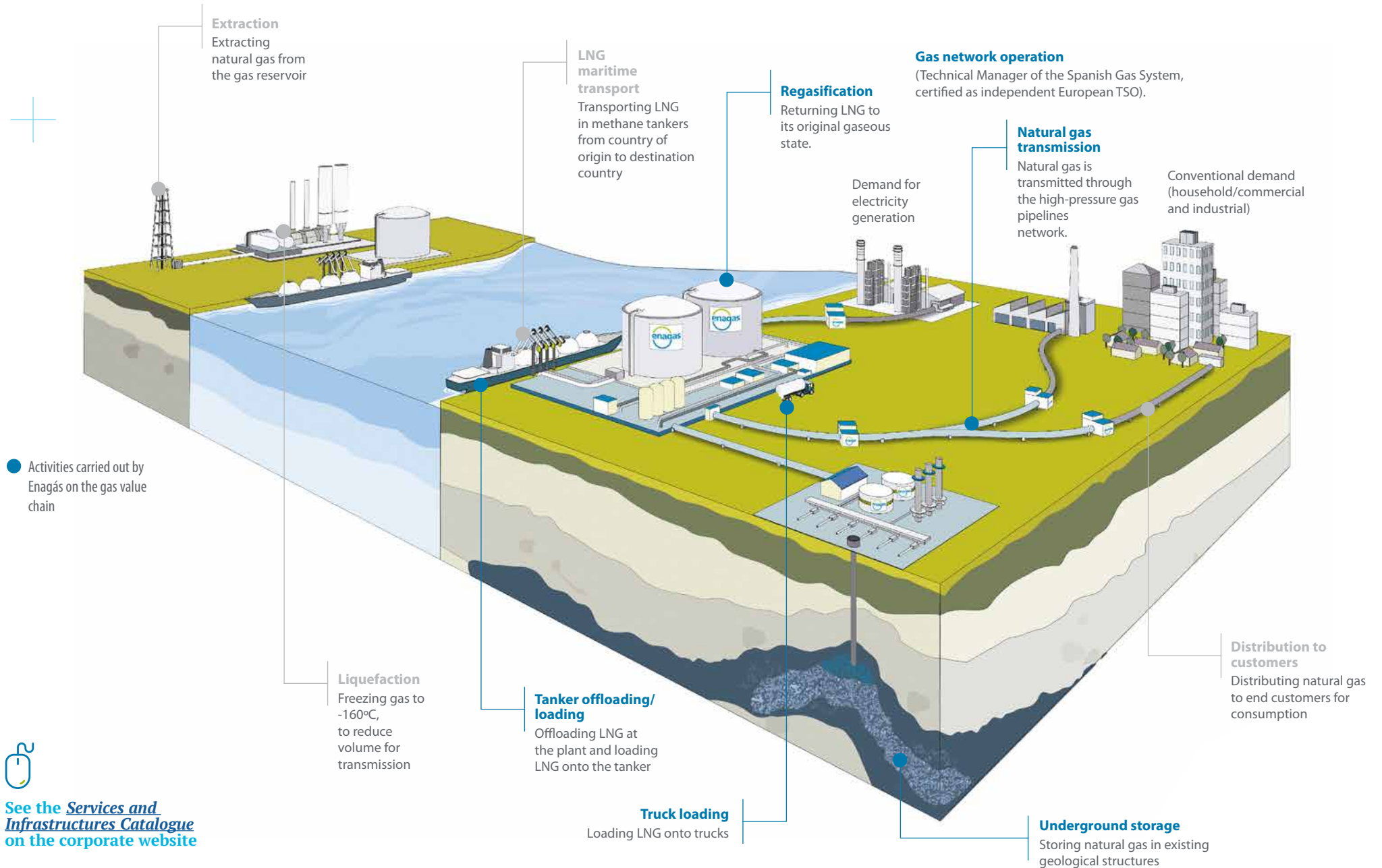
Enagás, a midstream company with almost 50 years of experience and independent European TSO (Transmission System Operator), is an international reference in the development and maintenance of gas infrastructure and in the operation and management of gas networks. [GRI 102-2]

Gas infrastructures are a core element in the transition of energy towards decarbonisation. In addition, natural gas is of great importance for improving competitiveness, as it allows for the introduction of efficient industrial technologies which improve the intensity of energy usage and competitiveness in the industry, generating direct and indirect employment.

Enagás provides its experience to offer new energy solutions that contribute to a low-carbon economy: renewable gases and hydrogen (see the chapter on 'Our project for the future / Renewable gases').

Gas infrastructures are a core element in the energy transition towards decarbonisation







Mission, vision, values

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

Mission

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

Vision

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

Values

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

Geographies

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

~ 11,000 km
of gas pipelines

19 compressor stations

6 international connections

Soto La Marina compression station
(50%) 2013

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

Enagás Mexico S.A. de C.V office (Mexico City)

Morelos pipeline
(50%) 2012 / 172 km

Mexico

Transportadora de Gas del Perú
(TgP, 28.94%)
2014 / 729 km

Compañía Operadora de Gas del Amazonas
(Coga, 51%) 2014
TgP operator

Enagás Peru office, S.A.C.
(Lima)

Peru

Chile

GNL Quintero plant
(45.4%) 2012
334,000 m³ LNG
625,000 m³ (n)/h

Barcelona plant
760,000 m³ LNG
1,950,000 m³ (n)/h
 Huelva plant
619,500 m³ LNG
1,350,000 m³ (n)/h
 Cartagena plant
587,000 m³ LNG
1,350,000 m³ (n)/h
 El Musel plant*
300,000 m³ LNG
800,000 m³ (n)/h
 Saggas plant (72.5%)
600,000 m³ LNG
1,000,000 m³ (n)/h
 BBG plant (50%)
450,000 m³ LNG
800,000 m³ (n)/h

Canary Islands plant
[G4-6, G4-8]

Gaviota storage facility
Total gas: 2.7 bcm
 Yela storage facility
Total gas: 2.0 bcm**
 Serrablo storage facility
Total gas: 1.1 bcm

Head office (Madrid)
[G4-5]

Greece, Albania and Italy

Greece

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

DESFA operator
(13.2%) 2018

LNG Terminal (Revithoussa)
236,507 m³ LNG
805,000 m³ (n)/h

Nea Messimvria compressor station
1,465 km of pipeline

Nea Messimvria compressor station

Under construction / Project

* Pending after Royal Decree-Law 13/2012
** Quantity upon reaching its nominal capacity



Chapter 2

Strategy



Operating context



Enagas operates in a global scenario of environmental transition, in which renewable energies (with high rates of growth owing to stimulus policies and falling costs) and natural gas (with higher absolute growth owing to environmental policies and the abundance of competitive resources), especially LNG, are leading the transition towards a low-carbon energy mix.

The substitution of coal and oil with natural gas continues to be key to the containment of global emissions. Of the 15 main emitters of CO₂, the United States has reduced its emissions the most since 2010, owing to having the largest share of coal replaced by natural gas. In the same period, despite its extremely strong economic growth, China has been able to contain the growth of its emissions (even reducing them in 2014–2016) because of its greater reliance on gas compared to coal.

Moreover, environmental regulations in the marine transport sector, air quality improvement plans in cities and reduction targets for CO₂ emissions have led to a boost in the demand for gas in maritime and terrestrial transport in the short term.



In the long term, the European Union's view of carbon neutral emissions by 2050 requires that we focus on renewable gases (biomethane and hydrogen), clean energies with huge potential whose production contributes to the circular economy. The integration of renewable gases into the energy system contributes to sustainability, competitiveness and stability.

Biomethane produced from waste is a source of renewable, local and storable energy, with a positive impact on employment and the rural economy.

In addition, renewable hydrogen (obtained by electrolysis using renewable energy) is being positioned as a new global energy vector that allows the storage of excess electrical energy from renewable sources and can be used in all energy sectors.

These non-electric renewable energies can be transported via the existing gas infrastructure, maximising their use and contributing to a fair energy transition.



The Spanish context

Industrial demand for natural gas represents about 60% of the total demand for natural gas in Spain, and total demand has been growing at an average yearly rate of 4.2% since 2016. This energy is currently irreplaceable due to its high calorific value and versatility.

For this reason Enagás encourages competition in the market and liquidity in the Iberian Gas Market, and greater interconnection with the rest of Europe in order to advance the integration of the European market. This will lead to the removal of barriers that cause price differences between the Spanish gas system and those of its neighbouring countries.

Natural gas is the cleanest and most efficient solution the industrial sector has to cater to its needs for high-temperature thermal energy, contributing to its competitiveness and, consequently, to economic development and employment. This is particularly evident in industries with intensive energy consumption and in those focusing on exports. In this sense, co-generation with natural gas is an optimum solution to increase efficiency and competitiveness in industry (it has an overall performance higher than 90%) and reduce greenhouse gases.

Furthermore, since 2018, the Spanish Gas System has shown a net annual surplus, which will allow the totality of the debt to be paid earlier than expected, in an environment of growing demand.

Natural gas is the cleanest and most efficient solution for the industrial sector

Other regions

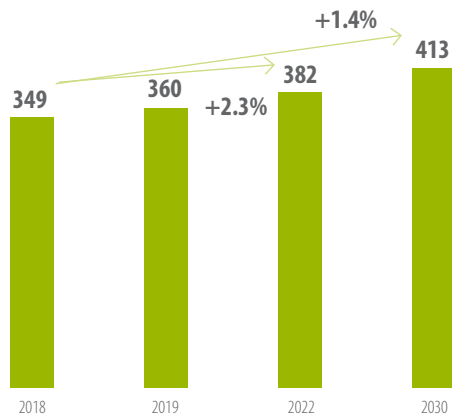
In 2018, Enagás redirected its strategy in Europe by increasing its presence in the south-eastern region, which is becoming one of the nerve centres for the development of gas infrastructure.

Enagás is positioned in the fastest-growing gas markets of Latin America in order to take advantage of the opportunities for growth in the region, where the midstream sector shows solid fundamentals for the very strong expected demand and new, competitive resources that require adaptation to changes in flow.

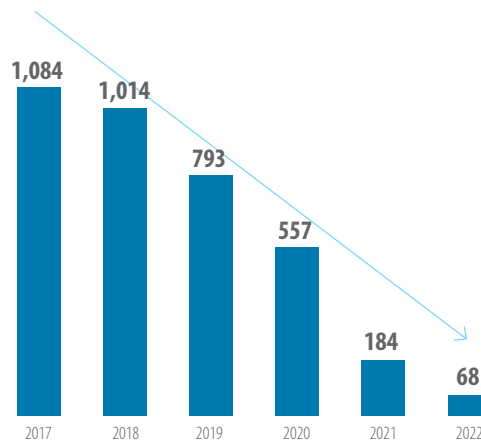
The United States is a key market owing both to its internal demand and its exports. Development of the country's gas infrastructure allows large volumes of coal to be replaced and the country to lead the world in the reduction in CO₂ emissions (> 420 MtCO₂ per year in 2017 vs 2010, equivalent to approximately 1.5 times the yearly emissions produced by the energy sector in Spain).

What is more, LNG is consolidating its place as the fastest-growing means of supplying natural gas. Regasification capacity will grow by close to 25% by 2023, and 45% of this new capacity will be floating (currently barely accounting for 12%), with a much wider geographic distribution than that of on-shore capacity.

Evolution of demand (TWh) [GRI 302-2]



Debt recovery from the System (€M)



Strategic priorities

Given this operating context, Enagás has defined the following strategic priorities for the coming years:

Strategic priorities 2019–2023

Sustainable growth guaranteeing role as TSO in the process of decarbonisation and environmental transition

Growth areas:

New businesses

- Renewable gases (biomethane/hydrogen)

Core business

- Development of gas infrastructure
- Regional positioning (affiliates)
- Injection of renewable gases into the network

Expanded core business

- Operation of floating and liquefaction infrastructure
- Small scale development
- Services for affiliates and third parties

Sustainability

Energy efficiency and emission reduction

Minimising the environmental impact of our operations

People and culture

- Attracting and retaining talent
- Creation of sustainable working environments

Role of natural gas and renewable gases in the energy model

- New uses for natural gas
- Development of clean energies (biomethane/hydrogen)

Creation of value for our stakeholders

Long-term dividend sustainability

Financial sustainability of the Gas System

Financial strength and discipline

- Evolution of net debt
- FFO/net debt ratio stand-alone

International activity

- Contribution of international investments to net profit
- Contribution of international affiliates to cash flow

Solid cash flow generation

Natural gas key to energy transition

Natural gas and renewable energies will lead the transition towards a low-carbon energy mix

Investment criteria

We extend our criteria for solvent investment to all areas of the business, incorporating sustainability:



Results

Steady and predictable cash flow, with attractive returns.



Risk profile

Similar risk in regulated and non-regulated businesses.



Corporate governance

Strategic role as an industrial partner, actively participating in asset management.



Partners

Alliances with local partners with complementary capabilities.



Core business

Value creation in the main areas of expertise: LNG, transport and storage.



Sustainability

Contributing to decarbonisation of the economy and improving air quality.

Meeting 2018 objectives



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

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

In 2018, we met the established objectives and we are making progress towards our long-term objectives:

For details of targets and indicators, see the [Annual Directors' Remuneration Report](#)

Strategic priorities	2016–2018 Long-Term Incentive Plan targets (% weighting)	Long-Term Incentive achievement (%)	Yearly targets 2018 (% weighting)	Meeting 2018 targets (%)
Shareholder Remuneration Policy	Relative total shareholder return (TSR) (20%): <ul style="list-style-type: none"> This indicator takes into account the evolution of shares and the dividend policy It is relatively measured against a peer group Investors and proxy advisers expect the plan to be linked to this target 	0%	Improving the company's financial results (35%) <ul style="list-style-type: none"> Net profit at 31.12.2018 	100%
Prioritisation of core business: Regulated assets	Funds from Operations (FFO) as an indicator of financial soundness and growth in net profit (40%) <ul style="list-style-type: none"> It takes in both the EBITDA of the regulated business and dividends coming from international investment It is a primary indicator for investors. Meeting this objective enables the targets of Group dividend payment, investment and debt repayment to be met 	125%	Strengthening regulated revenues through: (20%) <ul style="list-style-type: none"> Development of regulatory and remuneration-related actions which allow the Company's revenues to be guaranteed Reduction in the level of operating costs compared to 2017 Execution of regulated business projects 	70%
Taking advantage of international growth	Dividend from international investment (30%): <ul style="list-style-type: none"> This measures the profitability of international business International investment is included as an indicator for yearly variable remuneration 	125%	Consolidation of the company's Strategic Plan through: (25%) <ul style="list-style-type: none"> Strategic updating Consolidation of international business Contribution to diversification by providing services and new businesses 	100%
Sustainability as a driver for the company's strategy	Sustainable Management Plan (10%): The assessment of the Sustainability Plan is carried out by the Appointments, Remuneration and CSR Committee: <ul style="list-style-type: none"> Carbon Footprint (30% reduction with respect to 2013-2015) Commitments made to the government associated with equality and non-discrimination Corporate Social Responsibility 	105%	Fostering sustainability and governance through the definition of a 2020 Sustainability Strategy, energy efficiency and emission reduction, improving the positioning of Enagás for socially responsible investors and enhancing the company's human and corporate resources (20%)	100%

^(*) Acquisition and disposal of treasury shares: see Consolidated Annual Accounts, point '3.1. Equity, b) Treasury shares'

New 2019–2021 Long-Term Incentive Plan

[GRI 102-35]

The 2019–2021 Long-Term Incentive Plan was approved in 2019 that gives continuity to the previous plan (see the 'Corporate Governance' chapter) and includes the following long-term targets:

Strategic priorities	2019–2021 long-term incentive targets
Shareholder Remuneration	Guarantee of total return for Enagás shareholders. <ul style="list-style-type: none"> • Relative TSR: Enagás position in the ranking of the Peer Group • Absolute TSR
Regulated assets	Consolidation of cash flows as a driver for solvency and ensuring a dividend payment for Enagás shareholders <ul style="list-style-type: none"> • Accumulated results corresponding to the company's funds from Operations (FFO)
International growth	Consolidation of cash flows contributed by affiliates to the shareholder (Enagás Group) <ul style="list-style-type: none"> • Accumulated cash flows received from affiliates (dividend)
Sustainability	Guarantee of sustainable and organic growth through the fulfilment of initiatives contained in the Sustainability Plan <ul style="list-style-type: none"> • Average reduction in CO₂ emissions in the 2019–2021 period vs. 2018 • Percentage of women • Investment associated with the increased presence of renewable gases in the energy mix.

For details of targets and indicators, see [Annual Directors' Remuneration Report](#)



Risk management

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

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

- The consideration of some standard types of risk that the company is subject to:
 - > Business Strategies.
 - > Operational and Technological.
 - > Financial and Tax-related.
 - > Credit and Counterparty.
 - > Reputational.
 - > Criminal Liability.
 - > Compliance and Model.
- The segregation and independence of the functions of risk control and management at the company, in three lines of "defence":

- > On the one hand, the business units that are responsible for the risks they take on when conducting their ordinary business activities, and are therefore responsible for identifying and measuring them.
- > Moreover, there is a risk control and management area responsible for: (i) ensuring that the risk control and management system functions properly, (ii) active participation in the development of the risk strategy and definitions of impacts on their management and (iii) ensuring that the control and management systems adequately mitigate risks.
- > Lastly, the internal audit unit is in charge of supervising the efficiency of the risk controls in place.
- The existence of certain governing bodies with responsibilities in the process of risk control and management in the company:
 - > The Board of Directors is responsible for approving the risk control and management policy. Its other responsibilities relating to risk have been delegated to the Audit and Compliance Committee.
 - > The Audit and Compliance Committee mainly supervises the efficiency of the risk systems and evaluates the company's risks (identification, measurement and establishment of measures for their management).
 - > The Risks Committee establishes the overall strategy for risks, the limits of global risk for the company, and reviews the level of exposure to risk and the corrective actions, should there be any non-compliance.
- Establishing a risk appetite framework, a level of risk that is considered acceptable, and that is consistent with the established business goals and the market context in which the company carries out its activities.

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

The integral analysis and periodic monitoring of all risk permit the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

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

Moreover, the main risks to which the Enagás Group is exposed are explained in the following:

Integral analysis and regular monitoring of all risks allow them to be adequately controlled and managed

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

Type of risk	Risk description	Level of Risk(*)	Control and Management Measures
Strategic and Business Risks			
Regulatory risk	The activities conducted by the Enagás Group are particularly affected by regulatory and remuneration framework. Any structural changes to the regulatory and/or remuneration framework, or to remuneration parameters may affect revenues from business activities.	Tolerable	<ul style="list-style-type: none"> • Ongoing working relationship with regulatory bodies and public administrations. Regulatory development proposals. • Participation in different associations with gas sector agents.
Commercial risk and demand	<ul style="list-style-type: none"> • The evolution of demand for transmission, regasification and underground storage of natural gas in Spain has a direct impact over the regulated remuneration received by these activities. • In some international markets in which the company operates, revenues are affected by the performance of its commercial activity. 	Acceptable	<ul style="list-style-type: none"> • Internal analysis about the evolution of demand, gas system capacity, etc. • Participation in projects to promote the use of natural gas. • Development of strategic commercial plans, detailed studies of potential markets for LNG, biogas, and the creation and development of new projects.
Risk in the development of infrastructures	<ul style="list-style-type: none"> • New infrastructure developments are subject to obtaining licences, permits and administrative authorisations. The development of these complex processes could adversely affect the company. • The execution of infrastructure projects may give rise to unforeseen circumstances resulting in missed deadlines or deviations from initially planned investment costs. 	Acceptable	<ul style="list-style-type: none"> • Ongoing working relationship with public administrations. Monitoring processes of the required procedures. • Contingency plans established to address unforeseen deviations.
Legal risk	The financial results of the company may be affected by the uncertainties related with the different interpretation of contracts, laws or regulations which the company and third parties may have, as well as the results of any law suits undertaken.	Acceptable	<ul style="list-style-type: none"> • Management and monitoring of court cases. • Monitoring of existing situation with corresponding administrative authorities.

(*) Level of risk: Acceptable / Tolerable / Significant / Critical

Type of risk	Risk description	Level of Risk(*)	Control and Management Measures
Operational and Technological Risks			
Industrial risks in infrastructure operation	In the operation of the infrastructure for transmission, regasification plants and underground storage facilities, accidents, damage or incidents involving loss of value or lost profits may occur.	Tolerable	<ul style="list-style-type: none"> • Emergency, maintenance and continuous improvement plans, the existence of control systems and alarms that guarantee service continuity and quality. • Quality, prevention and environmental certifications and redundancy of equipment and systems. • Insurance policy contracts.
Cybersecurity	Damage to corporate and industrial systems as a result of deliberate attacks by third parties.	Acceptable	<ul style="list-style-type: none"> • Development and updating of the Cybersecurity Master Plan including specific action measures.
Financial and fiscal risks			
Interest rate, exchange rate and liquidity	Volatility of interest and exchange rates, as well as movements in other financial variables that could negatively affect the company's liquidity.	Acceptable	<ul style="list-style-type: none"> • Hedging using derivatives to establish a fixed or optimally protected debt structure. • Natural hedging through financing in the business's functional currency. • Taking out credit lines with unconditional availability and temporary financial investments.
Tax risks	Possible changes to tax legislation that could affect the company's results.	Acceptable	<ul style="list-style-type: none"> • Consultancy services provided by tax specialists. • Principles of action that govern compliance with tax obligations, avoiding risks and tax inefficiencies.
Credit and Counterparty Risks			
Credit and counterparty	Possible losses due to third parties failing to pay the Enagás group.	Not applicable	<ul style="list-style-type: none"> • Monitoring of commercial debt positions and collection management based on customer profile. Credit management mechanism through the establishment of guarantees. • Financial operations with high solvency entities. • The application of NIF9 from January 2018, involving provision for the expected loss due to this risk.
Reputational Risks			
Direct reputational risks	Possible deterioration of the perception or image of the Enagás Group from the different interest groups.	Tolerable	<ul style="list-style-type: none"> • Fluent, direct communication with stakeholders. • Regular tracking of information harmful to the company.

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

(*) Level of risk: Acceptable / Tolerable / Significant / Critical



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Chapter 3

Our project for the future



Natural gas as a key element

[GRI 102-15]

Natural gas is the key to achieving sustainable, safe and efficient energy, both in the present and for the future. Natural gas demand in the Spanish industrial sector currently accounts for 60% of total demand (see 'Operating context' chapter), and it plays a key role in the competitiveness of Spanish industry, a role that should be upheld. Moreover, Enagás is committed to the promotion of new uses for natural gas, particularly in the transport sector (maritime, rail and road).

Maritime transport

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

Enagás is also one of the coordinators of the Infrastructure & Logistics Solutions (Hive2) project, which, with a budget of 14.7 million euros, is aimed at developing supply infrastructure at the Port of Huelva.

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

01/2018

Enagás is taking part in the project for the world's first LNG-fuelled passenger train. The first pilot test for this fuel was conducted with a regional train between the localities of Mieres and Figaredo, Asturias, at an act attended by representatives of the Spanish government, participating energy companies and Renfe, the Spanish state-owned railway operator.

Rail transport

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

Also, a second project will be developed, in collaboration with Renfe, to convert the railway traction of a diesel freight locomotive to LNG (raiLNG project). Enagás is also involved with RENFE in the development of intermodal transport of LNG ISO containers for combined transportation by Road-Rail-Sea. In 2019, a third project will commence to convert a freight locomotive operating on the line connecting Huelva and Majarabique, in the province of Seville.

02/2018

Pilot testing of the first ship-to-ship loading of LNG in Iberia took place at the Port of Bilbao. The test was conducted after the conversion of a barge, enabling it to supply other vessels with LNG. This is expected to serve as a stimulus for the use of natural gas in a sector that predominantly relies on marine fuel oil and diesel fuel.

Road transport

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

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

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

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

Renewable gases

[GRI 102-15, GRI 201-2]

Enagás is committed to developing non-electric renewable energies, such as biomethane and hydrogen as new energy solutions that will play a crucial role in the decarbonisation process. Gas infrastructures are suited to the transport and storage of these renewable gases, meaning that additional infrastructure investments will not be required.

For its part, biomethane-biogas is obtained from the anaerobic decomposition of organic matter present in urban solid waste, wastewater as well as livestock, agricultural and forestry waste. The two options can be used in industry, as fuel for vehicles or injected directly into the pipeline network. Hydrogen, which is obtained from surplus electrical energy from renewable sources, has a great many applications: fuel cells, network injection, vehicular use, and the production of synthetic natural gas.

Enagás is a member of the European Renewable Gas Industry (ERGAR) and of other sector-wide associations such as AEBIG, AEH2, Hydrogen Europe and FGER.

In the last year, Enagás signed different collaboration agreements for the development of biomethane and hydrogen:



Enagás and the government of Aragon are collaborating on projects for renewable gases such as hydrogen and biogas/biomethane. Through this collaboration, the government of Aragon and Fundación Hidrógeno Aragón have become partners supporting Enagás projects and research, development and innovation (RD&I) in fields such as sustainable mobility and the production of renewable hydrogen.



Enagás and Repsol signed an agreement to develop technology to produce renewable hydrogen. This is a key project in the Enagás strategy for developing non-electric renewable energies. Both companies will work towards the development of a hydrogen production process mainly using solar energy, reducing the carbon footprint by more than 90% compared to conventional processes used to obtain this gas.



Enagás and Biogastur signed an agreement for joint biogas and biomethane projects in the regions of Asturias, Galicia and Andalusia. Through this agreement, Enagás is working towards the development of the biogas and biomethane market through the use of infrastructure linked to its core business and taking advantage of the natural gas network to promote non-electric renewable energies.



Enagás y Ferrovial signed a collaboration agreement to explore opportunities to promote the production and distribution of biogas.



Enagás and Ence signed an agreement for the development of renewable gas using biomass, for the purpose of using up surplus biomass to produce green hydrogen and synthetic natural gas.

Enagás is taking part in the development of a plant to generate green hydrogen using renewable electrical energy in Majorca, for which a PV solar park will also be built.

We are also taking part in different pilot initiatives that have already been producing results and causing impact:



As the leader and coordinator of the Renogagas consortium, Enagás completed a pilot plant power-to-gas in 2017, which will enable synthetic methane gas to be produced from renewable sources.



Enagás is participating in the SOLUTHION project, which aims to evaluate the impact of hydrogen injection into the gas pipeline network using different proportions in the mixture.



Enagás and Empresa para la Gestión de Residuos Industriales (Emgrisa) are collaborating on a project to spur development of biomethane through the potential conversion of Emgrisa waste treatment plants, enabling them to produce biomethane using the biogas from waste. A feasibility study has commenced for this purpose at one of the company's plants.

Enagás is currently a member of different consortiums with other players in the gas and industrial market on innovation projects for the promotion and development of non-electric renewable energies and their future injection into existing gas infrastructures.



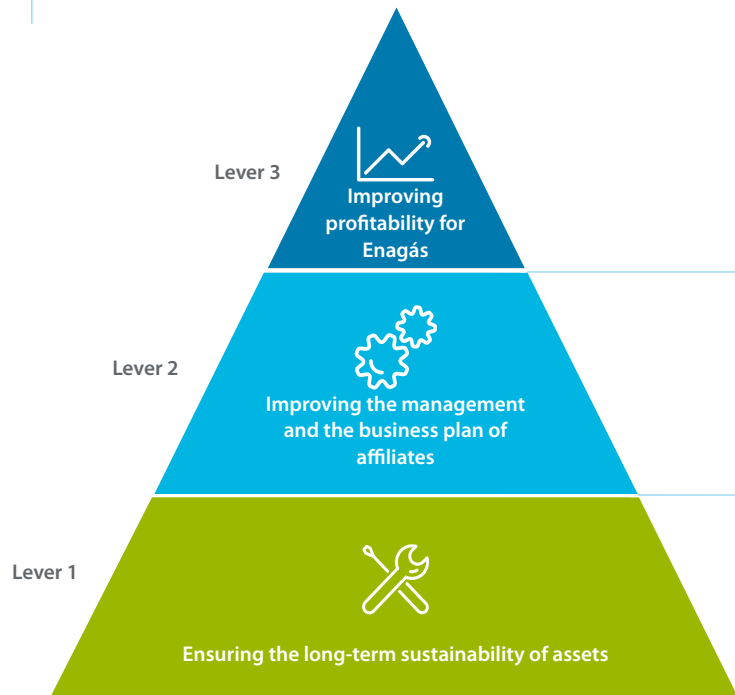
Creating value in affiliates



We are improving the management and business plans of our affiliate companies, guaranteeing their long-term sustainability and providing the experience, knowledge and best practices of Enagás in the role of industrial partner.



Value creation levels



- ▶ Committed to **innovation** and providing **services** to affiliate companies.
- ▶ Capacity to **develop new projects** from affiliates.
- ▶ Optimising **distribution of dividends to shareholders**.
- ▶ Promoting the commercial **development of infrastructure** (revenue).
- ▶ Promoting operating **efficiency plans** (OPEX and CAPEX).
- ▶ Optimising the **financial structure**.
- ▶ Preserving the **integrity, security and availability** of assets.
- ▶ Contributing to sustainable **social and environmental development**.
- ▶ Ensuring **compliance** in affiliates.

Enagás contributes with its experience, knowledge and best practices in the role of industrial partner for its affiliates

Corporate entrepreneurship and open innovation

Enagás has put in place a programme of corporate entrepreneurship and open innovation for the purpose of supporting and fostering new ideas and innovative business projects which, in accordance with our strategy, will enable us to create value and diversify the business, and to gain an early foothold in disruptive innovation and start-ups that are aligned with the improvement of efficiency, competitiveness and sustainability in the energy sector in the current context of energy transition.

The Enagás Emprnde programme searches inside and outside the company for projects related to the business to grow them and turn them into viable companies. It is structured along the following lines:

- Corporate entrepreneurship – developing business projects and ideas based on Enagás technical, economic and market-related skills.
- Venture Capital – investing in and supporting start-ups.
- Open Innovation – developing projects and incorporating technology supported by skills external to Enagás.

Enagás Emprnde studies and analyses each proposal on an individual basis and offers acceleration programmes tailored to the needs of each projects, which can vary from financial resources, conducting technical pilot testing, co-development and support for commercial development, among others.

Through the support offered by Enagás Emprnde, seven in-house corporate entrepreneurship projects have been turned into start-ups:



A start-up offering consultancy services for **gas detection and quantification**, assisting their customers to comply with environmental laws and regulations.



A start-up with innovative, technically validated technology for **environmentally friendly cold energy transport**, encouraging large companies requiring cold energy to set up in the vicinity of LNG plants.



A start-up that invests in **small/medium-scale NG/LNG infrastructure** (bunkering, service stations, vehicular natural gas, etc.) and design, execution, operation and maintenance for third parties, commercialising its experience and providing logistics services.



A start-up dedicated to environmentally sustainable **last-mile logistics** in which the entire vehicle fleet is powered by alternative energy sources (natural gas, electricity, hydrogen, etc.).



A start-up set up jointly with Redexis Gas for the purpose of building and operating **renewable hydrogen production plants** for third parties.



Services for gas shippers offering support for daily operations. Providing services for the entire process, ranging from obtaining a licence number to ship gas in Spain to back office services, reporting to official entities and training on the gas system.



A start-up that manages **gas measuring processes** at any part of the gas infrastructure, based on latest-generation **artificial intelligence algorithms** (Data Analytics and Machine Learning). The new metering models will have the capacity for **self-learning** and will be available through a **platform** in the **cloud**.



For further details on the **Enagás Emprnde Programme**, visit the **corporate website**

Digitalisation



This digital transformation is, for Enagás, a strategic lever of change, key in ensuring our positioning in an interconnected industry.

Enagás is undergoing a process of digital transformation to allow us to adapt flexibly to the context in which we operate. For this purpose, work is being carried out in the following areas:

- Strengthening and developing the digital skills of the company's human resources in order to allow new forms of working to be created in the organisation in a way that is more creative, flexible, autonomous, collaborative and coordinated.
- Optimisation of the value chain through the exploitation of advanced data analytics, which will allow us to achieve greater efficiency in our processes (optimisation of operating costs derived from energy consumption, capital costs associated with managing the life cycle of assets, etc.).
- Creation of opportunities for new sources of revenue in the medium term resulting from the good use of the opportunities arising from the digital transformation.

This will mean that digitalisation will provide support for the company's vision of the future, both in the development of non-electric renewable energies (hydrogen and biogas/biomethane), and the adaptation of our infrastructure for its transport.



Technological innovation

Technological innovation at Enagás is focused on two areas:

- Improving the different aspects of the company's present activities, such as energy efficiency and self-generation of energy, the measuring of gas and analysis of its components, operational safety, materials and equipment. The most significant projects on which work was carried out during the year were the desalination plant at the Barcelona facility in order to reduce water consumption, the autonomous generation of nitrogen at the Huelva facility and the installation of a heat exchanger at the Cartagena facility to reduce electrical energy consumption (see 'Climate change and energy efficiency' chapter).
- The analysis and development of technology that may be supported in the future and to upgrade infrastructure, and/or the company's know-how, such as production, analysis, certification and transport of synthetic natural gas, biogas, biomethane and hydrogen. The following projects are featured in this area:
 - > The project carried out jointly by Enagás and Repsol, SUN2HY (Luxhor Project), for the development of a photoelectrolyzer for the production of hydrogen.
 - > The ECO project, which consists of the development of simultaneous electrolysis of steam and CO₂ for the conversion of surplus renewable electricity into distributable and storable hydrocarbons such as methane.
 - > Actions conducted within the framework of the CORE LNGas HIVE project coordinated by Enagás, in order to promote natural gas as an alternative fuel for maritime transport (see 'Climate change and energy efficiency' chapter).

The amount invested in technological innovation in 2018 was €3,493,032¹.

(1) This figure comprises the costs associated with the projects approved by the Investment Committee (amount entered as R&D expenses in the 'Other operating expenses' section of the Annual Accounts), procurement of R&D, personnel expenses and the purchase of equipment and instruments.



Chapter 4

Sustainability



Sustainability Strategy



The Enagás Sustainability Strategy was updated in 2018 in line with the company's evolution and the socio-economic context in which it operates. For this purpose, the company conducted a materiality analysis through internal dynamics, taking into consideration: [\[GRI 102-21, GRI 102-42, GRI 102-43, GRI 102-44, GRI 102-46\]](#)

- The company's strategic and business priorities.
- The company's key strengths and competencies.
- The competitive environment.
- The monitoring of emerging risks and opportunities.
- Stakeholder interests and concerns, information obtained via relationship channels.

The result has been the definition of long-term strategic drivers:

Sustainability drivers



Energy efficiency and emissions reduction: we must minimise the environmental impact of our operations by means of solutions that enable us to reduce our energy consumption, thereby minimising our carbon footprint.



People and culture: we must be able to attract and retain the best talent, creating working environments that enable us to continue to transform ourselves and bring about creative solutions in order to form part of a more sustainable future.



The role of natural gas and renewable gases in the energy model: we have faith in the promotion of new uses for natural gas and the development of clean energy projects, such as biogas/biomethane and hydrogen.



The new sustainability strategy supports the company strategy and is linked to short and long-term remuneration.

The strategy focuses on the issues identified as relevant for the company and stakeholders, represented by the following materiality matrix:

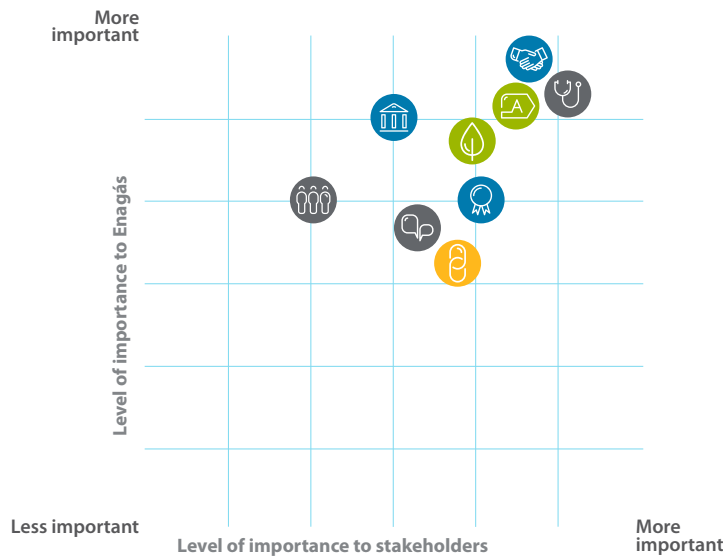
[\[GRI 102-21\]](#)



Materiality matrix

[GRI 102-44, GRI 102-46, GRI 102-47, GRI 103-1]

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



Ethics and compliance

Financial and operational excellence

Good Governance

People

Health and Safety

Local communities

Climate change and energy efficiency

Natural capital management

Supply chain

Enagás stakeholders

Relationship channels

Regulatory bodies (state, local and international)

- Regular meetings (face-to-face, telephone, e-mail)
- Corporate website

Investors (investment fund managers, rating agencies, analysts)

- Regular meetings (face-to-face, telephone, e-mail)
- Roadshows
- Corporate website
- Shareholder Office
- Free shareholder helpline
- Electronic mailbox
- Meetings with minor shareholders and analysts

Employees (professionals, social organisations)

- Regular meetings (face-to-face, telephone, e-mail)
- Corporate Intranet
- In-house magazine AzulyVerde
- Electronic newsletter Ráfagas
- Internal communication campaigns
- Ethics channel
- Opinion surveys and associated improvement plans

Customers (distributors, retailers, transmission companies, direct consumers in the market)

- Account managers
- Regular meetings (face-to-face, telephone, e-mail)
- Main Control Centre
- SL-ATR
- Spanish Gas System Monitoring Committee
- Corporate website: SL-ATR 2.0 portal and SITGAS portal
- Customer newsletter
- Meetings with customers (Shippers' Day)
- Customer satisfaction surveys and associated improvement plans

Partners (business partners, strategic business partners and company management)

- Coordinators of affiliated companies
- Regular meetings (face-to-face, telephone, e-mail)

Media (general, specialising in natural gas sector, specialising in sustainability)

- Regular meetings (face-to-face, telephone, e-mail)
- Corporate website
- Media hotline
- Media mailbox

Suppliers (critical and non-critical)

- Regular meetings (face-to-face, telephone, e-mail)
- Corporate website: supplier portal
- Supplier platform
- Contractor Access System
- Supplier mailbox

Financial institutions

- Regular meetings (face-to-face, telephone, e-mail)

Associations and foundations (in the energy/gas sector; in the social, ethical (sustainability), education and culture, health, and cooperation for development areas)

- Regular meetings derived from participation in groups and forums (face-to-face, telephone, e-mail)

[GRI 102-40, GRI 102-42, GRI 102-43]



Sustainable Management Model

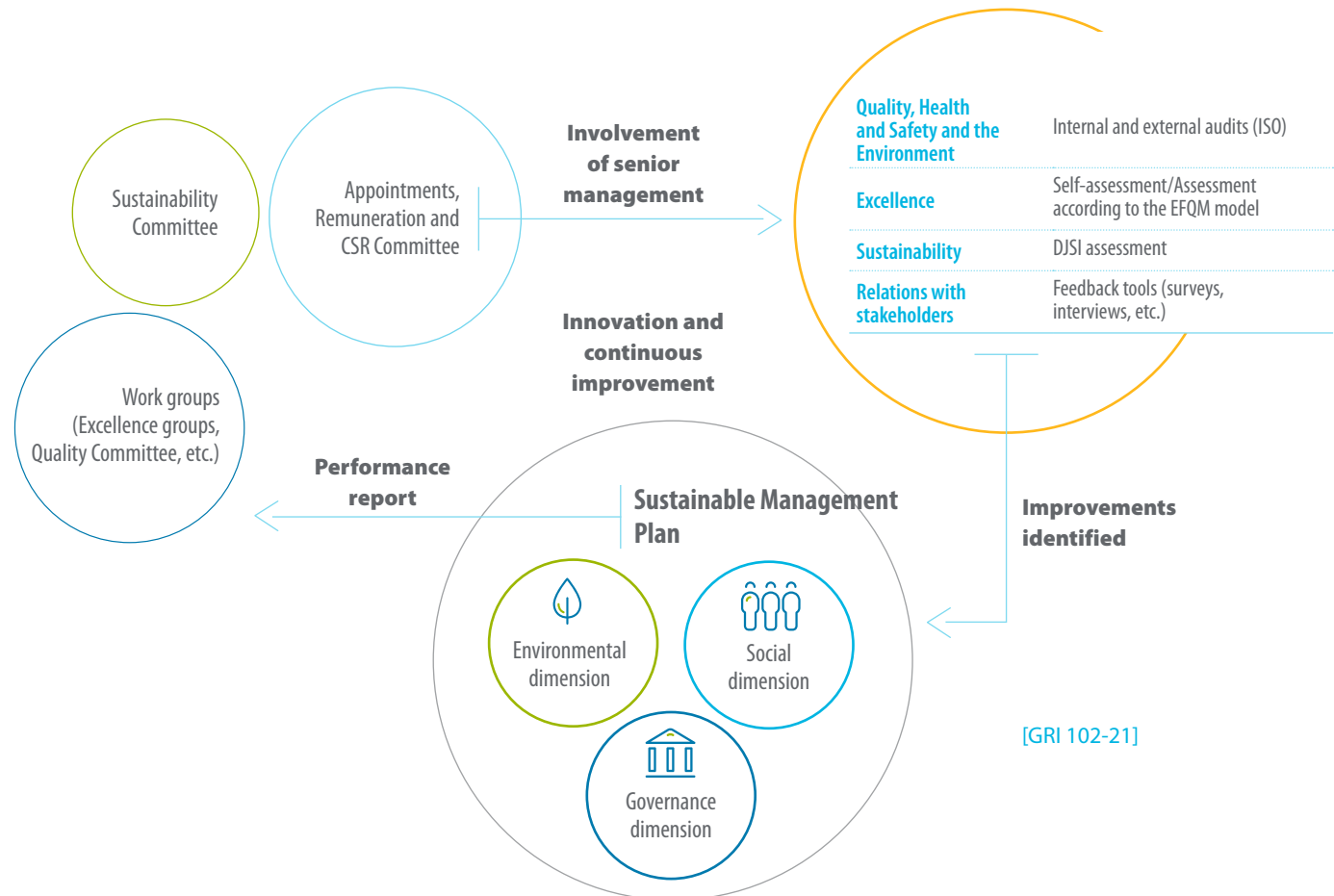


The Enagás Sustainable Management Model establishes the company's responsibilities as regards sustainability governance and defines the assessment tools for identifying lines of action that are set out in the Sustainable Management Plan. This plan includes initiatives for innovation and continuous improvement in the company in order to create value in the short, medium and long term, and achieving results in the environmental, social and governance areas.

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

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

Under the umbrella of the Chief Executive Officer and as a general rule, the Finance Department is responsible for managing financial matters, while the Human & Corporate Resources department is responsible for environmental and social matters. [GRI 102-18, GRI 102-19, GRI 102-20]



Respect for Human Rights



By acting on each material issue, Enagás ensures that human rights are upheld where applicable to the context and activities of the company. For this purpose, the company follows the roadmap set out by United Nations through its Sustainable Development Goals.

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

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

Enagás provides an online training programme for all employees so that they can learn the company's methods for ensuring compliance with human rights.

Human Rights identification and risk assessment

Human rights management is addressed using a continuous improvement approach aligned with our Sustainable Management Model. According to our risk assessments¹, Enagás distinguishes between the human rights that are applicable in the different points of the company's value chain (Enagás activities with management control, affiliate companies without



management control, supply chain and customers), including labour practices, safety, environment, ethics and integrity, and basic rights. [\[GRI 412-1\]](#)

Enagás considers that the level of risk is very low in all of these owing to the measures the company has put into place within the framework of its sustainable management model, which is explained in the following pages.

¹Country risk assessment (see 'Strategy'), corporate risk map (see 'Risk Management'), workplace and facility safety risk assessments (see 'Health and Safety'), Environmental impact/risk assessments (see 'Natural capital management'), supply chain risk assessments (see 'Supply Chain').

Human rights assessed in Enagás activities:

Human Rights

Measures to reduce the level of risk

Right to decent work	Enagás guarantees stability and quality of employment, a commitment that is reflected in its Human Capital Management Policy.
Right to rest and leisure	Enagás improves and extends the periods and conditions of rest and leisure established in current legislation (flexibility in start and lunch break times, shorter workday during the summer and every Friday throughout the year, division of annual leave into a maximum of 3 periods, etc.).
Abolition of child labour	The Enagás Collective Bargaining Agreement prohibits the company from employing minors of under 16 years of age (Article 28).
Right to family life	Enagás improves and extends paid leave beyond the provisions of current labour regulations (birth of a child, lactation or death of a close relative, special circumstances, etc.).
Freedom of association	Enagás employees can freely exercise their right to belong to trade unions in order to promote and defend their economic and social interests without this being the basis for discrimination, and any agreement or decision by the company contrary to this principle is deemed null and void (Article 64).
Collective bargaining	Enagás has in place a collective bargaining agreement, in line with its human capital management policy (see 'Human Capital Management'), and enters into collective negotiations and carries out regular consultations with authorised employee representatives.
Diverse and non-discriminatory workplace	The company has in place an Equality Plan and a Prevention and Action Protocol at the disposal of its employees for any situation of workplace harassment. This protocol provides a confidential channel for reporting workplace harassment (canal.etico@enagas.es).
Equal pay	The Enagás remuneration model factors in considerations of equality and non-discrimination, establishing differences due solely to the worker's position in the organisation and professional experience. Furthermore, the Enagás Collective Bargaining Agreement sets out different salary levels based exclusively upon objective work criteria.

Human Rights

Measures to reduce the level of risk

Fair and favourable remuneration	Part-time employees receive remuneration that is proportional to the salary of full-time employees, with identical employee benefits. Moreover, the minimum salary for an Enagás employee exceeds the minimum inter-professional salary in Spain. [GRI 202-1]
Right to a safe working environment	The Enagás occupational risk prevention management system, certified under OHSAS 18001, provides mechanisms for identifying and preventing incidents (see Health and Safety).
Right to life, liberty and personal security	The company exercises due diligence when rendering its services in order to prevent errors or omissions that could harm the life, health or safety of consumers or others who could be affected by the defective product, in compliance with national laws and relevant international guidelines.
Right to access natural resources	The Enagás environmental system, certified under ISO 14001 and EMAS, provides the mechanism to mitigate the environmental impacts derived from the company's activities (see Natural Capital Management).
Ethical and honourable conduct	The Enagás Code of Ethics and the policies for its implementation set out the commitments and guidelines to ensure ethical and honourable conduct. Moreover, Enagás has a crime prevention model and an anti-fraud, corruption and bribery policy in place (see 'Ethics and Integrity').
Right to freedom of opinion, information and expression	Enagás has various clear and transparent internal communication channels that allow workers to communicate with senior management.
Prevention of abuse by security forces	Security personnel: ensuring compliance with principles regarding respect for human rights by requesting proof of membership to associations promoting respect for human rights. [GRI 410-1]
Confidentiality of information	Enagás has updated its system for the management and control of personal information to the latest requirements set out in Regulation (EU) 2016/679 (GDPR) and to the Spanish Personal Data and Digital Rights Protection Act 3/2018 (LOPDGDD) in order to continue to process the personal information of its employees while guaranteeing respect for privacy and legal compliance.

Human rights assessed in the supply chain:

Human Rights

Risk Management

- General human rights
- Labour
- Safety
- Environment
- Ethics and integrity

Enagás ensures that its suppliers, particularly those with employees working within Enagás facilities, respect these human rights. We require commitment from them; we request the necessary documentation and conduct audits (see 'Supply Chain').

Basic rights
Confidentiality of
information

Enagás has updated its system for the management and control of personal information to the latest requirements set out in Regulation (EU) 2016/679 (GDPR) and to the Spanish Personal Data and Digital Rights Protection Act 3/2018 (LOPDGDD) in order to continue to process the personal information of its suppliers while guaranteeing respect for privacy and legal compliance.

Human rights assessed in affiliate companies without management control:

Human Rights

Risk Management

- General human rights
- Labour
- Safety
- Environment
- Ethics and integrity
- Basic rights /
- Rights of indigenous peoples

Our business agreements promote compliance by business partners and compliance with corporate policies by business partners (according to the level of influence). Our management model for affiliate companies is based on the transfer of critical standards of management (see following section), which include the necessary areas in order to guarantee respect for the following human rights:

- People management
- Health and safety
- Environment
- Ethics and compliance
- Local communities
- Supply chain

Likewise, these areas are evaluated as critical aspects in due diligence processes.

Human rights assessed in customers:

Human Rights

Risk Management

Basic rights /
Confidentiality of
information

The Enagás Code of Ethics sets out diligent management of information as one of its guidelines of conduct. The company keeps a record of what information may be accessed by each person and for what purpose. Moreover, Enagás has updated its system for the management and control of personal information to the latest requirements set out in Regulation (EU) 2016/679 (GDPR) and to the Spanish Personal Data and Digital Rights Protection Act 3/2018 (LOPDGDD) in order to continue to process the personal information of its customers while guaranteeing respect for privacy and legal compliance.

Procedures and mechanisms for redress

Enagás also has in place procedures for redress should there be non-compliance with any of the previously mentioned human rights, such as:

- Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics (see 'Ethics Integrity').
- Self-protection and interior emergency plans, the incident and transmission network emergency response action plan and the procedures regulating it, the accident and incident management procedure and procedure for reporting them to stakeholders (crisis manual, incident reporting, etc.). See 'Health and Safety' and 'Natural capital management'.
- Procedure for compensation and indemnity for the passage of gas pipelines on private property (see 'Local Communities').

Additionally, as mechanisms for redress, Enagás has in place an ethical channel (accessible to all stakeholders) and an Ethical Compliance Committee (see 'Ethics and Integrity'). There are also corporate mailboxes available for specific areas.

Management in affiliate companies



The affiliate company management model establishes the following management guidelines:

- Autonomous management of the affiliate, with the influence and monitoring of Enagás through the transfer of the following critical standards of management, defined in accordance with the company's material issues.



Financial and operational excellence

Financial excellence:

- Financial and cash planning and management
- Insurance
- Management control
- Taxation
- Financial reporting
- Accounting and administration

Operational excellence:

- Quality management system
- Operational efficiency
- Prioritisation of assets
- Maintenance management system
- Operation
- Warehouse management
- Customer service
- Affiliate programming management
- Measurement
- Distribution and balances



Good Governance

- Procedure rules
- Board of Directors remuneration policy
- Company governance (agreements, working groups, etc.)



Ethics and compliance

- Code of conduct
- Whistleblowing channel



People

- Remuneration policy
- Contractual relations and trade union rights
- Negotiation and representation
- Human resources policy
- Human resource development (training and recruitment)
- Workplace climate



Health and safety

- Asset protection
- Health and safety management system
- Emergency plan
- Risk analysis
- Health monitoring



Local communities

- Stakeholder management model
- Local development actions



Natural capital management

- Environmental management system
- Conducting environmental impact assessments



Climate change and energy efficiency

- Energy efficiency measures and emissions reduction



Supply chain

- Suppliers approval
- Contracting and reporting (procurement processes)



Other critical standards of management

- Risk Map: identification and monitoring of risks
- Internal control (general control and process control)
- Internal audit



- In those companies in which Enagás holds a controlling interest, the company intensifies its influence in the company through the progressive implementation of management models in the most relevant areas. This is the case of GNL Quintero, a company in which Enagás acquired a controlling interest in 2017. This report includes the information on this company in its consolidated statements and indicates the areas of management in which work has been carried out in recent months.
- Enagás appoints a coordinator for each affiliate company. Among the coordinator's responsibilities is that of ensuring alignment of the actions to be carried out in the company with the Enagás strategy.

Critical standards of management are transferred through working groups led by the coordinator of the affiliate with the participation of Enagás general managers who hold joint leadership in those aspects coming under their remit. These working groups are instrumental in aligning positions and ensuring the operability of the board of directors of the affiliate company, where the decisions taken by consensus will be activated in the groups.

The working groups are the main communication channel between the affiliate and their members.

The Management Committee for Subsidiaries, with representation from the managers of the offices involved, oversee the critical decisions taken by the groups and reports to the Enagás Management Committee.

Enagás exercises its influence and monitoring in affiliate companies through the transfer of critical standards of management



Ranking on indices and certifications



Recognition shown for the Enagás sustainable management model.



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



Enagás has been a member of the Dow Jones Sustainability Index World (DJSI) since 2008. It is classified Gold Class and Industry Mover, and the company was identified as the leader of the Oil & Gas Storage & Transportation in 2018.



FTSE4Good

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



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



2017 Constituent
MSCI Global
Sustainability Indexes

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



Enagás has been included on the STOXX Global ESG Leaders indices since 2011.



Enagás renewed its presence on the Europe and Eurozone 120 Euronext Vigeo indices in 2018.



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



It has also been on the CDP Climate Change since 2009 and CDP Water since 2015. In 2018 Enagás obtained a B and C score, respectively.



The Enagás management model has held the Seal of European Excellence 500+ EFQM since 2012. In 2018 evaluation, 600 points were surpassed.

Enagás was also acknowledged as the Ambassador of European Excellence in 2016.



Since 2008, the Annual Report has been externally audited and drafted under standard AA1000APS and the Global Reporting Initiative (GRI) guidelines. The 2018 Annual Report has been subjected to the GRI Content Index Service: Exhaustive Conformity Option. Since 2012, it has been written as per the principles of integrated reporting of the International Integrated Reporting Council (IIRC).



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



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



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



Enagás has been included among the 230 leading companies in gender equality according to the 2019 Bloomberg Gender-Equality Index.



Enagás was included in 2017 among the 200 global leaders in the promotion in gender equality in the workplace.



Since 2009, Enagás has been recognised as one of the Top Employers in Spain.



Enagás holds ISO 9001:2008 certification for its processes of Technical Systems Management, Asset Management, Infrastructure Development and Information Systems Management. The company also holds SSAE 18 certification for System Supply Security/ Technical Management of Underground Storage Systems.



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



The Health and Safety Management System for the Enagás Group Companies Enagás GTS, S.A.U., Enagás Internacional S.L.U., Enagás S.A. and Enagás Transporte S.A.U. is certified under OHSAS 18001:2007. Moreover, Enagás has held healthy company certification since 2015 and has obtained ISO 39001 road traffic safety management and ISO 27001 information security management certification.





Chapter 5

Creation of value

The following chapters show how we are creating value for our stakeholders through our performance in relation to each material topic, including the governance of the company and the supply chain, which are key aspects of this value creation. [GRI 102-47]

5.1

Good Governance

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

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

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

Sustainable Management Plan

2018 main lines

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

2019 lines

- Updating of the company's Long-Term Incentive Plan according to the recommendations of good governance:
 - Increase of shares as a form of remuneration
 - Establishment of a deferment period of in the delivery of shares
 - Increase in the holding period for shares
- Succession Plan for the Board of Directors
- Establishment of shareholding criteria
- Establishment of minimum percentage attendance at meetings of the Board of Directors

23%

women on the Board of Directors
[GRI 405-1]

18%

women in the
Management Committee

13

members of the
Board of Directors

54%

Independent directors

45.6%

Quorum at
2018 GSM

30%

Target of 30% women on the Board of Directors by 2021 (see the 'Strategy' chapter)

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

Name of the Director	Position on the Board of Directors	Type of Director	Position on the Audit and Compliance Committee	Position on the Appointments, Remuneration and CSR Committee
Antonio Llardén Carratalá	Chairman	Executive		
Marcelino Oreja Arburúa	Chief Executive Officer	Executive		
Martí Parellada Sabata	Director	Other External	Member	
Isabel Tocino Biscarolasaga	Director	Independent	Chairwoman	
Ana Palacio Vallelersundi	Lead Independent Director	Independent		Chairwoman
Antonio Hernández Mancha	Director	Independent		Member
Luis Javier Navarro Vigil	Director	Other External		Member
Santiago Ferrer i Costa	Director	Proprietary		Member
Luis García del Río	Director	Independent	Member	
Rosa Rodríguez Díaz	Director	Independent	Member	
Gonzalo Solana González	Director	Independent		Member
Ignacio Grangel Vicente	Director	Independent		Member
SEPI - Sociedad Estatal de Participaciones Industriales (represented by Bartolomé Lora Toro)	Director	Proprietary	Member	
Rafael Piqueras Bautista	General Secretary	-	Secretary	Secretary

03/2018

Enagás held its 2018 General Shareholders' Meeting. The shareholders endorsed the management of the Board of Directors and approved the renewal of its Chairman, Antonio Llardén, and Chief Executive Officer, Marcelino Oreja, as executive directors for another four-year term. They also confirmed the renewal of Isabel Tocino, Ana Palacio, Antonio Hernández Mancha and Gonzalo Solana as independent directors. The General Shareholders' Meeting also approved the appointment of a new independent director, Ignacio Grangel, replacing Luis Valero Artola.

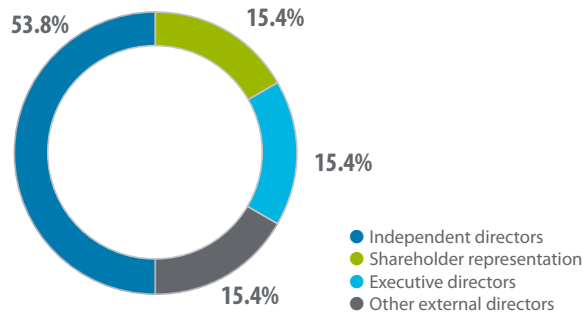
Structure of the Board of Directors: independence and diversity [GRI 102-18, GRI 102-22, GRI 405-1]

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



[Consult the Regulations of the Organisation and Functioning of the Board of Directors of Enagás on the corporate website](#)

Board of Directors



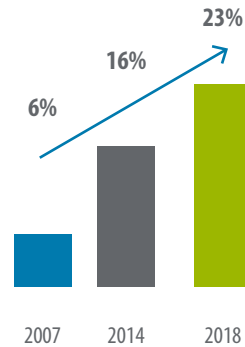
The Enagás Board of Directors maintains a 54% ratio of independent directors compared to the 50% of the Spanish market (Ibex 35 average).

The policy for the selection of Directors sets out the principles on which the selection processes for members of the Board of Directors:

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

In addition, the commitment by Enagás to promoting the gender diversity of the Board is reflected in the significant increase in the percentage of women, from 6% in 2007 to 23% in 2018, with the commitment established on the Long-Term Incentive Plan 2019-2021 to reach 30% by 2021.

Proportion of women on the Board of Directors



[Consult the Director Selection Policy on our corporate website](#)

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

For this purpose, the skills, knowledge and experience of each of the members of the Board of Directors has been studied to ensure the fulfilment of strategic priorities.

Moreover, the Board of Directors of Enagás covers other relevant abilities and experience for the development of the business, for instance, in the fields of business and management, economics, legal and tax, finance and capital markets, human resources, infrastructure, information technology, and marketing and sales. [\[GRI 102-18, GRI 102-22, GRI 102-27, GRI 405-1\]](#)

Skills, knowledge and professional experience of the Board of Directors

Skills	Audit and Compliance Committee							Appointments, Remuneration and CSR Committee					
	1	2	3	4	5	6	7	8	9	10	11	12	13
Engineering (qualification and ample experience as a practising engineer)	X	X						X	X		X	X	
Industry / Sector (Ample experience in administration, management and control in major energy companies)	X	X	X		X		X	X	X	X	X		X
Public / Regulatory institutions (Ample experience acquired through direct exposure to regulators and related institutions)	X	X	X	X	X	X	X	X	X	X	X	X	X
Corporate Governance (Experience in positions of oversight (Chairman / Director on the board of directors of listed companies / specific management roles in large or listed companies))	X	X	X		X		X	X	X		X	X	X
Auditing / Accounting (Ample experience acquired in positions of senior management (CEO, CFO) in listed companies and/or holding management positions in an accounting firm)			X	X	X	X	X	X	X	X	X	X	
Risk management and control (Relevant experience in related positions (risk officer, internal auditor, internal control positions, monitoring/risk/internal control committees)			X		X		X	X	X	X	X	X	X
Corporate Social Responsibility and Environment (Ample experience in administration, management and control in companies operating in sectors exposed to high environmental impact or broad experience in roles of strategic management of social and/or environmental issues. Multi-year academic experience in this field).		X			X		X	X	X	X	X		X
International expansion / Multicultural environment (Previous experience working for multinational or domestic companies in a position with significant international exposure)	X	X	X		X		X	X	X		X	X	X
Business / Management (Previous experience as a senior manager in other companies)			X		X			X	X	X	X	X	X

Functioning of the Board [GRI 102-28]

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

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

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

- Adequate progress in diversity in terms of gender, qualification, professional experience, international competence.
- Adequate balance of knowledge and experience for the purpose of fulfilling the company's strategy and given the context of its markets.

Twelve meetings of the Board of Directors were held in 2018 with an average attendance of 88.8%, and the following critical issues were addressed: [GRI 102-21, GRI 102-27, GRI 102-33, GRI 102-34]

Topic	Type	Resolution
Sustainability Strategy	Corporate Governance, Environmental and Social	Unanimously approved
Annual Risks Report	Corporate Governance	Unanimously approved
General Compliance Regulation	Corporate Governance	Unanimously approved
2019–2021 Long-Term Incentive Plan	Corporate Governance, Economic	Unanimously approved
2019–2023 strategic reflection in line with the company's long-term view	Corporate Governance, Economic, Environmental and Social	Unanimously approved
Report on the review of the application of the principles of diversity and non-discrimination in the human resource management process	Social	Definition of action plans
Monitoring of the Company's contributions to social action and corporate volunteering	Social	Unanimously approved
Target for the long-term reduction of CO ₂ emissions (2019–2021)	Environmental	Unanimously approved
Emission rights trading strategy(EU ETS)	Environmental	Unanimously approved

03/2018

The General Secretary of Enagás, Rafael Piqueras, was appointed Chairman of Emisores Españoles in representation of Enagás. Emisores Españoles represents the interests of issuers and has a relationship of dialogue and cooperation with government agencies, particularly the Spanish securities regulator the National Securities Market Commission (CNMV), as regards the rules, regulation and supervision of the securities market and listed companies. Among its objectives is also that of contributing to the development of high standards of good corporate governance and promotion of communication and commitment between issuers and shareholders.



Consult the Sustainability and Good Governance Policy on the corporate website

Management Committee

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

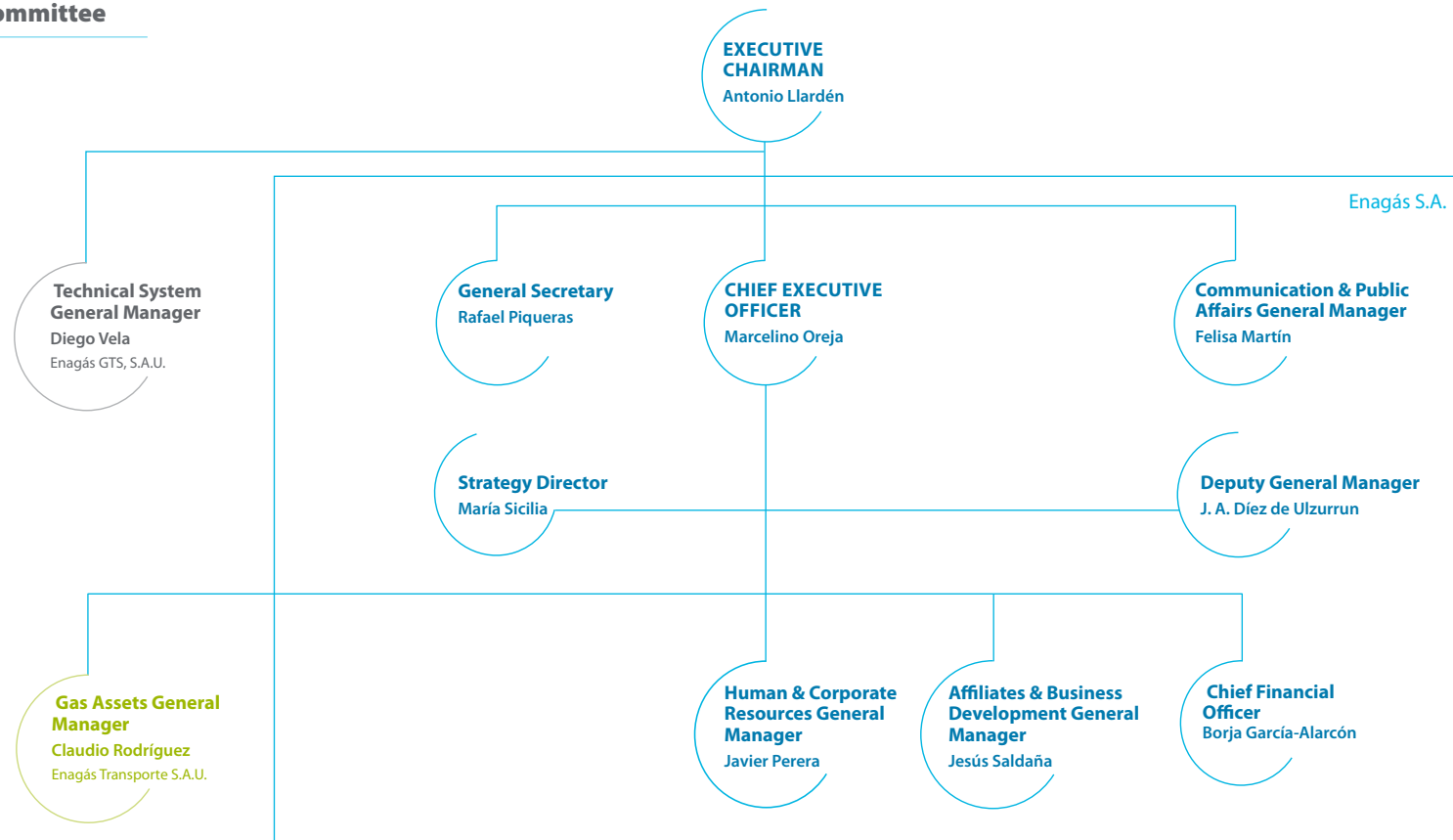
- To enhance the company's long-term orientation in order to be able to meet the different challenges faced, through

importance given to the functional areas of strategy, digitalisation and services.

- Consolidation of the short-term vision, through the concentration of technical functions, guaranteeing efficiency in the regulated business and enhancing the company's technological leadership.

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

Management Committee



Remuneration of the Board of Directors

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

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

The Committee also monitors the transparency of remuneration. Thus, in 2019, the General Shareholders' Meeting approved the Executive Compensation Plan for 2019-2021 with the following characteristics and following the criteria of independence, involvement of stakeholders (the remuneration report is put to a consultative vote at the General Shareholders' Meeting) and internal and external assessment:

Long-Term Incentive Plan 2019-2021

Eligibility	<ul style="list-style-type: none"> Members of the Management Committee and the rest of the management team: 48 participants
Type of Plan	<ul style="list-style-type: none"> Plan for delivery of shares and cash linked to the goals of the Strategic Plan. A minimum reference of shares is established for each segment: 100% Executive Directors, 80% Management Committee and 60% Directors
Duration	<ul style="list-style-type: none"> Period of goal measurement and permanence: 3 years
Conditions for receiving the incentive	<ul style="list-style-type: none"> Achievement of the four outlined targets (see the 'Strategy' chapter) Length of service in the Group
Achievement scales	<ul style="list-style-type: none"> An achievement scale is established for each goal with: <ul style="list-style-type: none"> > A minimum achievement level, below which no remuneration is paid > A 100% achievement level, for which 100% of the initial target remuneration is paid > The maximum total remuneration may not exceed 125% of the initial target remuneration > Intermediate levels are calculated using linear interpolation > In the case of absolute TSR, no reward can be given if the target is not met 100% or over, in which case the total maximum incentive would change from 125% to 85%.
Incentive level	<ul style="list-style-type: none"> The incentive is expressed as a percentage of the fixed remuneration for 2019 or a number of times the fixed remuneration amount in a way that allows segmentation by management level. Annualized incentive: 50% for Executive Directors, 45% for the Management Committee and 30% for Directors
Clawback clauses	<ul style="list-style-type: none"> In the event of certain circumstances coinciding, the Board may, if suggested by the Committee, claim part or all of the remuneration paid
Malus clauses	<ul style="list-style-type: none"> Allowing the partial or total cancellation of deferred amounts pending payment.
Share settlement and maintenance period	<ul style="list-style-type: none"> Once the period for measuring targets has elapsed, the 1st Payment Date (50% of incentive) will take place. The 2nd Payment Date (50% deferred) will take place on the first anniversary of the 1st Payment Date. A holding period of two years is proposed for the shares received on the 1st Payment Date, and of one year for the shares received on the 2nd Payment Date.

Remuneration of the Board of Directors in 2018

[GRI 102-35]

Remuneration received by members of the Board of Directors for Board membership and remuneration corresponding to the Executive Chairman and CEO for exercising their executive functions during 2018 was approved in detail by the shareholders in general meeting on Saturday, 18 March 2016 as part of the 'Directors' Remuneration Policy for 2016, 2017 and 2018', which was in turn approved under agenda item number 7.

The two executive directors are beneficiaries of the 2016-2018 Long-Term Incentive Plan approved by the General Shareholders' Meeting on 18 March 2016 under agenda item number 8. In said meeting, a total of 97,455 rights relating to shares were assigned. These rights do not entail an acquisition of the shares until the end and settlement of the programme and the final remuneration depends on the level of achievement of the goals of the programme. Senior management saw a new member join the team starting from 1 October 2017.

Members of Senior Management (members of the Management Committee) are equally beneficiaries of the 2016-2018 Long-Term Incentive Plan. As approved by the General Shareholders' Meeting, the Board has assigned them a total of 99,433 rights relating to shares as well as an incentive in cash amounting to 903 thousands of euros. Said rights do not constitute acquisition of shares or collection of any amounts until the programme has finalized and been settled, the final bonus depending on the degree to which the program objectives have been met. Executive Directors and Senior Management form part of the collective covered by the mixed group insurance policy for pension commitments. Of the premium settled in 2018, 390 thousands of euros correspond to Executive Directors (419 thousands of euros in 2017) and 652 thousands of euros to Senior Management (708 thousands of euros in 2017).

The aforementioned remuneration, broken down for each member of the Board of Directors, without taking into account insurance premiums, is as follows:

Remuneration of the Board of Directors in 2018 [GRI 102-35]

Directors	2018	2017
Mr Antonio Llardén Carratalá (Executive Chairman) ⁽¹⁾	1,896	1,793
Mr Marcelino Oreja Arburúa (Chief Executive Officer) ⁽²⁾	925	818
Sociedad Estatal de Participaciones Industriales (Proprietary Director) ⁽⁴⁾	155	140
Mr Luis García del Río (Independent Director) ⁽⁴⁾	160	98
Mr Jesús Máximo Pedrosa Ortega (Proprietary Director) ⁽³⁾⁽⁴⁾	123	144
Mr Martí Parellada Sabata (External Director) ⁽⁴⁾	160	148
Mr Luis Javier Navarro Vigil (External Director) ⁽⁴⁾	160	144
Mr Santiago Ferrer i Costa (Independent Director) ⁽³⁾	37	
Ms Rosa Rodríguez Díaz (Independent Director) ⁽⁴⁾	160	144
Ms Ana Palacio Vallelersundi (Lead Independent Director) ⁽⁴⁾	190	166
Ms Isabel Tocino Biscarolasaga (Independent Director) ⁽⁴⁾	172	157
Mr Antonio Hernández Mancha (Independent Director) ⁽⁴⁾	157	144
Mr Luis Valero Artola (Independent Director) ⁽³⁾⁽⁴⁾	44	144
Mr Ignacio Grangel Vicente (Independent Director) ⁽³⁾	116	
Mr Gonzalo Solana González (Independent Director) ⁽³⁾⁽⁴⁾	160	144
Total	4,615	4,221

(1) The remuneration for the Executive Chairman for the 2018 financial year was approved in detail by the General Shareholders' Meeting on 18 March 2016, as part of the 'Directors' Remuneration Policy for 2016, 2017 and 2018'. During 2018, the Executive Chairman received fixed remuneration in the amount of 1,000 thousands of euros and variable remuneration in the amount of 593 thousands of euros; he also received 130 thousands of euros for Board membership and other remuneration in kind amounting to 173 thousands of euros (the changes in remuneration in kind with respect to previous years is exclusively a result of measurement differences without there having been any additional items included in the remuneration). Thus, the combined amounts totalled 1,896 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 47 thousands of euros for the period. The Group has outsourced its pension obligations with its executives by means of a mixed group insurance policy. In addition to pension obligations, the cover provides benefits in the cases of life expectancy, death or disability. The Executive Chairman is one of the beneficiaries covered by this policy, and of the total premium paid during the year, 240 thousands of euros correspond to the Executive Chairman. The Executive Chairman is a beneficiary of the 2016-2018 Long-Term Incentive Plan approved at the General Shareholders' Meeting held on 18 March 2016. Item eight of its Agenda states that the Committee assigned him a total of 69,711 performance shares. These rights do not entail an acquisition of the shares until the end and settlement of the programme and the final remuneration depends on the level of achievement of the goals of the programme.

(2) The remuneration of the Chief Executive Officer for 2018 was approved in detail by the General Shareholders' Meeting on 18 March 2016, as part of the 'Directors' Remuneration Policy for 2016, 2017 and 2018'. In 2017, he received a fixed remuneration of 500 thousands of euros and a variable remuneration of 273 thousands of euros; he also received Board meeting attendance fees of 130 thousands of euros, as well as other items of remuneration in-kind amounting to 22 thousands of euros (variations in in-kind remuneration with respect to prior years are due solely to differences in the value of said remuneration without him having received remuneration in-kind for other reasons). In total 925 thousands of euros. In addition, he was also the beneficiary of a life insurance policy with a premium of 0.6 thousands of euros for the period. The CEO is also beneficiary of the mixed group insurance policy for pension commitments, and the share of the premium corresponding to the CEO for this policy amounted to 149 thousands of euros for the period. In addition, the CEO is beneficiary of the 2016-2018 Long-Term Incentive Plan approved by the shareholders in general meeting on 18 March 2016 under agenda item number 8, by virtue of which a total of 27,744 performance shares or rights relating to shares were assigned. These shares do not entail an acquisition of the shares until the end of the programme and the final remuneration depends on the level of achievement of the goals of the programme.

(3) On 22 March 2018 Mr Luis Valero Artola resigned as Director and Mr Ignacio Grangel Vicente occupied his position.

On 15 October 2018 Mr Jesús Máximo Pedrosa Ortega resigned as Director and Mr Santiago Ferrer i Costa occupied his position.

(4) The remuneration of these Directors being on the Board and its Committees was approved in detail by the General Shareholders' Meeting on 18 March 2016, as part of the 'Directors' Remuneration Policy for 2016, 2017 and 2018'.



Governance model for affiliates

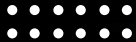
The decision-making processes in our affiliates are regulated through partnership agreements, which guarantee their control or joint-control and provide Enagás with the right of veto in relevant decisions.

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

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

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

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



5.2

Ethics and integrity

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

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

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



Sustainable Management Plan

2018 main lines

- Definition of a Corruption Prevention Model, including the review of the Anti-Fraud, Corruption and Bribery Policy, and creation of the General Regulations for its implementation.
- Strengthening of internal auditing into fraud, corruption and bribery in affiliates.
- Definition of the Enagás Peru Crime Prevention Model.
- Preparation of the fiscal transparency report

2019 lines

- Implementation of the Enagás Group Compliance Model, in keeping with the obligations set out in the General Compliance Regulations, including regular reporting from divisions and reporting to the Audit and Compliance Committee.
- Approval and Implementation of the Corruption Prevention Model.
- Employee training on the Corruption Prevention Model.
- Review and update of the Code of Ethics.
- Internal audit of the Corporate Crime Prevention Model at Enagás Mexico.

5

communications received via the Ethics Channel

93.7%

of Enagás' employees received training on the Code of Ethics

91.6%

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

97%

of employees received training in anti-corruption policies and procedures [GRI 205-2]

100%
Commitment to answering all communications received

Code of Ethics

The Enagás Code of Ethics (Enagás Group Code of Ethics and Enagás GTS Code of Conduct) sets out the conduct that is expected from all professionals in the company, irrespective of their responsibilities and their geographical or functional location. The Code is implemented via policies, regulations, procedures and controls.

The policies set out the principles and commitments of the main management areas of the company. The corporate directives define the principles of action for specific management areas.

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

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

- Procedure for the functioning of the Ethical Compliance Committee.
- Management of offering and acceptance of gifts, which states that the professionals who offer or receive gifts over a specific value are obligated to report those gifts.
- Management of consultations and reporting regarding irregularities or breaches of the Code of Ethics in order to encourage compliance with the Code of Ethics and the regulations that govern its implementation. For this purpose, the company enables Enagás employees and the company's suppliers, contractors and those who collaborate with it or act

on its behalf, including business partners, to resolve any doubts or to report any irregularities or breaches through one of the following channels or any other means the company may set up in the future (Ethics Channel), informing the party who made the report of the status of their report at all times:

[\[GRI 102-17\]](#)



In 2018, 5 communications were received via the Ethics Channel:

[\[GRI 205-3\]](#)

- Two external communications relating to possible irregularities in a procurement process and to the incorrect assignment of responsibilities in one of the Company's affiliates. Both were dismissed following appropriate investigations.
- Three internal complaints, one of which refers to a breach relating to fraud and/or economic crimes, that has been dismissed following an investigation and the necessary security measures being taken. Another related to a possible mobbing that has been dismissed due to lack of evidence, and the final was an anonymous unfounded complaint that has been dismissed.



Consult the [Code of Ethics and Policies on the corporate website](#) [\[GRI 102-16\]](#)

Compliance model

The Enagás Compliance Model is managed by the compliance function, which is supported by synergistic functions and other corporate support areas including the participation of local compliance officers located in certain countries where Enagás operates.

According to the company's policy, procedural and regulatory framework, the Enagás Compliance Model is structured around the Compliance Policy and its associated regulations:

- The Compliance Policy sets out a series of compliance commitments that all company professionals must comply with, irrespective of their professional category or the country where they carry out their activities.
- The General Compliance Standard, approved by the Board of Directors in 2018, develops what is set out in the Compliance Policy and the Enagás Code of Ethics. It outlines the compliance responsibilities that, according to each professional category, are assigned to Enagás' professionals.

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

Crime Prevention Model

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

The Crime Prevention Model in Spain includes the following elements:

- Potential offences of criminal risk that are considered when taking into account the activity of a company with the characteristics of Enagás.
- Roles and responsibilities defined by a governance structure aligned with art. 31 bis 2.1 and 2 of the Criminal Code. The role of the Director of Compliance has thus been redefined with regard to the reception, prior study and investigation of complaints, as has the Compliance Department as a Criminal Prevention Body.
- Map of criminal risks and activities exposed to those risks.
- Inventory of controls, both general and specific, that exist at Enagás that provide preventive virtuality in the face of potential offences being committed.
- Disciplinary system articulated around compliance with the Code of Ethics which ensures compliance with the model via disciplinary measures.

In 2018, the company defined the Corruption Prevention Model, based on ISO 37001

In 2018, the Crime Prevention Model was approved at the Chile regasification plant (Quintero LNG). Similarly, the year also saw training on compliance, anti-corruption and the crime prevention model for 5 of the 10 suppliers who work at the facility on a permanent basis and 120 personnel at the regasification plant.

Anti-fraud, corruption and bribery

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

The Crime Prevention Model includes risks related to corruption, such as bribery, influence peddling and corruption in business.

All activities in Spain have been analysed for these risks and the company has put in place controls and guidelines for action in order to prevent and mitigate those risks. [\[GRI 205-1\]](#)

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

The standard establishes the following general control measures to prevent corruption:

- Anti-fraud, Corruption and Bribery Policy.
- Code of Ethics and Ethics Channel.
- Procedures for Managing the Offering and Acceptance of Gifts.
- Procedures for Managing Sponsorship, Patronage, Donations and Partnerships.
- General Travel Regulations for Work Purposes.

- General Management Regulation for Awarding and Contracting.
- Procedures for the “Operation of the Committee on Investment in New Businesses”.
- “Supplier Approval” Procedure.
- Procedure for the Management of Powers and Certificates.

Enagás is also conducting internal audits of its affiliates in order to verify the solidity of internal controls associated with the processes at greatest risk for fraud, corruption and bribery, establishing control activities to strengthen them wherever necessary. In 2018, the company will continue to make progress in the prevention of fraud, corruption and bribery in its affiliates, strengthening its internal auditing process and following up on audits conducted in previous years. Particularly notable is the follow-up on the procurement and payment audits at Grupo Altamira (TLA), the shareholder audit at Trans Adriatic Pipeline AG (TAP), follow-up on the ethics and good governance audits at Compañía del Gas del Amazonas, S.A.C (COGA) and TLA, as well as the audits of local communities at TgP devoted to checking the receipt of the aid sent to each community.

Responsible tax practice

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

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

In 2018, in line with the company’s commitment to tax transparency entailed by its adherence to the Code of Good Tax Practices, Enagás presented its Fiscal Transparency Report.

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



Consult the [Compliance Policy on the corporate website](#)



Consult the [Responsible Tax Practice Policy on the corporate website](#)

Training was given over the last two years on the Enagás Crime Prevention Model, which was completed by around 92% of professionals

Enagás has 3 professionals participating part-time in different activities related to the transparency register, including a permanent representative in Brussels. In 2018, annual costs were less than 200,000 euros, distributed as follows: personnel expenses (56%), office and administration expenses (2%), representation, communication and public relations expenses (1%), internal expenses (6%) and association membership fees (35%).

Similarly, Enagás is participating in commercial associations and non-profits such as think tanks as a sponsor for these initiatives. The total sum allocated in 2018 was €765,844.

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

Enagás professionals are provided with the opportunity to undergo training on the Code of Ethics that encompasses such key issues as the fight against fraud, corruption and bribery, fiscal responsibility and respect for Human Rights, among others. It is a tool for preventing irregularities, including those that could constitute crimes, in those spheres. The course has been completed by 93.7% of professionals.

Training was given over the last two years on the Enagás Crime Prevention Model, which was completed by around 92% of professionals. The course includes general information on the Crime Prevention Model and practical cases related to the most relevant crimes related to the company's activity, and professionals are provided with a Crime Prevention Manual. This manual includes a description of each crime and behavioural guidelines for its prevention.

In 2019, an online training course will be carried out on the Corruption Prevention Model for all employees. In addition, certain groups will also receive in-person training.

Furthermore, one of the most highly valued aspects of the workplace climate survey carried out in 2018 (see 'People' chapter) was the awareness among professionals regarding the existence of the Ethics Channel to report inappropriate behaviour without fear of reprisal. This reveals the level of familiarity with the principles and guidelines on conduct expected by Enagás.

European Transparency Register

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

In 2019, an online training course will be carried out on the Corruption Prevention Model for all employees

5.3

Financial and operational excellence

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

Sustainable Management Plan

2018 main lines

- BDI €442.6 Mn in line with the 3% CAGR target for 2016-2018.
- Solid cash production. De-leveraging of €733Mn.
- Improvement of the FFO/Net Debt 18.8% (int. global) and 20.0% (*stand alone*) leverage ratios.
- Affiliate dividend €132.6 Mn more than the target of €120 Mn. Contribution to net profit: 19.6%.
- Dividend (+5%) in line with the growth target until the year 2020.

2019 lines

- EBITDA ~ €938 Mn
- Net profit ~ €418 Mn
- Affiliate dividends ~ €120 Mn
- FFO/ND >15%
- Dividend of €1.60/share (+5%)

€1.53

dividend per share
in 2018

€442.6 Mn

of net profit

€4.275 Bn

net debt
(4.0x net debt/adjusted EBITDA)

2.8%

Average cost of debt

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

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

Financial excellence



2018 Results Figures

Results in line with the targets set for 2018. The decrease in net profit relative to financial year 2017 is primarily due to the effect of the business combination in stages of GNL Quintero in FY 2017 for a total of 52.4 million euros.

2018 Results Figures

In Mn€	2017	2018	% variation
Total revenue ⁽¹⁾	1,384.6	1,342.2	-3.1%
EBITDA ⁽²⁾	1,110.3	1,060.7	-4.5%
EBIT ⁽²⁾	732.1	691.0	-5.6%
Net profit ^{(1) (3)}	490.8	442.6	-9.8%

⁽¹⁾ Figures from the income statement of the Consolidated Annual Accounts of Enagás Group for fiscal year 2018.

⁽²⁾ The said sums were found in the report on Alternative Performance Measures, available at: [https://www.enagas.es/enagas/es/AccionistasElInversores/InformacionEconomicoFinanciera/Medidas_Alternativas_de_Rendimiento_\(APM\)](https://www.enagas.es/enagas/es/AccionistasElInversores/InformacionEconomicoFinanciera/Medidas_Alternativas_de_Rendimiento_(APM))

⁽³⁾ €586.4 Mn Profit before tax, which includes the result of investments accounted for using the equity method, which is recorded net of tax effect. The breakdown of net profit per country is as follows: Spain €480.8 Mn, Chile €48.2 Mn, Peru €42.7 Mn, Mexico €13 Mn, Sweden €4.7 Mn, Greece €-1.3Mn, Switzerland €-0.9 Mn, U.S.A €-0.8 Mn.

Evolution of the share price

At year-end 2018, Enagás shares were trading at €23.61 each, a fall of 1.1% on the previous year-end, with a share capitalisation of 5.636 billion euros. Taking into account the dividends paid during 2018, the total yield for company shareholders stood at +5.1% for 2018. Over the course of the year, Enagás shares have performed better than the national index, the Ibex 35 (-15.0%) and the European sector index, EuroStoxx Utilities (-2.1%).

During the course of 2018, the price of the Enagás share peaked at €25.77 (14 December), with a low of €20.25 (9 February). The average volume traded for the year was 936,254, slightly less than recorded at year-end 2017, which was 1,010,783 shares. Analysts agree on an estimated target average price of €23.7 per shares, with 52% recommending 'hold', 41% 'sell' and 7% 'buy' for the company's shares.

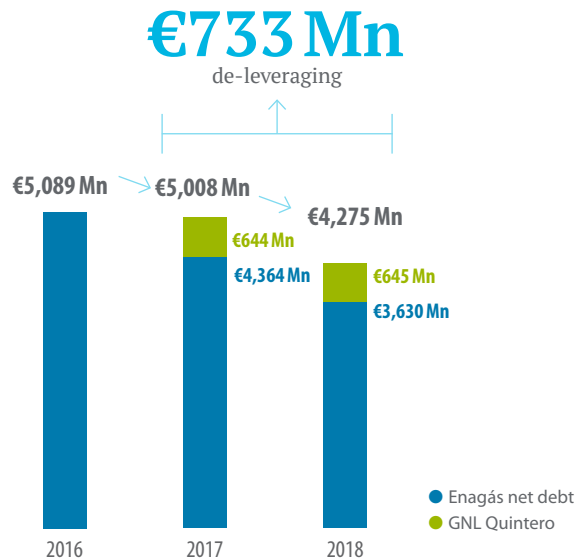


The 2018 results
are in line with
the targets set

Financing strategy

Enagás has adapted to the new circumstances arising out of the crisis, reducing its external financing through banks and resorting to other types of financing, such as bond issues, which has permitted the Company to achieve a more diversified structure.

Net Debt



Enagás has reduced its net debt through the generation of cash flows, the materialisation of the TAP true up (€415.2 Mn) once the financing for the project was finalised, as well as through the sale of Swedegas (€100.5 Mn).

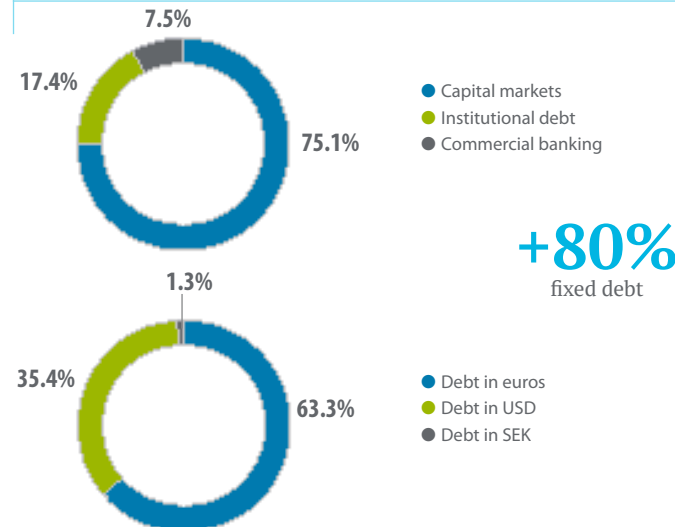
Leverage and liquidity

	2017	2018
Adjusted net Debt/EBITDA (*) Int. Global ²	4.4x	4.0x
Adjusted net debt/EBITDA (*) Stand Alone ²	4.4x	3.8x
FFO/Net Debt Int. Global ²	17.4%	18.8%
FFO/Net Debt Stand Alone ²	17.8%	20.0%
Net cost of debt Int. Global ¹	2.7%	2.8%
Net cost of debt Stand Alone	2.2%	2.3%
Liquidity Int Global ¹	€2.484 Bn	€2.809 Bn

(1) Figures from the Memo regarding the Consolidated Annual Accounts of Enagás Group for fiscal year 2018.

(2) The said sums were found in the report on Alternative Performance Measures, available at [https://www.enagas.es/enagas/es/AccionistasElInversores/InformacionEconomicoFinanciera/Medidas_Alternativas_de_Rendimiento_\(APM\)](https://www.enagas.es/enagas/es/AccionistasElInversores/InformacionEconomicoFinanciera/Medidas_Alternativas_de_Rendimiento_(APM))

Debt type

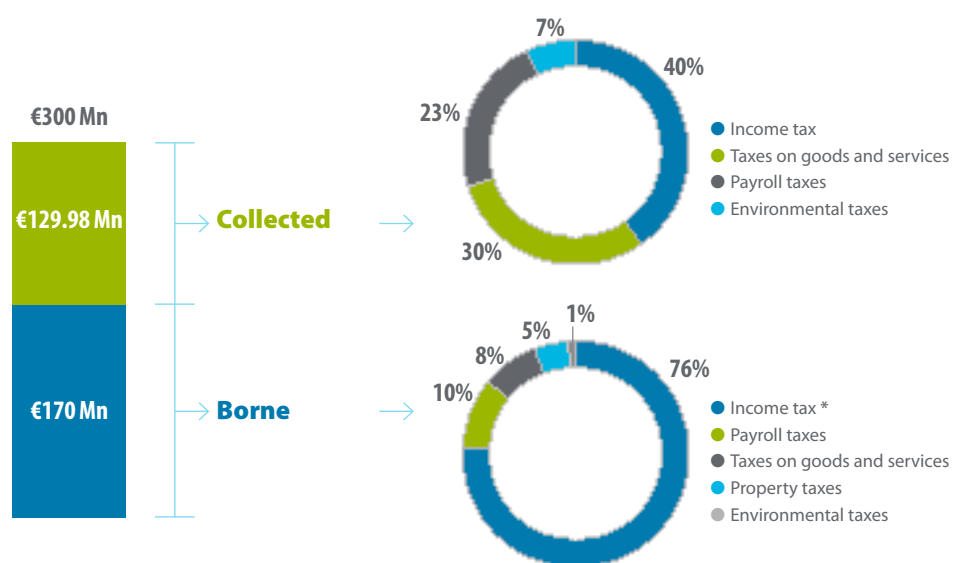


Total tax contribution

The total tax contribution made by Enagás in 2018 amounted to 300 million euros, of which 57% corresponded to taxes borne (170 million euros) and 43% to taxes collected (130 million euros).

The Total Tax Contribution is calculated according to the PwC Total Tax Contribution (TTC) method, using the cash method and taking into account the globally integrated entities and joint operations (see section '1.3 Consolidation principles, a) Consolidation methods' of the Consolidated Annual Accounts).

Enagás total tax contribution



* Including the following concepts: Corporate Income tax, Tax on Economic Activities and movable capital income retentions.



Operational excellence



Commercial logistics hub

Due to its geographical location, Spain is an entry point for LNG and natural gas coming into Europe from various locations around the world. It has the highest number of regasification plants of any European country, as well as a meshed network of gas pipelines. This gives the country great capacity for storage, transmission and operational flexibility.

Given this situation, and after more than forty years of experience in developing, maintaining and operating regasification plants and transmission pipelines, Enagás is situated as one of the most reputable transmission companies in Europe in terms of facility efficiency.

Our terminals are now recognised as amongst the most efficient in Europe, with availability of over 99%. At Enagás, we place our facilities at the service of our clients. There, we provide both traditional LNG services, such as the unloading of tankers, regasification, LNG transfer to ships and tanker trucks, as well as a new small-scale and bunkering services. We are adapting our facilities to these services every day. Across the board, we work

for continuous improvement at our facilities, implementing the latest technologies.

Specifically, we have invested in creating a “logistics hub” for Europe in the gas market, promoting the use of our infrastructure through traditional services and new small-scale and bunkering services.

The Spanish Gas System

Enagás, a midstream company with more than four decades of experience in the development and maintenance of gas infrastructure and operation and management of gas networks, was certified as a Transmission System Operator (TSO) by the European Commission in 2012, securing its positioning as a European sector leader. It also works as the Technical Manager of the System following the publication of the Hydrocarbons Law. This means it is responsible for the operation and technical management of the Basic Network and the secondary transmission network, guaranteeing the continuity and security of the natural gas supply as well as proper coordination between access points, storage facilities, transmission and distribution.



[Consult the Annual Report on the Spanish Gas System on our company website](#)

Enagás carries out the majority of its activities in Spain, where it has worked since 1969 to the present day. It has built a meshed network of more than 12,000 km of high-pressure gas pipelines, facilitating access to gas from almost every point on the Iberian peninsula. The company holds stakes in six of the seven regasification plants in the Iberian Peninsula (four terminals owned outright and two part-owned), and has three underground storage facilities. As the main transmission company, Enagás has developed the main infrastructure facilities of the Spanish Gas System, making it into a leader in security and diversification of supply and consolidating its presence on the international stage.

At the vanguard of technology and efficiency

- **100%**
availability at all LNG terminals
- **Greater than 3,500 m³/h**
average loading ratio of ships at all our plants
- **Zero operational losses from boil-off**
during tanker loading operations
- **Minimum coefficient of shrinkage**
in operations
- **Maximum flexibility**
without penalisation in the allocation and adjustment of slots for tanker offloading and loading
- **Terminals ready to receive the largest LNG tanker ships in the world**
Q-Max with up to 266,000 m³ of LNG

LNG terminals

Enagás is one of the companies with the most LNG terminals in the world. We are pioneers in the development, maintenance and operation of this type of infrastructure, and our knowledge and experience have made us as international leaders in the sector.

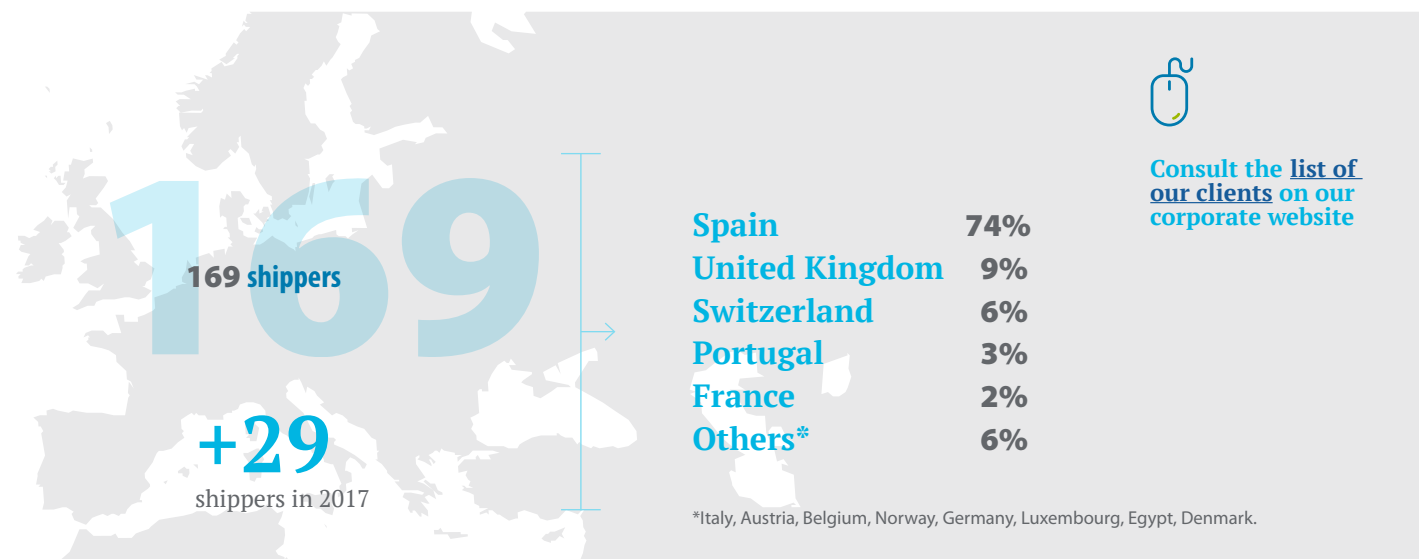
Our terminals have a unique geostrategic position: their placement between the Atlantic, Cantabrian and Mediterranean catchment areas favours sea transmission and the diversification of LNG sources and destinations. In addition, as regards emissions, Spain is the entry point for a possible ECA (Emission Control Area), an area that could be declared particularly vulnerable to pollution. In such an area, a small-scale market could be a solution.

At Enagás, we offer a vetting service for the assessment and inspection of methane tankers, both in the large and small scale sectors.

Commercial services in Spain

At Enagás, we are working to provide our customers with the set of services we provide, in accordance with current regulations. The Third-Party Network Access (ATR) services that we provide at our facilities are fundamentally classified as:

- Liquefied natural gas (LNG) services
- Natural gas (NG) services
- Gas measurement services
- Other services:
 - > Calibration/testing laboratories, accredited by the Spanish National Accreditation Body (ENAC):
 - Gas quality
 - Gas volume
 - Pressure and temperature instrumentation
 - > Other services related to infrastructures



Consult the [list of our clients](#) on our corporate website

Most of these services are sold as individual services. However, the new Spanish regulations governing third-party access to the grid, Royal Decree 984/2015, set out the possibility of offering additional services. Enagás is therefore working intensely together with other LNG operators and shippers to design an additional services proposal that meets the needs of our customers.

In 2018, the use of storage capacity at plants wholly owned by Enagás rose 6% relative to 2017. Likewise, the number of trucks loaded rose 11.9% over 2017 levels, with 29,134 trucks sent to 652 locations. The regasification volume at plants wholly owned by Enagás was 101.27 TWh in 2018, the highest regasification volume in the EU.

Customer Management

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

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

In the case of customers, the results obtained in 2018 were as follows: [\[GRI 102-21, GRI 102-42, GRI 102-43, GRI 102-44\]](#)

2018 customer results

			Number of responses out of the total	Assessment of services rendered	Services
Business operation	Enagás as transmission company	Shippers	34/44	8.94/10	Capacity management and viability analysis, infrastructure operation and programming, etc.
		System operators (transmission and distribution companies)	2/6	8.12/10	
	Enagás as Technical Manager of the System	Shippers	75/543	9.01/10	Programming, operations, distribution and balances, etc.
		System operators	17/87	8.94/10	



[Consult the improvement plans associated with satisfaction surveys on the corporate website](#)

In 2018, 95 claims were received from customers; 100% were resolved.

Efficiency as one of the key levers that determines the sustainability of the business in the short, medium and long term

Efficiency Plan

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

- Infrastructure, by implementing plans for greater efficiency and optimising maintenance management using tools for continuous improvement and operating excellence (continuous improvement programme and digitalisation process); reducing CO₂ emissions through energy efficiency and elimination of fugitive emissions (see chapter on 'Climate change and energy efficiency').
- People, by implementing measures to adapt the resources and organisational structure to the strategy, and strengthening talent as a critical asset of the company (see the chapter





on 'People') and innovation (corporate entrepreneurship programme).

- Administration and support services, by putting in place actions to ensure control of spending, adjusting it to the needs of the business at all times (cost efficiency plan).

Agility and continuous improvement programmes

Enagás is pursuing a Programme of continuous improvement set out to encourage new forms of work and collaboration between teams. This programme includes the following avenues:

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

In 2018, the pilot project launched in 2015 was deployed at all company facilities. This initiative involves more than 450 professionals, providing them with methodologies that can be used to obtain very satisfactory results based on improvements to communication, implementation and improvement actions, standardising tasks, critiques and solving daily problems in a structured way.

In addition, as a way of addressing new challenges at the company, in 2018, cross-cutting projects have been launched with multidisciplinary teams that will allow us to create innovative solutions with high short-term impact. These use new methodologies, including Lean-Kaizen and design thinking. In 2019, the Programme will focus on initiatives directed at programme sustainability and continuing with cross-cutting improvement projects.

Similarly, the agility Programme is made to address one of the challenges the organisation faces in adapting better to change, increasing its mobility and speed of action, maximising value delivered to the client and developing different, more innovative

ways of working. Agility at Enagás is being encouraged across the company and at the level of projects and services.

In 2018, an Agility Hub was created to work on defining the philosophy, agile culture and forward movement of Agile projects. Likewise, 3 pilot projects have been launched using Agile methodologies to test the viability of introducing these methodologies and assessing their scalability for specific areas of the company.

11/2018

Enagás received an Honourable Mention at the Kaizen Lean Awards in the "Excellence in Systems of Continuous Improvement" for its Global Continuous Improvement Programme. Thanks to this programme, we have been able to promote the identification of improvement initiatives in day-to-day operations at Enagás, as well as launching cross-cutting projects with a large impact on results. In this way, we will create a sustainable cultural change over time.

5.4

People

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



Sustainable Management Plan

2018 main lines

- Implementation of the Flexible Remuneration programme.
- Implementation of the flexible working model (telecommuting) in all positions where this is possible.
- Launch of the pilot project for the use of VR technology in training.
- Establishment of a Succession and Replacement Plan.
- Signing of a collaboration agreement with the Capacis Foundation for the development of training practices at the Enagás facilities for young people with disabilities.
- Implementation and communication of the professional development model in the technical sphere.
- Bequal and EFR re-certification.
- Review of the company's Remuneration Model
- Opinion survey launch

2019 lines

- Preparation of an equal pay study and resulting action plan.
- Establishment and publication of Action Plans based on the results of the opinion survey.
- Preparation of the General Diversity Plan.
- Renewal of the Diversity Charter.
- EFR Recertification.
- Signing of the EJE&CON (Spanish Women Managers and Directors Association) Good Practices Guide for Talent Management and Improving Business Competitiveness.

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

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

56

employees have taken part in talent identification programmes

61.44

training hours per employee (€1,163.5 investment per employee)
[GRI 404-1]

80.5%

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

61

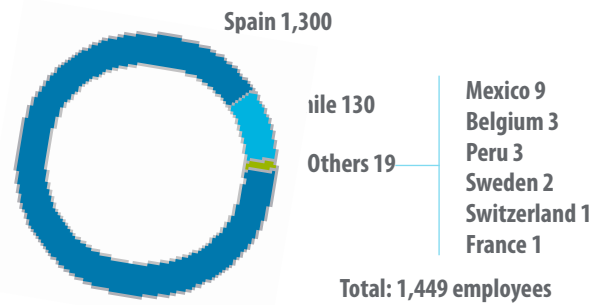
Internal promotions (29.5% women)

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

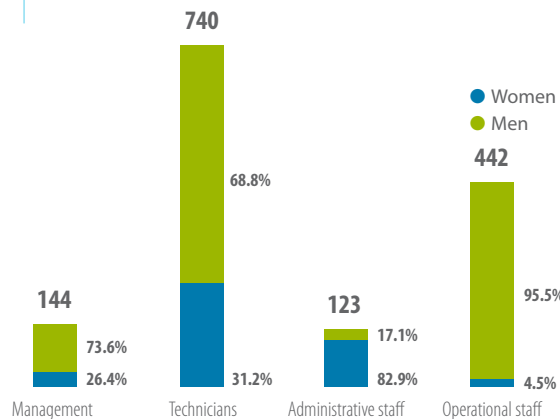
Our professionals

The following outlines the distribution of Enagás' 1,449 professionals by country, age group, job category and gender:

Number of employees by country [GRI 102-8]



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



In 2018, there were 110 new recruitments, 61% being people aged under 35 and 37% women. [GRI 102-10, GRI 401-1]

Stable, quality employment

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

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

	Spain		Chile		Total	
	Women	Men	Women	Men	Women	Men
Full-time	92.9%	99.6%	100.00%	100.00%	93.4%	99.6%
Permanent contract	96.2%	98.0%	96.0%	98.1%	96.2%	98.0%

In addition, at the end of 2018, 12 professionals were hired through temporary employment agencies and 65 interns were working at Enagás.

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

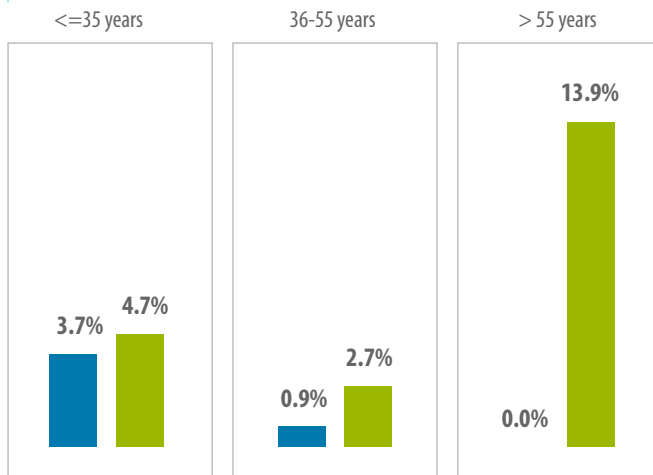
Voluntary and absolute turnover rate by country and gender [GRI 401-1]

	Spain			Chile			Total		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Voluntary turnover rate	2.8%	0.7%	1.3%	0.0%	1.9%	1.6%	2.7%	0.9%	1.3%
Absolute turnover rate	5.7%	4.4%	4.7%	8.0%	4.8%	5.4%	5.8%	4.4%	4.8%



Consult the [Human Capital Management Policy on the corporate website](#)

Voluntary and absolute turnover rate by age group [GRI 401-1]



- Voluntary turnover rate: Total permanent contract voluntary redundancies/total workforce (%)
- Absolute turnover rate: Total permanent contracts terminated/total workforce (%)

In 2018, the company dismissed one employee in Spain and seven in Chile*.

Though Enagás has not undergone - or planned to undergo - any restructurings in recent years, the company does have measures that aim to prevent and manage restructurings. These include early retirement, help with finding new work (outplacement), priority given to internal candidates when filling vacant positions, training programmes to add new duties and responsibilities, and personalised follow-up (coaching and mentoring).

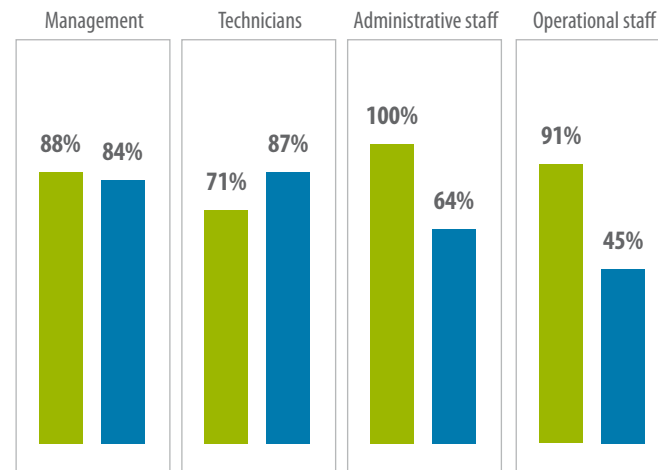
* Three women (one manager and two administrators) and five men (one manager, two technicians and two operators).

Knowledge of internal talent [GRI 404-3]

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

Performance assessment allows the identification of strengths and areas of development of professionals regarding the performance of their work and on which the different development plans are developed. The competences and behaviours of professionals are evaluated annually, based on corporate values. The outcomes of these assessments are linked to their career development and the increase in their fixed remuneration.

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



- Men
- Women

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

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

Professional development programmes

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

On the one hand, development programs are promoted through on-the-job experience. With this in mind, internal rotation programmes are fostered so that new knowledge can be applied to real situations, and participation in transversal projects or temporary assignments can also be taken advantage of. In 2018, there were 142 internal movements (promotions, horizontal transfers and international transfers). 58% of hirings selected internal candidates. Twelve interns also stayed on at the company.

On a related note, there is room for mentoring and/or coaching programmes (16 professionals participated in coaching programmes). In addition, professionals in the company have received training and are certified in coaching; they are therefore qualified to carry out internal coaching processes. During the coming year, there will be work to strengthen existing mentoring and coaching programmes.

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

Training [GRI 404-2]

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

Training begins with Enagás' Welcome Plan. This plan consists of a block of e-learning on topics such as the Code of Ethics, risks regarding criminal liability, and equality, etc. and is mandatory for all professionals. Face-to-face training on Enagás' value chain, given by company executives, offers a global vision of the company's business to its professionals.

In addition, and depending on the type of work carried out by the

new employee, a training plan has been designed in areas related to operations, maintenance and administrative management.

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

Enagás assesses the satisfaction of professionals who have received training, which in 2018 averaged 8.9 out of 10.

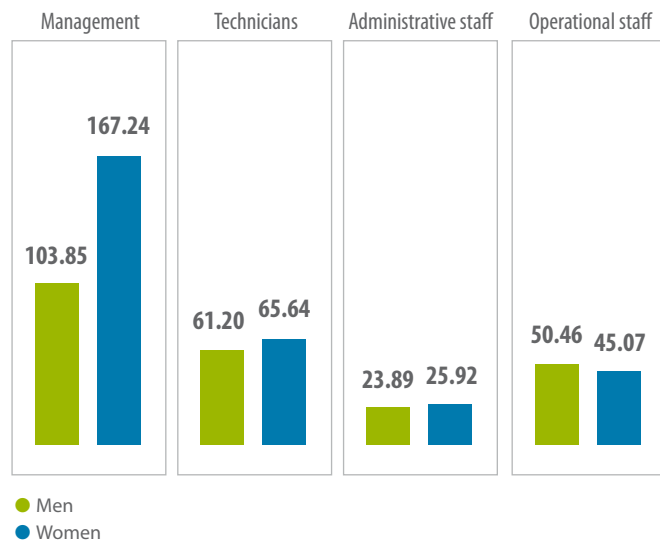
Diversity

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

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

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

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



04/2018

Representatives of Kuwait Integrated Petroleum Industries Company (KIPIC) attended a training session at Enagás on the management, operation and maintenance of regasification plants.

2,721
training courses given



Consult the *Corporate guidelines on diversity and equality of opportunity* on our company website



Gender diversity



Generational diversity



Functional diversity



Cultural diversity

In the area of **gender diversity**, Enagás guarantees equal opportunities for men and women.

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

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

In addition, Enagás is working with Junior Achievement by participating in objectives aimed at promoting women's education in STEM careers and reducing the early school drop-out rate in Spain.

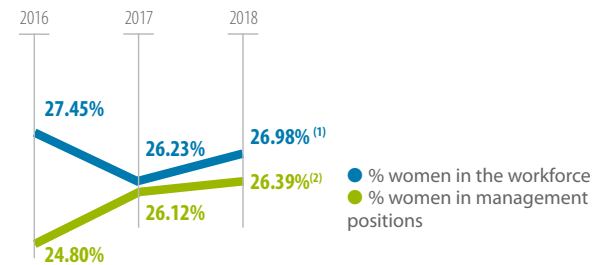
03/2018

The Enagás Women Directors working group meets on International Women's Day. During the meeting, the company's female directors reviewed the existing measures regarding gender equality and the commitments adopted for 2018.

06/2018

Enagás joins the global gender diversity campaign **Equal by 30**. This initiative is aimed at getting companies and governments to help speed up the incorporation of women into the clean energy sector before 2030

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



(1) 27.73% Spain and 19.38% Chile
(2) 27.21% Spain and 12.50% Chile



The Enagás remuneration model factors in considerations of equality and non-discrimination, establishing differences due solely to the worker's position in the organisation and professional experience. Furthermore, the Enagás Collective

Bargaining Agreement sets out different salary levels based exclusively upon objective work criteria. The minimum salary for an Enagás employee is more that double the minimum inter-professional salary in Spain and Chile. [GRI 202-1]

In Chile, the ratio between the base salaries of female and male managers is 0.79; for technicians it is 0.84. As in the case of Spain, the lower ratio in the technical category is due to the greater average age of men compared to women in that category. In the case of the operators category, there is only one woman, whose position is at operator entry level (junior) and the ratio is therefore 0.36. Finally, the category of administrative officers includes qualified jobs fully occupied by women (secretaries) and unskilled jobs occupied entirely by men (couriers), so that the ratio is not relevant.

In 2018, the average compensation of employees in Spain rose 5.4% over 2017 levels.

In terms of **generational diversity**, the company is a partner of the Generation and Talent Observatory which encourages innovation and promotes active policies of generational diversity based on values and ethics. Enagás has sponsored and collaborated with the 'Generational diversity diagnostics: intergenerational talent analysis at companies', a report that aims to identify generational abilities by assessing the values, circumstances, knowledge and abilities of different generations.

Relationship between the base salary of men and women by age and job category [GRI-405-2]

	Management*	Technicians	Administrative staff	Operational staff	
Base salary***	<=35 years	0.79**	1.02	1.23**	0.94
	36-55 years	0.95	1.05	1.00	0.98
	> 55 years	1.18	0.98	1.08	There are no women in this category
	TOTAL	0.94	0.98	0.99	0.90

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

** Unrepresentative data, as there are less than 3 employees in this category for one of the genders.

*** Data regarding the employees of the Quintero LNG Plant in Chile has not been included.

Remuneration by age, gender and job category [GRI 405-2]

	Management*		Technicians		Administrative staff		Operational staff		
	Women	Men	Women	Men	Women	Men	Women	Men	
Remuneration**	<=35 years	76,817**	102,184	46,887	47,680	32,099	26,309**	37,432	41,084
	36-55 years	111,351	117,990	58,494	59,581	38,662	38,862	42,759	47,240
	> 55 years	166,269**	134,428	63,178	67,331	47,798	45,370	There are no employees in this category	53,440
	TOTAL	110,947	119,139	53,979	58,986	40,188	42,552	40,629	47,373

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

** Unrepresentative data, as there are less than 3 employees in this category. Data regarding the employees of the Quintero LNG Plant in Chile has not been included.

*** This includes: variable remuneration, per diems, compensation, long-term savings plans and other benefits. Data regarding the employees of the Quintero LNG Plant in Chile has not been included.

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

	<=35 years		36-55 years		> 55 years		TOTAL
	People	%	People	%	People	%	
Management	6	4.2%	120	83.3%	18	12.5%	144
Technicians	193	26.1%	449	60.7%	98	13.2%	740
Administrative staff	13	10.6%	75	61.0%	35	28.4%	123
Operational staff	113	25.6%	263	59.5%	66	14.9%	442
Total	325	22.4%	907	62.6%	217	15.0%	1,449

05/2018

Enagás, present at the second annual *Generation Wars* event organised by the Generation and Talent Observatory. This observatory is a body for research, analysis and training on generational diversity and its impact on the socio-economic and workplace reality at organisations.

As to **diversity of abilities**, Enagás is working to promote the social inclusion of people with disabilities. This has included direct hires (10 people on staff) as well as indirect job creation for people with serious disabilities through partnership agreements with special employment centres and foundations, not to mention corporate volunteering initiatives (see the 'Social Investment' chapter), and measures taken to increase disability awareness and training.

In addition, Enagás has taken action to improve accessibility for people with disabilities, such as the progressive elimination of architectural barriers at our facilities and the 'AA' accessibility level of our company website.



"Equality at Work"
acolade since
2010



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



Adherence to the
Diversity Charter
(plurality at the
company)

Signing of a collaboration agreement with the Capacis Foundation for the development of training practices at the Enagás facilities for young people with disabilities.

Work-life balance [GRI 201-3, GRI 401-2]

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

Enagás has been a certified Family Responsible Company since 2007. It has 102 reconciliation measures that favour the professional and personal development of every employee; these also help to balance the different dimensions of each person's life and meet their social and health-care needs as well as those of their immediate family.



Family Responsible Company, Proactive
B+ status

09/2018

Enagás has made a Flexible Remuneration Plan (PRF) available to its professionals at the company, who can use it to optimise their respective compensation package according to their personal preferences and family needs at the time.

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

Family

Study support for employees' children.

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

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

Alares Family Support Programme:

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

Flexible Remuneration Plan: includes health insurance, childcare, travel card and training.

Work flexibility

Flexibility in start times and lunch break.

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

Division of annual leave into a maximum of three periods.

Flexible working (telecommuting)*

*For all non-agreement positions compatible with this type of work.

Health and well-being

Annual medical check-up and flu vaccine campaigns.

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

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

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

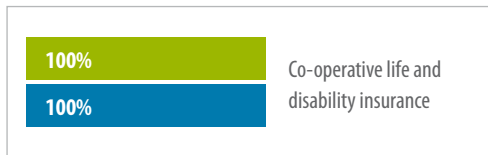
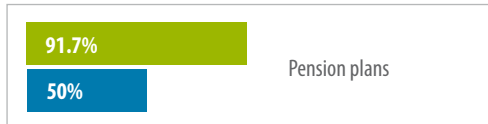
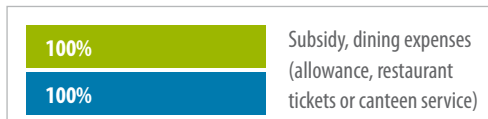
Pension plans for employees with two years' effective or recognised service.

Healthy eating corner at head office.

Help towards sports activities.

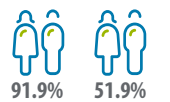
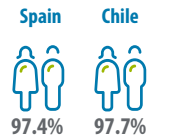
Social benefits most used by employees [GRI 201-3, GRI 401-2]

% Costs borne by the company



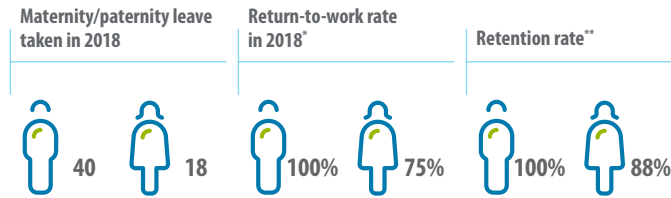
● Spain
● Chile

% of workforce taking advantage of benefits



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

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



*Total number of employees who have returned from parental leave/total number of employees who were scheduled to return to work following parental leave.

**Total number of employees retained 12 months after returning to work following parental leave/number of employees who returned to work the previous year

Collective bargaining [GRI 102-41]

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

Percentage of employees covered by collective bargaining by job category and country

	Technicians	Administrative staff	Operational staff	TOTAL
Spain	31.0%	87.7%	100.0%	52.9%
Chile	1.8%	33.3%	91.1%	42.6%
TOTAL	28.8%	28.8%	98.9%	52.0%

The company also participates in collective bargaining (in 2018, an agreement on measures regarding gender-based violence was signed) and carries out regular consultations with authorised representatives of the employees regarding working conditions, remuneration, conflict resolution, internal relations and issues of mutual concern.

Satisfaction and motivation of professionals [GRI 102-21]

Enagás conducts workplace climate surveys in Spain every two years. In 2018, the most recent workplace climate survey was carried out. 65% of employees participated, and overall employee satisfaction was 82%. The level of commitment also improved, rising to 88%.

In conclusion, particularly notable were the high scores professionals gave to the closeness between managers and

teams, a sense of integration within the working teams and the work-life balance/social benefits programmes as a form of non-salary compensation.

In 2018, Enagás received the Top Employer certification for the ninth consecutive year.



5.5

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

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

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

Sustainable Management Plan

2018 main lines

- Preparation of the structure of the Health and Safety Management System by country for affiliates with Enagás majority control.
- Evaluation of psychosocial factors.
- Extension of the corporate website's SO/IEC 27001 certification to the set of applications and services that make up the Third-Party Network Access Logistics System (SL-ATR, MS-ATR, Orion, etc.) and the industrial control systems at Enagás Compression Stations.
- Adaptation to the new Organic Data Protection Law (LOPD).
- Execution of Road Safety campaigns.

2019 lines

- Psycho-social Project: Psycho-social risk assessment and completion of stress management workshop by all personnel.
- Collection, analysis, prioritisation and implementation of action items resulting from the Pilot Project - Culture in Health and Safety.
- Digitalisation of the regular vehicle check process.

1.11

Lost time injury severity rate (own staff + contractors) [GRI 403-9]

100%

of activity certified under OHSAS 18001 [GRI 403-1]

1.44

Lost time injury frequency rate (own staff + contractors) [GRI 403-9]

18,002

training hours in health and safety [GRI 403-5]

3.10%

Rate of absenteeism [GRI 403-9]

Health and Safety Management

The Integrated Health, Safety, Environment and Quality System of the Enagás Group is certified under OHSAS 18001 and has procedures and systems that seek to prevent injuries and illnesses caused by working conditions in addition to the protection and health promotion of employees. This certification covers 100% of the professionals and contractors that work at Enagás infrastructure facilities. [\[GRI 403-1, GRI 403-7, GRI 403-8\]](#)

In addition, this system includes the Road Traffic Safety Management System, certified in 2017 according to ISO39001. On this topic, the company has a Mobility and Road Safety Plan, a set of Road Safety Guidelines, a vehicle use protocol, a Sustainable and Safe Fleet Management Handbook and a Road Safety Best Practices Guide.

Enagás promotes safety throughout its supply chain and requires OHSAS 18001 certification in occupational risks as part of its approval process for suppliers of certain families of products or services. Furthermore, in order to guarantee the coordination of business activities, the company has the Enagás Contractor Access System (SACE) to manage the safety of its suppliers, contractors and the whole subcontracting chain. [\[GRI 403-7\]](#)

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

Employees and contractors have access to various channels through which they can participate and consult about the operation, implementation and assessment of the management system. These include the bulletin board, staff letter, form, internal memo, informational pamphlet, poster and/or electronic communications, as well as any other method that can be documented and guarantees receipt by the intended recipient.

Enagás has various employee representative bodies where employees exercise their participation and consultation rights. Different committees comprise health and safety officers and management representatives. The Health and Safety Committee¹ meets every three months, while the Group and Enagás Transporte SAU Intercentre Health and Safety Committees meet with a frequency set out in the Collective Bargaining Agreement. On the Intranet there is also a suggestion box available to all Enagás employees. [\[GRI 403-4\]](#)

Awareness

In 2018, a total of 18,002 hours of health and safety training were provided for company employees. [\[GRI 403-5\]](#)

Health and Safety training is key part of any preventative action to improve worker protection from the hazards present in daily operations. This is why Enagás has designed a training schedule for all different job profiles at the company that sets out the specific training activities needed for each risk group. These actions include a training workshops on stress management aimed at all professionals at the company.

During 2018, 60 awareness-raising campaigns were carried out, most aimed at promoting the physical and mental well-being of Enagás workers through the development of activities that favour a healthy diet, promote regular physical activity and help improve general health.

In addition, 11 informative chats have been carried out regarding health and safety in various contexts: road safety, safety at home, children's emergencies, how to react to seizures, donation and skin cancer prevention. [\[GRI 403-6\]](#)

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

Enagás is also providing training to all its contractors through the SACE platform. This training is complementary to the in-person chats at infrastructure facilities where particularly hazardous work may be carried out. 3,658 hours of training were provided to contractors through the SACE platform, which is equivalent to 1,829 training courses. [\[GRI 403-5\]](#)

06/2018

For World Road Safety Day on 10 June, the company held various activities to raise awareness of this topic among Enagás professionals.

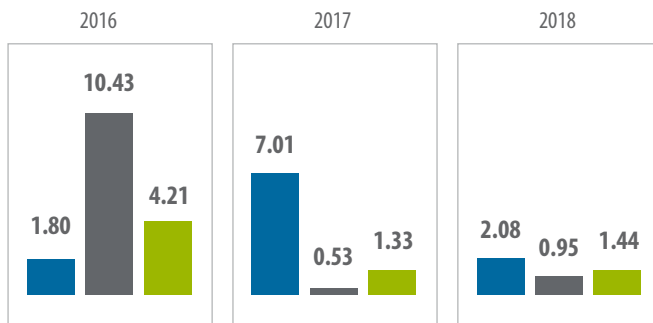


Consult the [Safety and health, environment and quality policy](#) as well as the [Corporate guidelines for the prevention of serious accidents](#) and the [Corporate road safety guidelines](#) on the corporate website

Health and safety indicators [GRI 403-9]

Lost time injury frequency rate

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



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

In Chile, there were no accidents involving own staff in 2018.

In 2018, there were 5 accidents resulting in sick leave among own staff in Spain. All these accidents were suffered by men and were caused by unsafe behaviour, strain or postural/ergonomic issues or tools and equipment.

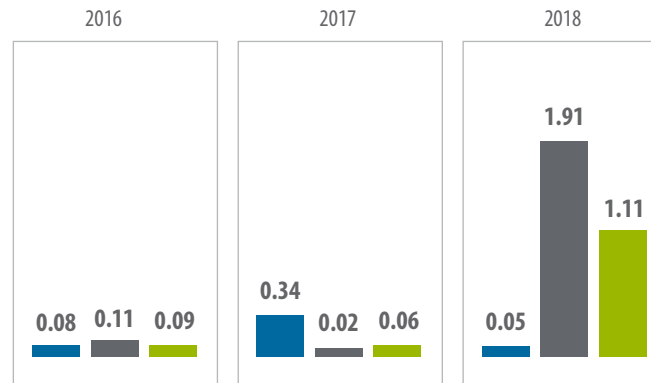
As regards reported workplace injuries, the rate per million hours worked is 9.98 for own staff and 3.47 for contractors.

At the Quintero LNG regasification plant in Chile, there was a fatal accident involving a contractor that occurred while maintenance work was being carried out on the seawater intake tower. Two investigations - one internal and another external, performed

by ABS Consulting - concluded that the death of the diving supervisor was due to negligence by the victim. This accident led to an update of the Underwater Activities Procedures, the HSSE Standards for high-risk activities and the risk matrix. Maintenance tasks for the seawater intake have been optimised and a protective structure has been installed on the seawater intake. Likewise, the work permitting system and contractor administrator training have been strengthened. In July 2018, the Cerdá Institute carried out a post-crisis analysis that resulted in a report with recommendations upon which we are now working.

Lost time injury severity rate

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

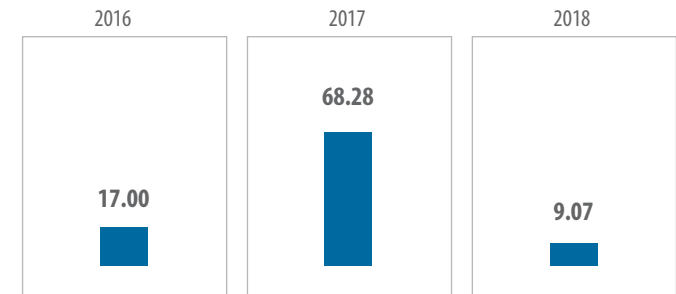


- Lost time injury severity rate (own staff)
- Lost time injury severity rate (contractor staff)
- Lost time injury severity rate (own staff + contractor staff)

In Chile, no working day was lost among own staff in 2018. 6,000 working days were considered lost by contractors due to the death of a contractor.

Lost day rate

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

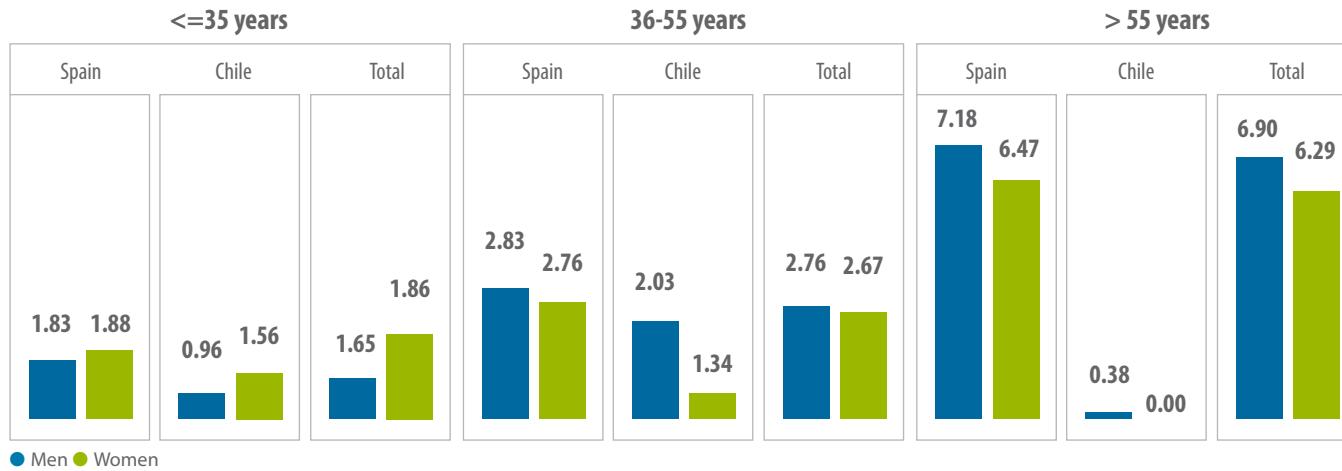


In Chile, no working day was lost in 2018.

100% of professionals and contractors working at Enagás infrastructure facilities are covered by a OHSAS 18001 certification [GRI 403-8]

Absenteeism rate by gender, age and country [GRI 403-9]

Absenteeism hours x 100 / Theoretical hours (collective workforce x 1,682)



Occupational illnesses [GRI 403-10]

Through its evaluation systems for health and safety-related risks, Enagás has not identified workers at risk of work-related diseases.

Risk assessments and incident response

Enagás has procedures in place to identify occupational risks and risk analysis, such as: [GRI 403-2]

- An internal procedure for risk assessment using a method based on the Simplified Accident Risk Assessment System from the National Occupational Safety and Hygiene Institute, which is used for both routine and exceptional work. In the latter case, the method is linked to special operating instructions.

This method allows the magnitude of the existing risks to be assessed and sets the order of priority for addressing them.

- HAZOP (Hazard and Operability study) procedures and methodologies: this method is a risk analysis and operability technique that allows potential and operational risks created by systems operating outside their design conditions to be identified. Similar is the 'What If' procedure, a technique that provides a way of identifying potential hazards with ease, assessing the significance of the hazards and the suitability level of existing safeguards. Both are for industrial hazards.
- Safety inspections (planned observations and security visits) and work permits are other methods linked to procedures.

Enagás has an internal procedure for reporting workplace hazards or dangerous situations. There are many channels, including Health and Safety Committees and meetings, worker representatives, an electronic mailbox available to all professionals and coordination meetings with contractors.

If a situation involving an imminent, serious risk is identified, professionals are obligated to stop working, remain in a safe location and notify their direct supervisor of the situation.

Enagás has a procedure for action, notification, investigation and statistical incident analysis (including accidents resulting in sick leave, not resulting in sick leave, severe and multiple, as well as incidents).

If the following circumstances arise, a specialised investigation is carried out through a specific register:

- Incidents with a risk score above a specific level, established according to the method included in the procedure.
- By request of the Inter-Centre Health and Safety Committee and/or the Health and Safety Committee of the facility, the chain of command or the Prevention Service.
- Serious or deadly accidents.
- Serious accidents according to RD 840/2015.

Following the investigation, a report is produced including the causes of the incident, the potential risk assessment, the corrective actions identified, the persons responsible for carrying out and monitoring the corrective measures (including those that affect the risk assessment review or changes to the management system), as well as resources and timelines. [GRI 403-2]



[Consult the General Policy on the Integrated Security of Strategic Infrastructures on our corporate website](#)

Crisis and emergencies management

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

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

Enagás also has a company Crisis Manual for quick and effective incident management, and has established numerous action committees to control incidents depending on the degree of severity and resulting consequences.

05/2018

Enagás participated in a new natural disaster simulation organised by the Spanish Military Emergency Unit (UME). The exercise sought to increase the preparation of specialised services and the 3,500 participants to act in a simulation of hazards created by an earthquake, such as failures in essential supply lines.

Information security

Enagás has a cybersecurity policy approved by the Board of Directors and targeted at efficiently managing the security of information processed by the company's IT systems, as well as the assets involved in these processes.

The Enagás security management model is applicable to cybersecurity and is based on international and national regulations, in order to provide, through all means within its reach and in proportion to the threats detected, the resources required so that the organisation has an environment that is aligned with the established business and cybersecurity targets.

Additionally, as enhanced protection for the critical infrastructures operated by Enagás, a General Policy on the Integrated Security of Strategic Infrastructures has been defined in which the processes of physical and logical security have been combined for compliance with the law governing the protection of critical infrastructure (LPIC).

In 2018, various projects focused on reinforcing cybersecurity for industrial control systems were carried out as part of a system of continuous improvement. Enagás has worked with leading companies in the cybersecurity sector to implement and then audit its systems. It has obtained very satisfactory results in terms of the level of protection secured.

Enagás has been deploying its cybersecurity and awareness training strategy, reaching all staff and carrying out a number of in-person and online activities intended to improve employee ability to detect and react to threats. In its commitment to continuous improvement, Enagás has expanded the scope of its ISO/IEC 27001:2013 certification to Enagás GTS' commercial systems and the gas network operation and control systems of Enagás Transporte.



[Consult the Cybersecurity Policy on the corporate website](#)

Cybersecurity incidents

As in previous years, Enagás IT systems were not subjected to any successful attacks in 2018.

In 2018, a technical simulation of a cyberattack on a piece of technological infrastructure was carried out, implementing the crisis management manual and the various relevant committees.

A healthy company [GRI 403-3]

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

At Enagás, all risks with health impacts are assessed, and there are associated medical protocols to prevent and/or mitigate these impacts. [GRI 403-7]

In addition, there is an agreement with an external prevention service to provide coverage to the occupational medicine and health monitoring speciality at all centres. Enagás headquarters has a doctor and a qualified workplace nurse to provide primary assistance to own employees and contractors. At the Gaviota platform, there is a qualified workplace nurse. Enagás also offers its employees private health insurance at a subsidised rate, and a physiotherapy service is offered for shift workers at regasification plants. [GRI 403-6]

Updates to the medical service

Besides the specific medical check-up for each position, Enagás also carries out basic analytics, a cholesterol breakdown, prostate cancer check-ups for men over 45 years of age and an electrocardiogram. In 2018, a colon cancer diagnostic test was added. This year, Enagás also carried out a programme to

encourage professionals to gather the necessary knowledge to make them into promoters of their own health.

- 744 medical consultations of Enagás staff plus 80 of external personnel.
- 295 cases of vaccinations against flu, hepatitis A and B, and typhoid.
- 1,165 health examinations.
- 1,009 examinations for high blood pressure and cardiovascular risk (including 85 blood tests and 43 blood pressure measurements in the medical service, both at specific times and in follow-up).
- 522 tests of early diagnosis of prostate cancer.
- 219 tests of early diagnosis of colon cancer.

To promote a healthy lifestyle among employees, Enagás has made healthy, natural food available to professionals at its headquarters and facility canteens. It also encourages exercise through programmes like 'En Forma' (In Shape), as well as a locker rooms, showers and bicycle parking.

In 2018, Enagás joined the Médico Mentor (Medical Mentor) programme, the corporate health and well-being programme aimed at turning company professionals into promoters of their own health. [GRI 403-6]

04/2018

Enagás receives the NAOS Strategy Prize in the Workplace for its *Hello Health!* project, a prize that highlights the company's commitment to promoting healthy habits such as healthy eating and exercise among professionals.



5.6

Natural capital management

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

Natural capital management is one of the key areas for Enagás, as is reflected in the company's health and safety, environment and quality policy. The control and minimization of our impacts on the environment produces direct internal benefits by improving the use of resources, ensuring the sustainability of our business and generating confidence in our stakeholders.

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

Sustainable Management Plan

2018 main lines

- Preparation of the environmental performance report of the facilities.
- Installation of a desalination plant to provide water for fire fighting instead of using drinking water at the Barcelona regasification plant.
- Control and optimization of network water consumption in the Barcelona and Cartagena Plants through the installation of flow meters.
- Reduction of seawater consumption at the Cartagena plant through the use of compressors in seawater vaporisers.
- Creation and execution of a plan to disseminate information regarding the environment.

2019 lines

- Update of waste management model.
- Raise awareness among contractors and Enagás professionals about sorting and recycling waste.
- Materiality analysis of environmental aspects in the facilities.
- Analysis of results of water consumption reduction actions implemented in some plants for the possible extension of these actions to the rest of the plants.
- Dissemination of environmental information actions.

100%

of activity certified in accordance with ISO 14001

77,810 m³

of water consumption [GRI 303-5]

948 t

of NOx [GRI 305-7]

4,409 t

of waste generated [GRI 306-2]

16 t

of SOx [GRI 305-7]

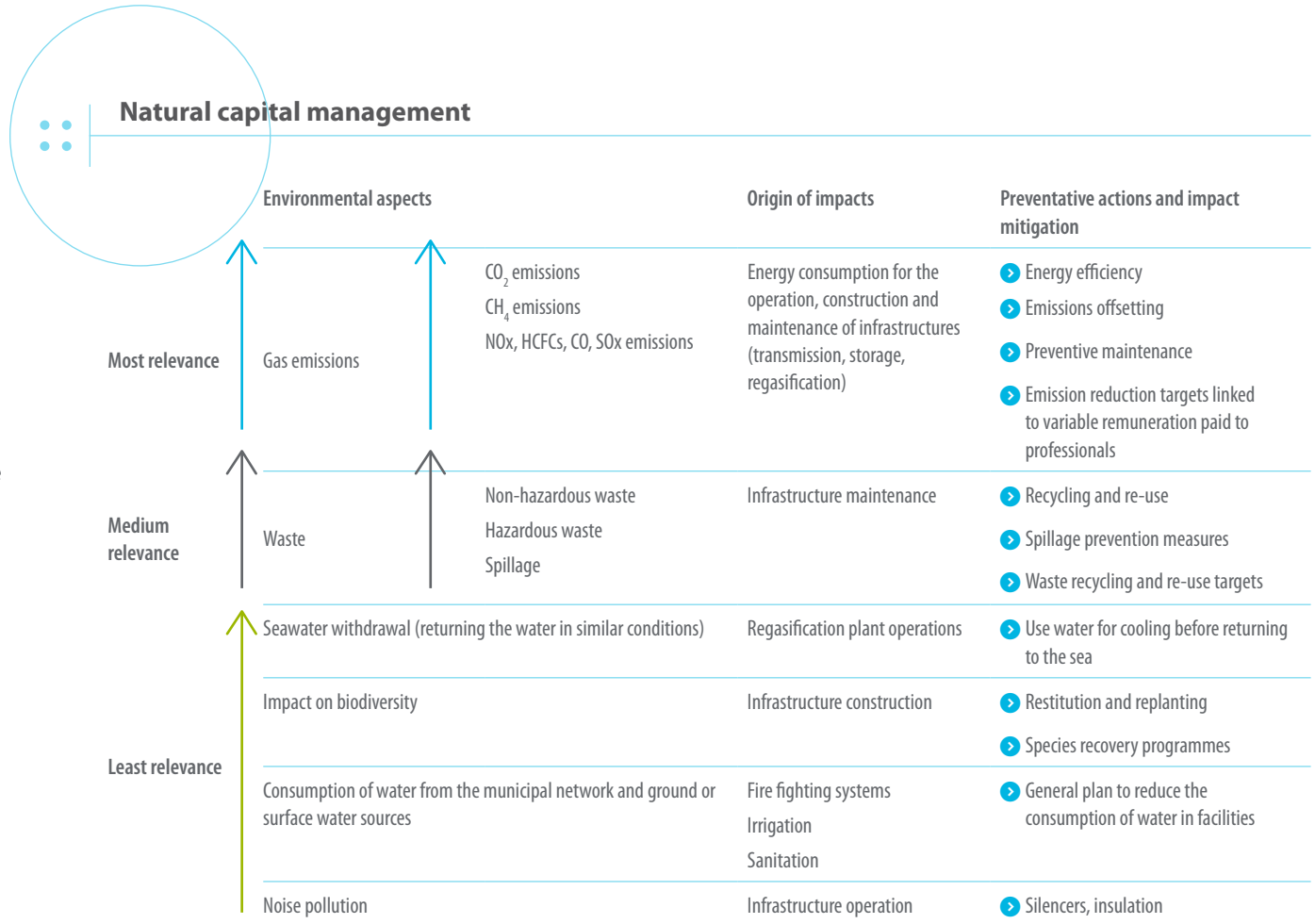
40 t

of CO [GRI 305-7]

Natural capital management model

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

The most relevant environmental aspects for Enagás are gas emissions, particularly greenhouse gases. Other environmental aspects are, by order of relevance, waste generation, seawater withdrawal, impact on biodiversity, water consumption and noise pollution. For each of these aspects, ordered by relevance, their origin is shown as well as the main actions Enagás carries out to prevent and reduce them.



Environmental management system and environmental risk assessment

Enagás undertakes its environmental commitments (as outlined in the Health and Safety, Environment and Quality Policy) via its Environmental Management System. 100% of Enagás activity is ISO 14001 certified.

Furthermore, the Serrablo and Yela storage facilities and the Huelva and Barcelona regasification plants are EMAS certified.



Consult the [Health & Safety, Environment and Quality Policy on the corporate website](#)

03/2018

Enagás' Head Office, located in Paseo de los Olmos 19, has been awarded the LEED (Leadership in Energy & Environmental Design) Gold certification for sustainable building by the United States Green Building Council. This acknowledgement certifies that the building is an environmentally responsible, healthy and productive space.

In 2018, environmental risk assessments were carried out for accidental scenarios that could cause environmental damage in plants, underground storage facilities and compression stations in accordance with Law 26/2007. The economic impacts of said risks were also assessed. As a result of these assessments, in all of the installations, except Serrablo and Yela underground storage facilities, the establishment of a financial guarantee was not required. In these storage facilities the main risk scenario is fire, which would affect forest species and habitats.

For the remaining facilities, the most likely types of accidental risks are fires and discharge. In a significant number of infrastructures, the costs of environmental damage arising from said risks do not require the establishment of a financial guarantee. Furthermore, having an Environmental Management System certified by ISO 14001 and EMAS guarantees the proper management of the activities that could lead to an accidental scenario.

However, to guarantee cover for possible environmental damage caused by its activity, Enagás has an insurance policy that covers both this damage and resulting repair costs.

Environmental monitoring is carried out through environmental audits of works, environmental surveillance, assessments of legal compliance in all installations and monitoring of environmental indicators and improvement plans. In 2018, environmental monitoring was carried out on 124 km of gas pipeline.

Circular economy

Enagás has signed the Circular Economy Agreement and has made the following commitments which are already being worked on:

1) Promotion of a responsible consumption model that includes the use of sustainable products and services and lower use of non-renewable natural resources.

Energy efficiency: Enagás' energy efficiency and emissions reduction plan includes measures aimed at reducing the consumption of natural gas and electricity as well as the self-generation of energy (see 'Climate Change and Energy Efficiency' chapter).

Use of cooling: Enagás has implemented a project to make use of the cooling properties of liquefied natural gas (LNG) in the Huelva regasification plant. Through this project the residual cooling resulting from the plant's regasification process is transferred to refrigeration facilities. Therefore, a freezing service for sustainable products is provided, with an energy saving of over 50% in energy costs and a reduction in the carbon footprint of 90%.

2) Promoting guidelines to increase process innovation and efficiency.

Renewable gases: At Enagás we are promoting the development of non-electric renewable energies, like biogas/ biomethane and hydrogen, as well as the development of new services and uses for natural gas (see 'Climate Change and

Energy Efficiency'/'Sustainable Mobility' chapters), as these are key new energy solutions in the energy transition process. The use of biogas/biomethane fosters the development of a circular economy as it involves properly recovering solid waste from cities, wastewater, and waste from animal agriculture, farming and forestry. In Spain there is already a waste treatment centre at Valdemingómez (Madrid) which is connected to Enagás' pipeline network and we are working on new projects along the same line (see 'Vision of the Future'/'Renewable gases' chapters). Renewable hydrogen is positioning itself as a new, comprehensive energy vector, given that it can be used to store surplus electrical energy from renewable sources, can be transformed into different forms of energy (electricity, synthetic gas and heat) and can be used in multiple applications. At Enagás, we are promoting different initiatives to make the use and application of renewable hydrogen a reality.

3) Empowering the principle of waste hierarchy, promoting the prevention of its generation, promoting reuse and recycling and promoting its traceability.

Recycling and re-use of waste: Waste generated by Enagás is managed by an authorised waste management company. Enagás requires that this waste management company re-uses/recycles a minimum percentage (95%) of the total waste managed; this requirement is stipulated in the contract and non-compliance would result in a penalty. Furthermore, Enagás has an agreement with the association Otro Tiempo that promotes the recycling of coffee capsules at Enagás' headquarters, while also providing work for women at risk of social exclusion.

Re-use: Every year, Enagás donates IT equipment and mobile devices that are no longer in use (see 'Local communities' chapter).

4) Promoting analysis of the product life cycles (incorporating ecodesign criteria, making repair possible and prolonging service life).

Ecodesign: Enagás has started applying ecodesign criteria to its construction works, such as those carried out in Gaviota underground storage facility, which were certified under ecodesign regulation (ISO 14006:2011).

Extending useful life: The company extends the useful life of oils and lubricants used in the equipment of its facilities by cleaning and filtering these products.

5) Raising awareness on the importance of moving towards a circular economy.

Training: Enagás has started introducing the concept of circular economy in environmental training courses.

Awareness: The company is working on a campaign for contractors and Enagás professionals about separating and managing waste.

Biodiversity protection

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

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

In 2018, a number of construction projects were carried out using the corridors of other existing infrastructures and existing accesses to the work area were also used, thus reducing the damage to soil and waters. Likewise, during the repair works of the Lemona-Haro pipeline, 8,315 m² were replanted and restored to stabilise a hillside. During the works, comprehensive monitoring was carried out of the reproduction of a pair of Egyptian vultures, with the aim of implementing, if necessary, measures to minimise the impact on the reproduction cycle of the pair. This thereby ensured that the pair's chicks were left undisturbed while the works were in process.

[\[GRI 304-2, GRI 304-3, GRI 304-4, GRI OG4\]](#)

Water management [\[GRI 303-1\]](#)

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

The main withdrawal of water that Enagás carries out is that of seawater for use in floodwater and seawater vaporisers at regasification plants. This water is returned under the same conditions as those in which it is withdrawn (the temperature decrease is minimal and it does not affect the marine ecosystem). The volume of water taken is directly proportional to the quantity of gas regasified.

[\[GRI 303-3, GRI 303-4\]](#)

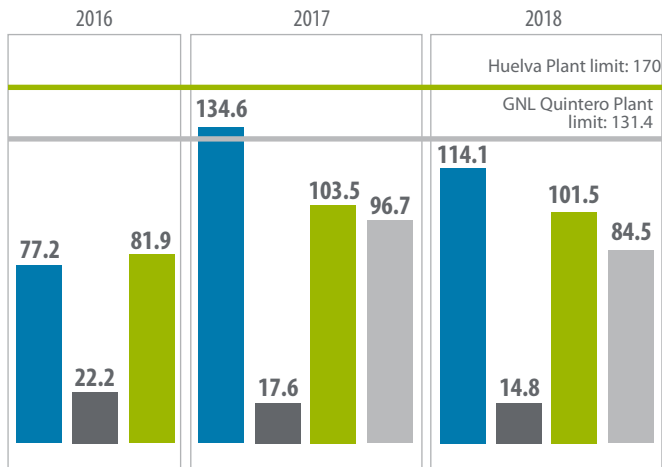
* Species listed in the 'Endangered' category of the Red Book of birds in Spain

Seawater withdrawn and returned to its source (hm³)

[GRI 303-3, GRI 303-4]

Barcelona Plant limit: 490.5

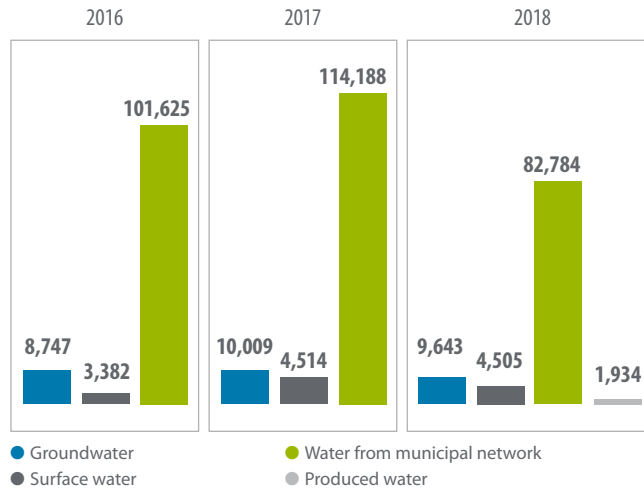
Cartagena Plant limit: 297.8



- Barcelona plant
- Cartagena plant
- Huelva plant
- GNL Quintero plant

Other water withdrawn from other sources (m³)

[GRI 303-3]



- Groundwater
- Surface water
- Water from municipal network
- Produced water

Additionally to the aforementioned seawater return carried out in regasification plants, Enagás carries out wastewater discharge that can be treated as urban waste. In 2018, 11,302 m³ of water was discharged into the public mains and 9,754 m³ of water into septic tanks or the sea. [GRI 303-2, GRI 303-4, GRI 306-1]

In 2018, 77,810 m³ of water was used mainly for sanitation, irrigation and fire fighting equipment, the latter representing only 0.02% of withdrawn water [GRI 303-5]. The company therefore has various measures aimed at reducing water consumption such as better techniques for irrigation and consumption of grey water.

In 2018, actions to reduce the consumption of seawater and water from the municipal network were implemented in some regasification plants, and in 2019 the possible extension of these actions to the rest of the plants will be analysed.

Enagás reports on its performance, risks and opportunities in the area of water through its participation in CPD Water.

Spillage and waste control [GRI 303-1]

In terms of spillage, the company has implemented preventative measures such as installing containment troughs and trays.

Accidental spillage in 2018 was: [GRI 306-3]

Accidental spills in 2018

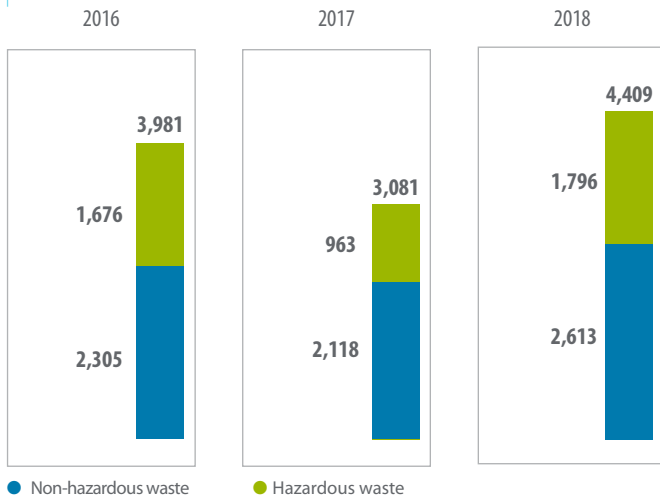
- 13 litres of diesel
- 236 litres of oils
- 0.1 litre of THT
- 5 litres of hypochlorite
- 515 litres of water with hydrocarbons
- 40 litres of sulphuric acid

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

Enagás has implemented a system of segregation, management, storage and delivery to authorised managers of hazardous and non-hazardous waste. Enagás mainly generates waste through facility and equipment maintenance (activities that mainly depend on externalities, which accounts for the variability of the level of waste generated in 2018 compared to the previous

year). The company's objective is to recycle and re-use this waste wherever possible. The objective of treating (recycling/re-using) 95% of hazardous and non-hazardous waste has been established in the contract with the waste management company. [GRI 306-2]

Generated and managed waste (t) [GRI 306-2]



NB: The data for waste generated and managed in 2017 has been changed as compared to the Annual Report 2017 due to a typographical error [GRI 102-48]

78%
Enagás has recycled 78% of
the waste generated

Noise control

Noise at Enagás' facilities is produced by the operation of regulators, turbines, vaporisers and pumps. Every facility carries out regular environmental noise measurements around its perimeter, in line with the limits set out in municipal by-laws or legislation that is in force.

Enagás conducts annual noise measurement campaigns at its facilities in order to minimise noise pollution. In 2018, a total of 58 noise measurements were conducted at two regasification plants, two underground storage facilities, three compression stations and 51 positions. During 2018, actions were taken to minimize noise levels by installing silencers at 8 regulation and metering stations regulation stations.

Atmospheric emission control

The main non-GHG emissions at our facilities are CO, SOx and NOx. These emissions are produced by the consumption of natural gas by the different equipment.

The energy efficiency measures and the objectives of reducing CO₂ emissions (see the chapter on 'Climate Change and Energy Efficiency') are directly related to the reduction in these atmospheric emissions. [GRI 305-7]

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

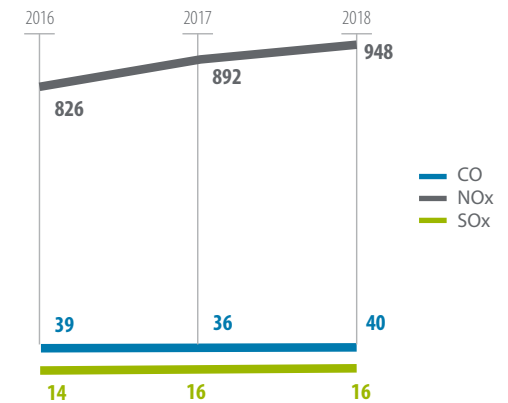
The control actions are as follows:

- Initial regulatory inspection (conducted by an authorised inspection organisation (AIO)).

- Annual TESTO check (carried out with their own resources (Analysing team and Enagás employees)).
- Periodic regulatory inspections.

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

Non-GHG emissions (t)



5.7

Climate Change and Energy Efficiency

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

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

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

Sustainable Management Plan

2018 main lines

- Definition of the energy management system ISO 50001 by type of facility.
- Setting short and long-term emissions reduction targets (science based).
- Evaluation of the most significant suppliers in terms of climate change.
- Review of economic quantifications of risks and opportunities arising from climate change (preparation of scenarios based on temperature increases - TCFD).
- Review of electricity supply contracts with the aim of increasing the percentage of electricity supplied with Guarantees of Origin to 40% in the facilities with the highest consumption.
- Extension of the LDAR campaign for the detection, quantification and repair of leaks to cover an increasing number of RMSs and gas pipeline network positions.

2019 lines

- Energy management system establishment and certification under ISO 50001.
- Plan to replace turbo-compressors with electric engine-driven compressors in critical Compression Stations.
- Active participation in reports, studies and research into the impacts of natural gas (GIE-Marcogaz, maritime transport, methane guiding principles, etc.).
- Annual LDAR campaigns for the detection, quantification and repair of gas leaks in regasification plants and storage facilities.

1,768 tCO_{2e}

avoided in 2018 through energy efficiency measures

5.6%

Reduction in electrical energy consumption in Spain (vs. 2017)

+7.4%

Electricity consumption generated from clean or efficient energy sources (vs. 2017)

324,352 tCO_{2e}

Greenhouse gas emissions (scopes 1 and 2)

276,175 tCO_{2e}

Scope 1 emissions [GRI 305-1]

48,177 tCO_{2e}

Scope 2 emissions [GRI 305-2]

Governance model for climate change management

At Enagás there is a governance structure led by the Board of Directors that supervises the company's climate change performance. The Appointments, Remuneration and CSR Committee, through the Sustainability Committee, approves and monitors the CO₂ emissions reduction targets linked to variable remuneration as well as initiatives that help achieve said reduction that are included in the Energy Efficiency and Emissions Reduction Plan.

Furthermore, the Audit and Compliance Committee supervises the efficiency of risk control and management systems and assesses the possible impact of climate change through the Risk Committee.

The Sustainability Committee is formed of the main Directorates of the company, among which is the Strategy function, that provides input for the identification of opportunities.

The Health and Safety, Environment and Quality Committee periodically assesses and manages issues related to climate change associated with business processes, impact assessment studies and the evaluation of environmental aspects.

There are also different working groups that report to the Sustainability Committee.

In terms of risk control and management, on the one hand business units are responsible for risk identification and measurement, the risk function controls and manages risks and the Internal Audit Department function supervises the efficiency of the established risk controls (see 'Risk management' chapter).



Risk management and opportunities arising from climate change

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

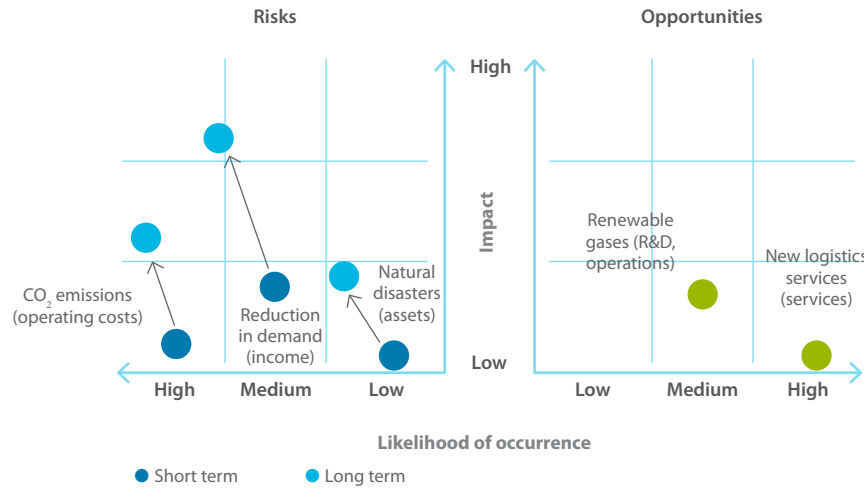
Risks derived from climate change are evaluated comprehensively in the Company's risk control and management model. In this way, risks related to factors such as policies and regulatory changes to encourage the use of renewable energies are identified and quantified, as well as the effect of temperature, the increase in the volume of emissions and the prices of CO₂ and/or the tax burden of CO₂ emissions.

The effects of these risks can be compensated by the opportunities the company has identified both in the field of renewable gas development and in new natural gas logistics services.

This has all been evaluated under three climatic scenarios, aligned with global temperature increases: a business as usual scenario with a 4°C temperature increase, a scenario with the 2°C increase committed to at the Paris Climate Summit, and the most extreme scenario with a 6°C global increase in temperature, which would thereby heighten physical risks (natural disasters).

Factors

- Policies and **regulatory changes** to encourage renewable energies
- **Temperature effect**
- Increase in **CO₂ prices**
- Increase in volume of emissions
- Increase of **emissions tax burden**
- Natural disasters or adverse meteorological conditions (floods, **landslides**, etc.)



Risk	Control and management measures
Additional operation costs resulting from CO ₂ emissions	<ul style="list-style-type: none"> ● Short and long-term emissions reduction targets linked to variable remuneration ● Energy Efficiency and Emissions Reduction Plan ● Setting internal carbon prices ● Carbon offsetting programme
Reduction of natural gas demand	<ul style="list-style-type: none"> ● Promotion of new services and uses of natural gas in transportation by road, rail and sea and in the industrial and household sectors ● Promotion of the development of gas from renewable sources and hydrogen and their integration in gas infrastructures ● Promotion of the development of new technologies and infrastructures for the capture, transmission and storage or use of CO₂ and small-scale liquefaction
Operation incidents due to natural disasters	<ul style="list-style-type: none"> ● Environmental certifications (ISO 14001 and EMAS) ● Emergency response action plans ● Procedures for the investigation and monitoring of incidents ● Development of demand scenarios that determine the infrastructure to develop in order to guarantee secure supply
Adaptation of infrastructures	<ul style="list-style-type: none"> ● Material damage policy ● Insurance policy covering catastrophic damage ● Review of plans for adaptation to climate change in infrastructures

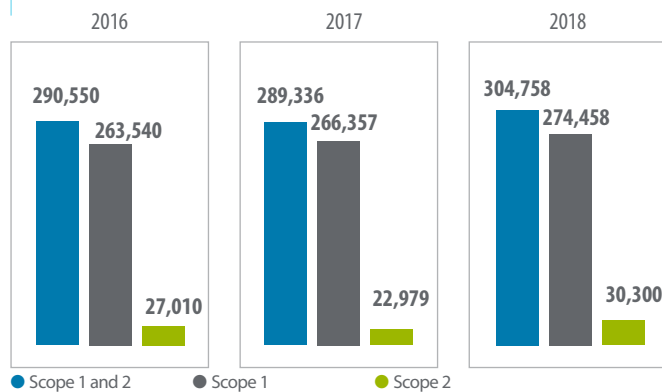
Opportunity	Lines of action
Renewable gases	<p>Focus areas related to biomethane:</p> <ul style="list-style-type: none"> ● Issuance of green certificates ● Measurement of gas quality: guaranteeing the quality of renewable gas before its injection into the gas network ● Stake in biomethane infrastructures (upgrading/connection to the transmission network) <p>Focus areas related to hydrogen:</p> <ul style="list-style-type: none"> ● Involvement in different European groups analysing the technical conditions for the introduction of hydrogen into gas networks ● Joint Ventures for technological development and the promotion of hydrogen production and transmission infrastructures ● Projects under consideration are focused on the methanisation of hydrogen for its injection into the network, use in mobility and application in auxiliary machinery
Our services	<ul style="list-style-type: none"> ● Design and development of new services in infrastructures, turning them into logistical centres for LNG supply ● Development of other new services: bunkering (refuelling LNG, between tanks or from a satellite plant to a tank), small scale (refuelling small LNG tanks), parking gas (long term storage of gas in tanks) ● Extension of tank refuelling service

Our climate change performance

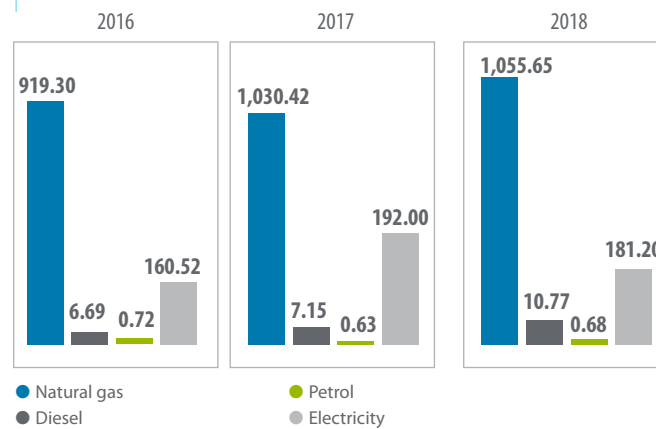
Enagás' Carbon Footprint (scope 1 and 2) is certified in accordance with ISO14064 and has been recorded in the Spanish Ministry for Ecological Transition's carbon footprint register with a 'calculating and reducing' status since 2013.

Evolution of Scope 1 and 2 emissions (tCO₂e)

[GRI 305-1, GRI 305-2]



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



At a national level, scope 1 emissions have increased by 3.0% mainly due to the increase of gas natural consumption in turbo-compressors and venting in compression stations. This increase in energy consumption is due to increased operation in the compression stations, both in the number of hours (+1.8% vs. 2017) and the quantity of gas compressed (+20.2% vs. 2017).

On the other hand, Enagás has made significant efforts to reduce its emissions derived from electricity consumption (scope 2) in its facilities. Electricity consumption has been reduced by 5.6% compared to the previous year, increasing the percentage of electricity supplied with guarantees of origin to 40% in the facilities with the highest consumption. The consumption of electricity produced through efficient, clean and renewable sources (with zero emission factor) has also been increased by 7.4% compared with 2017. However, despite all of these efforts, scope 2 emissions have still increased by 32%. This has been due to the updating of emission factors used (Spanish electric mix and Iberdrola¹), which have penalised our performance.

In Chile, the Quintero LNG regasification plant has reduced its scope 1 and 2 emissions by 17.9% compared to the previous year.

CO₂ emissions in Chile (Quintero LNG plant) scope 1 and 2 (tCO₂e) [GRI 305-1, GRI 305-2]

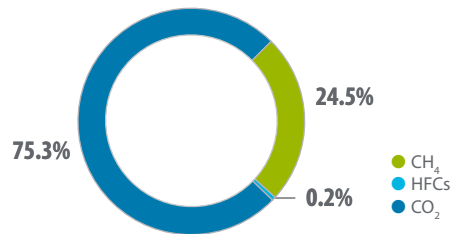
	2017	2018	Change
Scope 1	Not significant	1,718	-
Scope 2	23,872	17,877	-25.1%
Scopes 1 and 2	23,872	19,594	-17.9%

(1) According to the Spanish Ministry for Energy, Trade and Tourism that receives information from the National Commission of Markets and Competition (CNMC), Iberdrola's emission factor increased from 0.15 tCO₂/MWh to 0.28 tCO₂/MWh and the Spanish electric mix from 0.36 tCO₂/MWh to 0.43 tCO₂/MWh.

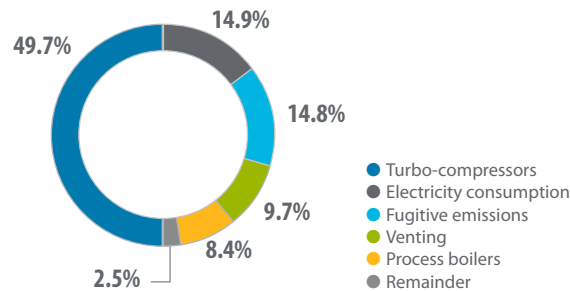
Energy consumption in Chile (Quintero LNG plant) (GWh/year) [GRI 302-1]

	2017	2018
Natural Gas	Not significant	8.81
Diesel	Not significant	0.37
Petrol	Not significant	0.01
Electricity	60.13	53.19
Total	60.13	62.37

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



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



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

	2016	2017	2018
By turnover (tCO ₂ e/€Mn)	697	638	733
By employee (tCO ₂ e/Employee)	217	220	224
By gas output (tCO ₂ e/GWh total output)	0.79	0.74	0.77

Approximately 75.3% of the Enagás carbon footprint corresponds to emissions of CO₂, mainly produced during the combustion of natural gas in stationary sources, i.e. turbocompressors, boilers, flares, etc.

Emissions of CH₄, which account for approximately 24.5% of this footprint, are mainly due to fugitive emissions (14.8%) and natural gas venting (9.7%). Venting may occur as a result of operation and maintenance, operating safety, pneumatic valves and analysis equipment (chromatographs, etc.).

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

EU Emissions Trading System

50.4% of emissions included in the Carbon Footprint (scopes 1 and 2) are included in the EU Emissions Trading System (EU ETS).

The Enagás emission rights trading strategy approved by the Board of Directors identified the need to purchase approximately 170,000 rights until 2020. [GRI 201-2]



Scope 3 emissions [GRI 305-3]

1. Acquisition of goods and services	Emissions derived from the extraction, production and transport of acquired goods and services.	10,813 tCO ₂ e
	Emissions arising from the use of paper and office materials.	2.3 tCO ₂ e
2. Capital goods	Emissions derived from the extraction, production and transport of acquired goods and services.	0.2 tCO ₂ e
3. Activities related to energy production (not included in scopes 1 or 2)	Emissions derived from the extraction, production and transport of equipment acquired for production.	834 tCO ₂ e
4. Upstream transmission and distribution	Emissions generated by the consumption of fuels derived from helicopter and ship transport services (from the plant to the platform of the Gaviota and Castor underground storage facilities).	3,465 tCO ₂ e
	Emissions generated by the consumption of fuels derived from the contracting of surveillance services and air, maritime and land maintenance.	
	Emissions generated by the consumption of fuel in rented vehicles, cranes and suppliers' hoists.	
5. Waste generated during operation	Emissions derived from the transport, management and treatment of waste generated at Enagás facilities.	399 tCO ₂ e
6. Work-related journeys	Emissions derived from work-related journeys by Enagás employees (airplane, train and taxi).	1,192 tCO ₂ e
7. Journeys to and from work by employees	Emissions derived from journeys to and from work by Enagás employees.	1,311 tCO ₂ e
15. Investments	Emissions, excluded Scopes 1 and 2, from those companies in which Enagás has a stake but not financial control. In this case, the verified 2016 emissions were included from these companies:	181,340 tCO ₂ e
	• Bahía de Bizkaia Gas, S.L,	
	• Compañía Operadora de Gas del Amazonas, S.A.C. (COGA),	
	• Planta de Regasificación de Sagunto, S.A. (Saggas),	
	• Terminal de LNG de Altamira, S. de R.L. de C.V.	
SCOPE 3 TOTAL		199,356 tCO₂e

Energy efficiency and emissions reduction targets

Enagás has the following targets:

Short term (2019)	Medium term (2019-2021)	Long term (2030)
Reduce CO ₂ emissions by 5% compared to the average emissions from the last 5 years. (Annual target linked to variable remuneration for all professionals)	Reduce emissions by an average of 5% for 2019-2021 compared to 2018. (Target included in the Long-Term Incentive Plan, see 'Strategy' chapter).	Reduce CO ₂ emissions by 57% since 2014. (Target in line with science)*

^(*)In the process of validation by *Science Based Targets* at publication date of this report

For annual targets, Enagás also sets energy consumption targets as well as targets for self-generated electrical energy from efficient, clean and renewable sources. These targets are linked to the variable remuneration paid to professionals.

Additionally, for 2019, the company has the target of implementing and certifying in accordance with ISO50001 standard within its energy management system, which would bring about significant improvements in the measurement and reduction of energy consumption in facilities.

In addition, in 2018, the company met the target of cutting emissions by 30% over the 2016–2018 period as compared to 2013–2015, which had been included in long-term variable remuneration.

03/2018

Enagás has signed the 'Guiding principles on reducing methane emissions in the natural gas value chain', which were developed in collaboration with different international companies and institutions in the sector.

Energy Efficiency and Emissions Reduction Plan

At Enagás, energy efficiency has a key role in emissions reduction and considerable efforts have been made in this regard. In recent years we have halved our CO₂ emissions thanks to the implementation of energy efficiency measures, in which we have invested more than €35Mn. [\[GRI 201-2\]](#)

We are working to ensure the continuous improvement of the energy efficiency of our infrastructures. We have approved a plan to replace turbo-compressors with electric engine-driven compressors in critical Compression Stations, which will result in significant energy savings and, therefore, a long-term emissions reduction.

Energy Efficiency Measures established in 2018 [\[GRI 302-4, GRI 302-5, GRI 305-5\]](#)

Energy Efficiency Measures	Type of energy saving	Energy savings achieved in 2018 (GWh)	Emission reductions achieved in 2018 (tCO _{2e})
Replacement of three pneumatic actuators with electric ones in Serrablo underground storage facility	Natural gas savings	0.93	1,585
Optimisation of control loops of 6 regulation and metering stations of ETN (Sollube, Arrieta, Santurce, Hernani, Rentería and Legazpia) through the installation PLCs to control boilers and pumps and set the temperature of gas outputs		0.70	142
Changes to the air conditioning control room at the Cartagena Plant.		0.19	32
Replacement of refrigeration units to improve air-conditioning efficiency and automation of the monitoring of parameters at the Cartagena Plant.	Electric consumption savings	0.05	7
Installation of a second instrumentation air compressor in the Gaviota underground storage facility.		0.01	2
			1,768 tCO_{2e}

06/2018

The Cartagena Port Authority presents Enagás with the 7th Annual Environment Award. The Port of Cartagena acknowledged the company's energy efficiency plan implemented at its Cartagena plant.

In 2018, the percentage of electricity with guarantees of origin out of total grid electricity consumption was 40% in facilities with the highest consumption.

Self-generated electricity from renewable, clean or efficient sources in 2018 accounted for 12.5% of total consumption (22.7 GWh), with part of this electricity delivered to the national grid and the other part used at Enagás facilities. [\[GRI-OG3\]](#)

Energy intensity

[\[GRI 302-3\]](#)

	2016	2017	2018
Energy intensity by turnover (GWh of energy consumed/€Mn)	2.61	2.63	2.94
Energy intensity by employee (MWh of energy consumed/employee)	813	905	898
Energy intensity by gas outputs (MWh of energy consumed/GWh of total outputs)	2.97	3.03	3.09

Reduction of fugitive emissions

[GRI 305-5]

Fugitive emissions account for 14.8% of the company's carbon footprint and are responsible for most of its methane emissions.

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

From 2019, Enagás will update the planning and frequency of LDAR campaigns in regasification plants and storage facilities, with the aim of adapting them to the specific needs of these facilities and the lessons learned in previous campaigns. Another important measure that will be incorporated into the maintenance schedule of transmission assets is the incorporation of emission quantifiers as a regular working tool for maintenance. This will be a preventative action in the monitoring and control of emissions in general. For the transmission assets (gas pipeline, regulation and metering stations, sites and compression stations) the pre-established frequencies will be maintained.

Furthermore, Enagás participates in a number of associations actively collaborating in the preparation of reports, studies and research related to methane emissions. The most noteworthy initiatives are the following:

- Coordination, through the associations GIE and MARCOGAZ, on the writing of a report about how the gas industry can contribute to reducing methane emissions. This report will provide support for the development of European regulation on this matter.
- In June 2018, Enagás signed the 'Guiding principles on reducing methane emissions in the natural gas value chain', developed in collaboration with different international companies and institutions in the sector. These included the International Energy Agency (IEA), the United Nations Environment Programme, the Environmental Defence Fund (EDF), the International Gas Union (IGU) and the Sustainable Gas Institute (IGU), among others. Within the framework of this initiative, Enagás has participated in the creation of the Common Methane Reporting Template and the document on best practice to reduce methane emissions.
- Participation in the OGCI initiative in which projects that are being carried out to reduce methane emissions throughout the natural gas chain were presented in order to pool best practice and raise awareness within the industry of the relevance of this issue.
- Enagás holds the presidency of the UNECE Group of Gas Experts within which one of the lines of work is methane emissions. In this field, a study financed by the EPA about methane emissions in extractive industries has been launched and Enagás is a member of the Steering Committee.

Compensation of emissions

Enagás commits to reaching carbon neutrality in key fields at a strategic level:

- Neutrality of regasification plants: this involves key infrastructures for the security and diversification of supply. Furthermore, they make up one of the priorities at a strategic level, as the company aims to position itself as a worldwide specialist in LNG.
- Neutrality of the corporate fleet: one of the strategic priorities of Enagás is the promotion of new uses of natural gas in transport. The corporate fleet, certified as an ecological fleet, is one of the key areas of the company's Sustainable Mobility Plan.
- Neutrality of the corporate headquarters: the corporate headquarters is the company's most representative building and has recently received LEED Gold certification.

Therefore 26,836 tCO₂ have been offset through carbon credits created through 2 projects of gas collection and use in landfills, for electricity generation, in Chile and Mexico and one reforestation project in Peru.

5.8

Supply chain

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

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

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

Sustainable Management Plan

2018 main lines

- ✓ Definition of a supplier information integration form, which includes:
 - Definition of the level of environmental, social and ethical (ESE) risks for product and service families and for their suppliers.
 - Definition and implementation of approval requirements in accordance with the level of risk shown by suppliers.
 - Monitoring and updating of supplier information.
 - Integration of all supplier information (approval, reliability, ESG assessments, etc.) into a single and visible database for all users of this information.
- Continuing with audits conducted on critical suppliers through participation in the Achilles working group.

2019 lines

- Risk analysis of supplier IT security systems.
- Continuous monitoring of legal compliance risks and reputational risks at all authorised suppliers.
- Analysis of product and service families for the incorporation of authorisation requisites for the procurement of environmentally friendly products (e.g. office supplies and equipment, etc.).
- Finalising the incorporation of all supplier information (authorisation, reliability, ESG assessments, etc.) from different platforms into a sole supplier database.
- Monitoring audits of partners for the supplier authorisation process in affiliate companies.

1,382
approved suppliers

24%
of orders assessed
in reliability analysis

95
suppliers audited
in financial, ethical,
environmental and
social fields

65.27%
of approved
suppliers are critical

53.5%
of approved suppliers
assessed in accordance with
CSR criteria

Our supply chain [GRI 102-9]

In order to work with Enagás, suppliers must undergo a strict approval process. The company currently works with 1,382 approved suppliers, which are classified in families according to the products or services they offer¹.

- Suppliers of works and services: IT & communication suppliers, engineering, etc. In 2018, 601 service providers carried out work at Enagás facilities. [GRI 102-8]
- Suppliers of supplies: electrical equipment suppliers, piping manufacturers, rotary machine manufacturers, manufacturers of instrumentation and control devices, among others.

Product and service families are classified into levels according to the impact on the safety of the company's operations resulting from poor functioning or poor service. The suppliers of products and services whose possible faults or poor service would entail a greater impact on the company's operational safety are designated major or critical (level 1 and 2) suppliers.

Enagás has 902 approved major suppliers. In 2018, we began working with 19 new suppliers and stopped working with 29 suppliers because they discontinued their activity, merged with third parties or for breach of contract. [GRI 102-10]

Volume of supplier management [GRI 204-1]

	Works and services	Supplies
Number of orders	3,886 (97% of which were local)	6,263 (99% of which were local)
Order value (€Mn)	128.4 (91% of which were local)	62.6 (72% of which were local)

⁽¹⁾ The amount corresponding to orders by the GNL Quintero plant in Chile account for 8% of the Enagás total, therefore this chapter does not include the information relative to the GNL Quintero supply chain. Supply chain management in Chile follows similar approval and ESE assessment processes to those described in this chapter.

Supply chain risk management

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

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

In 2018, Enagás implemented a new supplier management model that includes the company's goals in order to guarantee supply chain sustainability. These goals are translated into authorisation requirements depending on the level of risk in the economic, social and environmental aspects of the family of products and services to which each supplier belongs.

Enagás currently has 1,382 approved suppliers who guarantee the sustainability of its supply chain

The requirements established in the supplier approval process are:

- For all suppliers:
 - > Capacity and resources to meet technical, quality, environmental and safety requirements, and upholding thereof over an extended period of time.
 - > Acceptance of the Enagás Code of Ethics.
 - > Observance of the principles of the United Nations Global Compact and the Universal Declaration of Human Rights.
 - > Compliance with the quotas set out in the Spanish Rights of Persons with Disabilities Act¹.
 - > Implementation of a Gender Equality Plan.¹.
- For suppliers of specific families of products or services:
 - > Quality, environmental and occupational risk prevention certification requirements for suppliers of certain product or service families (required from 99%, 40% and 57% of critical Enagás suppliers, respectively).
 - > Policies or measures to promote the work-life balance of employees or Family-Responsible Company certificate.

During contract execution, Enagás evaluates critical suppliers in the previously mentioned areas using different assessment methods. The results of these assessments allow monitoring of the degree by which suppliers meet the targets scores, audit results and legal compliance, established for each assessment area, and to identify suppliers that pose a high risk to sustainability and to define action plans that enable such risks to be mitigated.

¹ Requisite set for companies with a workforce greater than that indicated by the applicable laws.

Evaluation methodology [GRI 102-21]		Number of suppliers assessed in the last two years* [GRI 308-1, GRI 414-1]	Definition of high risk	Number of suppliers identified as high risk
Internal evaluation	Questionnaire to assess reliability	157	Suppliers with a score less than 50/100	3
	Electronic questionnaire on ESE aspects	53	Suppliers with a score less than 30/100	2
	Consultation on ethics and compliance on reputational analysis platforms	1,753	Suppliers involved in legal non-compliance	58
	Electronic questionnaire on climate change management	133	Suppliers that do no measure or report their emissions	59
	Environmental audits on construction sites	2	Suppliers with major non-conformities	2
External evaluation	Documentary and on-site audits of suppliers who conduct work at company facilities	148	Suppliers with unfavourable audits	36
	Electronic questionnaire on financial and ESE aspects	1,451	Suppliers with a score less than 50/100	750
	Audits on financial and ESE aspects	95	Suppliers with non-conformities	63

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

11/2018

Enagás was acknowledge at the 9th edition of the AERCE 'Purchasing Diamond' Award event, where it received a diamond prize in the Strategy category, a second placing in the category of Purchasing Transformation for creating a model for supplier information integration, and a special mention in the Innovation category for the implementation of a new electronic tool for supplier monitoring.

5.9

Local communities

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

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

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

Sustainable Management Plan

2018 main lines

- ✓ Implementation of volunteering initiatives aligned with the company's values in the social environmental, cultural, sporting, leisure fields.
- Workshops held to promote the employability and social integration of women in situations of vulnerability.
- First family volunteer seminar for the integration of people with intellectual disabilities and inclusive employment.
- ✓ Participation in the sixth edition of the Give and Gain Day of the corporate volunteering initiative.
- ✓ Participation in the Company Solidarity Day, an initiative promoted by the NGO Cooperación Internacional.

2019 lines

- Participation in the IDEA project of Fundación Juan XXIII Roncalli to create quality employment for people with intellectual disabilities.
- ✓ Implementation of volunteering initiatives aligned with the company's values in the social environmental, cultural, sporting, leisure fields.
- Launch of the Céntimo Solidario campaign.
- Definition of volunteering actions with stakeholders from different areas of companies.
- ✓ Maintaining our presence in initiatives such as Give and Gain Day (Forética) and company Solidarity Day.

23

corporate volunteering initiatives

0.45%

social action investment with respect to profit

2,780

hours of corporate volunteering

413

employees took part in corporate volunteering initiatives

Local community management model

Identification of local stakeholders

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

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

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

Furthermore, the analysis of the needs of the area enabled the identification of key collectives and associations (NGOs, local councils, etc.) which are an important source of information for understanding the local context and for the establishment of partnerships (see 'Social investment' in this chapter).

Information and consultation processes

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

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

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

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

As regards Enagás affiliate companies, a number of specific audits were conducted in 2018 in relation to local communities in order to verify that the communication between the affiliates and their communities was carried out in an adequately controlled environment (identification of the integrity of the communities, complaint management, transfer of relevant information, communication channel, etc.). It was also verified that the governance programmes of the affiliate companies reflected and adequately included the most relevant aspects of the relationship with the local communities in question.

Communication channels with local communities



Environmental
inbox



Corporate
website



Informative
sessions



Consultation
processes

Social investment [GRI 413-1]

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

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



Strategic social investment priorities

Priority 1: Investment in communities

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

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



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

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

11/2018

In collaboration with Fundación Randstad and Fundación José María de Llanos, five workshops were held to promote the employability and social integration of women in situations of vulnerability

Priority 2: Commercial contributions to the community

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

Access to affordable, safe and sustainable energy



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

- Energy efficiency
- Investments in infrastructure
- Environmental investments

Building resilient structures, promoting inclusive, sustainable industrialisation and innovation



01/2018

Enagás played host to the Consejo Empresarial Alianza por Iberoamérica (CEAPI). CEAPI is an organisation comprising business leaders committed to the Ibero-American Business Space whose main aim is to promote economic and social development through the exchange of experience, stimulus for investment and integration.

Priority 3: Donations to charity

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

Partnerships for achieving the [GRI 102-12] objectives



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

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

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

Corporate volunteering programme

[GRI 413-1]

Enagás employees participate in the company's Corporate Volunteering programme 'En nuestras manos' (In Our Hands), giving up their time and bringing their skills and talent. There are two forms of cooperation:

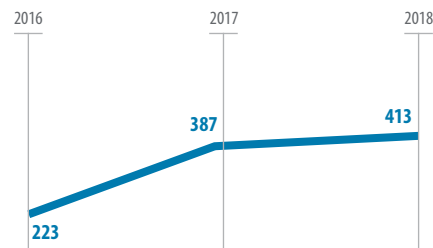
- Face-to-face corporate volunteering, for which activities carried out in collaboration with an association and overseen by the company. This type of initiative takes place during business hours. In line with corporate guidelines on diversity and equal opportunity, the company guarantees that participation in volunteering activities will not lead to work-related discrimination.
- Virtual volunteering, for which the company connects with volunteering opportunities through different associations by means of the corporate volunteering portal. A platform that strengthens and extends the existing programme. It encompasses special days organised by the company as well as over 1,200 national and international collaboration opportunities, both face-to-face and virtual, put forward by NGOs.

In 2018, we carried out 23 initiatives, in which 413 employees dedicated a total of 2,780 working hours. This required an investment of 251,826 thousands of euros by the company to cover programme management costs.

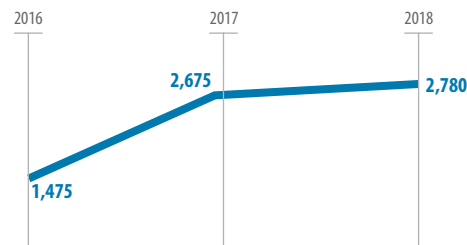
07/2018

Enagás volunteers and their families, accompanied by Fundación Juan XXIII-Roncalli users, took part in the first family volunteer seminar for the integration of people with intellectual disabilities and inclusive employment

Employees who took part in corporate volunteering initiatives



Hours devoted to volunteering initiatives



Sponsorships, patronage and donations

[GRI 413-1]

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

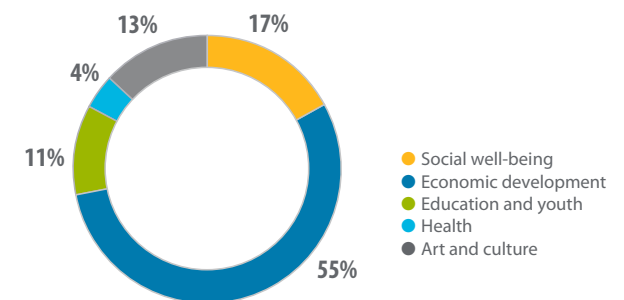
- Sponsorships: institutional and/or sporting activities
- Patronage: social and cultural activities and initiatives
- Donations, which may be of a corporate nature or voluntarily by employees, as is the case of the Cent for Solidarity campaigns that will be set up in 2019.

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

In 2018 financial contributions amounting to 2 million euros were distributed as follows:

Furthermore, we made in-kind donations of all IT equipment,

Areas of contribution



mobile phones and discontinued promotional material estimated at a value of 30,000 euros.



Chapter 6

Key indicators



Economic indicators

Economic performance and cost efficiency [GRI 102-7]

	2007	2008	2009	2010	2011	2012	2013 ⁽¹⁾	2014 ⁽²⁾	2015	2016	2017	2018
EBITDA (million euros) ⁽⁷⁾	596.0	636.2	701.3	780.8	885.5	934.3	995.9	939.8	900.5	948.8 ⁽⁴⁾	1,110.3	1,060.7
EBIT (million euros) ⁽⁷⁾	408.3	433.1	484.7	530.9	585.9	618.4	649.8	589.6	602.0	651.7 ⁽⁴⁾	732.1	691.0
Net profit (million euros) ⁽⁶⁾	238.3	258.9	298.0	333.5	364.6	379.5	403.2	406.5	412.7	417.2	490.8	442.6
Dividends (€ Mn) ^{(3) (6)}	143.0	155.3	178.8	200.1	237.0	265.7	302.4	310.4	315.1	331.4	348.1	364.8
Net investment (€ Mn) ⁽⁶⁾	508.6	776.9	901.6	796.3	781.4	761.4	531.4	625.0	530.2	912.2	328.5	-262.8⁽⁵⁾
Net Debt (€ Mn) ⁽⁶⁾	1,942.7	2,351.3	2,904.0	3,175.3	3,442.6	3,598.6	3,657.8	4,059.0	4,237.0	5,088.7	5,007.7	4,274.7
Shareholders equity (€ Mn) ⁽⁶⁾	1,344.8	1,456.1	1,593.4	1,738.8	1,867.4	2,014.9	2,118.4	2,218.5	2,318.9	2,373.7	2,585.6	2,656.7
Assets (million euros) ⁽⁶⁾	3,976.0	4,717.8	5,779.9	6,829.1	7,717.4	8,083.4	7,043.5	7,711.8	7,751.9	9,248.0	9,649.6	9,526.2
Net Debt/EBITDA (adjusted) ^{(*) (7)}	3.3x	3.7x	4.1x	4.1x	3.9x	3.8x	3.7x	4.2x	4.5x	5.2x	4.4x	4.0x
Average cost of debt ⁽⁶⁾	4.3%	4.7%	3.3%	2.7%	2.8%	2.5%	3.0%	3.2%	2.7%	2.4%	2.7%	2.8%
Headcount (31 December) ⁽⁶⁾	985	1,008	1,046	1,047	1,126	1,178	1,149	1,206	1,337	1,337	1,426	1,449

(*) EBITDA adjusted by dividends received from subsidiaries.

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

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

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

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

(5) 60 million-euro investment in Spain and -322.8 million euros of net international investment, with the main international investments currently underway: TAP 149.7 million euros; True up TAP -415.2 million euros; DESFA 40.5 million euros; GNL Quintero 8.9 million euros and the Swedegas sale -100.5 million euros.

(6) Figures from the Memo regarding the Consolidated Annual Accounts of Enagás Group for fiscal year 2018

(7) These figures are included in the Alternative Performance Measures Report, available at [https://www.enagas.es/enagas/es/AccionistasInversores/InformacionEconomicoFinanciera/MedidasAlternativas_de_Rendimiento_\(APM\)](https://www.enagas.es/enagas/es/AccionistasInversores/InformacionEconomicoFinanciera/MedidasAlternativas_de_Rendimiento_(APM))

Stock market performance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Share price (31 Dec) (€)	19.99	15.56	15.43	14.92	14.29	16.14	19.00	26.19	26.00	24.12	23.87	23.61
Dividend (€)	0.60	0.65	0.75	0.84	0.99	1.11	1.27	1.30	1.32	1.39	1.46	1.53^(*)
Market capitalisation (€ Mn)	4,771.6	3,714.7	3,682.5	3,560.7	3,411.0	3,852.6	4,534.8	6,251.3	6,207.1	5,759.4	5,698.6	5,636.49
Number of shares (million)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7

(*) Distribution of the 2018 gross dividend of €1.53 per share is subject to approval at the General Shareholders Meeting.

Economic value generated and distributed [GRI 201-1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Economic value generated (EVG)	901.5	1,000.80	1,154.80	1,199.30	1,261.9	1,227.2	1,221.6	1,218.3	1,384.6	1,342.2
Economic value distributed (EVD)	565.7	617.5	727.6	769.2	845.4	801.5	862	894.0	942.7	969.7
Suppliers	137.2	147.3	193.1	168.1	184.6	198.3	193.4	203.9	209.6	229.8
Society (tax and social action investment)	127.7	144.3	164.9	179.8	172.2	102.6	166.3	136.3	144.8	138.8
• Investment in social action	0.8	1.3	2.2	1.6	1.6	1.6	1.9	2.2	2.0	2.0
• Tax	126.9	143	162.6	178.2	170.6	101.0	164.4	134.1	142.8	136.8
Employees (personnel expenses)	60.7	67.2	67	79	82.3	84.7	96.3	108.8	128.9	131.2
Capital providers	240	258.7	302.6	342.4	406.3	415.9	406	445.1	459.5	469.8
• Dividends paid to shareholders	178.8	200.1	237	265.7	302.4	310.4	315.1	331.7	348.6	365.3
• Financial result	61.2	58.6	65.6	76.7	103.9	105.5	90.9	113.4	110.9	104.6
Economic value retained (EVR)	335.9	383.3	427.2	430.1	416.5	425.7	359.6	324.3	441.9	372.5

Financial and non-financial ratings

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Standard & Poor's	AA-	AA-	AA-	AA-	AA-	BBB	BBB	BBB	A-	A-	A-	A-
Fitch	A2	A2	A2	A2	A2	A-	A-	A-	A-	A-	A-	A-
Dow Jones Sustainability Index ^(*)	67	77	75	78	88	83	85	84	85	91	86	85
CDP (transparency / performance)	-	-	-	70/B	83/B	85/B	83/B	91/B	99/B	A List	A-	B

(*) Enagás has been a member of the DJSI since 2008 and led its sector in 2018: *Oil & Gas Storage & Transportation*.

Social indicators

Corporate Governance

	2011	2012	2013	2014	2015	2016	2017	2018
Number of Directors	15	13	15	15	13	13	13	13
Independent Directors (%)	53.3%	61.5%	60%	60%	62%	62%	54%	54%
Board gender diversity (%)	13.4%	15.4%	20%	20%	23%	23%	23%	23%
Non Audit Fees (%)	27%	14%	3%	3%	4%	53%	18%	36%
General Shareholders' Meeting quorum (%)	57%	55.8%	53.1%	52.9%	54.8%	50.8%	45.6%	45.6%

Supply chain

	2011	2012	2013	2014	2015	2016	2017	2018
Approved suppliers (no.)	1,989	2,010	1,875	1,745	1,781	1,800	1,356	1,382
Critical/approved suppliers (%)	52.1%	51.8%	54.4%	59.1%	59%	59%	69.5%	65.3%
Orders assessed in reliability analysis (%)	-	11.6%	18.9%	24.4%	11.5%	10.3%	10.1%	24.0%
Suppliers audited externally in financial, ethical, environmental and social aspects (no.)	-	31	51	61	33	39	55	95
Percentage of approved suppliers assessed in accordance with CSR criteria (%)	-	-	25.05%	27.05%	26.6%	27.1%	52.4%	53.5%

Ethical compliance and Human Rights

	2011	2012	2013	2014	2015	2016	2017	2018
Reports received via ethics channel (no.)	-	2	2	4	4	3	2	5
People trained in issues related to ethical compliance (cumulative figure) (no.)			128	200	1,217	1,214	1,206	1,357

Human capital [GRI 102-7]

	2011	2012	2013	2014	2015	2016	2017	2018
Employees (no.)	1,126	1,118	1,149	1,206	1,337	1,337	1,426	1,449
Voluntary employee turnover (%)	0.8%	0.46%	0.45%	0.69%	0.49%	0.63%	1.86%	1.34%
Absenteeism (%)	3.65%	2.33%	2.46%	2.50%	2.51%	2.89%	2.94%	3.10%
Workforce gender diversity (%)	22.47%	22.45%	22.8%	23.88%	26.78%	27.45%	26.23%	26.98%
Board gender diversity (%)	14.1%	15.9%	18.8%	20.0%	25.4%	24.8%	26.1%	26.39%
Investment in training per employee (€)	956	898	1,192	1,041	894	920	1,081	1,164
Training per employee (hrs)	48.9	45.8	52.0	59.6	49.8	61.8	65.1	61.4

Customer satisfaction

	2011	2012	2013	2014	2015	2016	2017	2018
Rate of shippers satisfaction with transmission	80%	82.5%	83%	82.2%	82.7%	84.3%	85.7%	89.4%
Rate of satisfaction of transmission companies and distributors with transmission	76.7%	78.3%	79%	77.1%	89.2%	84.7%	85.0%	81.2%
Rate of satisfaction of shippers with the technical management of the Spanish Gas System	76.7%	83.5%	80.5%	78.6%	78.3%	86.2%	83.9%	90.1%
Rate of satisfaction of transmission companies and distributors with the technical management of the Spanish Gas System	76.7%	78.7%	81.2%	72.6%	83.3%	79.2%	82.3%	89.4%

Occupational health and safety [GRI 403-9]

	2011	2012	2013	2014	2015	2016	2017	2018
Lost time injury frequency rate (own staff)	7.51	9.01	5.31	4.69	3.86	1.80	7.01	2.08 ^(*)
Lost time injury frequency rate (contractor staff)	7.08	6.36	9.32	3.04	2.25	10.43	0.53	0.95
Lost time injury severity rate (own staff)	0.07	0.37	0.25	0.53	0.14	0.08	0.34	0.05 ^(*)
Lost time injury severity rate (contractor staff)	0.2	0.28	0.36	0.11	0.07	0.11	0.02	1.91
Work-related fatalities of own staff (no.)	0	0	0	0	0	0	0	0
Work-related fatalities of contractor staff (no.)	0	0	0	0	0	0	0	1 ^(**)

^(*) No working days were lost in Chile in 2018 owing to own employee work-related accidents.

^(**) There was a fatal accident at the GNL Quintero regasification plant in Chile involving a contractor carrying out maintenance activities on a seawater intake tower. Two investigations conducted, one internally and the other externally by the ABS Consulting firm concluded that the death of the diving supervisor was the result of the victim's imprudence. As a consequence of this accident, the Underwater Activities Procedure, the HSSE standards for high-risk activities and the risk matrix were updated; seawater intake maintenance operations were optimised; a protective structure was installed at the seawater intake; and the work permit system and contracting administrator training were enhanced. In July 2018, Instituto Cerdá conducted a post-crisis analysis, concluding with a recommendation report that is being addressed.

Impact on local communities

	2011	2012	2013	2014	2015	2016	2017	2018
Social action investment / net profit (%)	0.6%	0.4%	0.4%	0.4%	0.5%	0.5%	0.4%	0.5%
Participation of employees in corporate volunteering initiatives (% of workforce)		5%	8.5%	9%	15.1%	16.7%	27.1%	27.6%
Time spent on volunteer work (hrs)		400	640	866	1,404	1,475	2,675	2,780

Environmental indicators

Environmental management and fighting climate change

	2011	2012	2013	2014	2015	2016	2017	2018
Scope 1 CO2 emissions (t eq CO2) [GRI 305-1]	264,679	387,651	479,175	537,092	272,728	263,540	266,357	276,176
Scope 2 CO2 emissions (t eq CO2) [GRI 305-2]	52,752	61,377	36,079	33,941	32,444	27,010	46,851	48,177
Own consumption of natural gas (GWh)	1,025	1,672	1,932.1	2,338.1	963.0	919.3	1,030.4	1,055.7
Electricity consumption (GWh) ^(*)	201.5	186.7	150.0	143.1	148.3	160.5	252.1	234.4
Electricity generation / consumption (%) ^(**)	1.9%	5.4%	6.8%	4.7%	8.0%	12.5%	11.0%	12.5%
Waste generated (t)	3,722	3,913	3,455	2,189	3,823	3,981	3,081	4,409
Waste recycled (%)	59%	48%	63%	15%	40%	61%	68%	78%
Area occupied in protected areas (km ²)			3.7	4	4	4	4	4

(*) Includes consumption from the network and from own generation sources.

(**) The scope of this indicator is limited to Spain.



Chapter 7

Appendices

Non-financial and diversity reporting requirements (Law 11/2018)

The following are the requirements established by Law 11/2018 that are responded to in the Non-Financial Information Statement and in the Annual Corporate Governance Report included in the Consolidated Management Report:

•• Non-Financial Information Statement

Requirements of Law 11/2018	Reporting framework	Number of pages
General		
Description of the business model	GRI 102-2, GRI 102-3, GRI 102-4, GRI 102-5, GRI 102-6, GRI 102-7, GRI 102-14, GRI 102-15	3-6, 10-14, 21-22, 25-27, 103-106
Description of the group's policies with respect to environmental and social issues, to respect for human rights and the fight against corruption and bribery, and to personnel.	GRI 103-1 and GRI 103-2 for all material issues	44, 52, 57, 65, 74, 80, 86, 94, 97
The results of the group's policies applied to environmental and social issues, to respect for human rights and the fight against corruption and bribery, and to personnel.	GRI 103-2 and GRI 103-3 for all material issues	44, 52, 57, 65, 74, 80, 86, 94, 97
The main risks related to environmental and social issues, to respect for human rights and the fight against corruption and bribery, and to personnel, linked to the group's activities	GRI 102-11, GRI 102-15, GRI 102-29, GRI 102-30, GRI 102-31, GRI 201-2	21-22
Non-financial key performance indicators	*	7, 103-108, 119-127
I. Information on environmental issues		
Detailed information on the current and foreseeable effects of the company's activities on the environment		
Detailed information on the current and foreseeable effects of the company's activities on the environment and, as the case may be, on health and safety	GRI 307-1, GRI 308-2	81-82, 87-88, 95-96, 126
Environmental assessment or certification procedures	GRI 308-1	82, 95-96
Resources dedicated to the prevention of environmental risks	*	81-83, 87-88, 92
Application of the precautionary principle	GRI 102-11	21-23
The amount of provisions and guarantees for environmental risks	*	81-82
Pollution		
Measures to prevent, reduce and/or rectify carbon emissions that seriously harm the environment	Management approach (GRI 103-1, GRI 103-2 and GRI 103-3) in Climate change and energy efficiency, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-6	86, 89-91
Taking into consideration any form of air pollution specific to an activity, including noise and light pollution	Management approach (GRI 103-1, GRI 103-2 and GRI 103-3) in Natural capital management, GRI 305-7	80, 85
Circular economy and waste prevention and management		
Circular economy and waste prevention and management: measures of prevention, recycling, reuse and other forms of recovery and elimination of waste	GRI 306-2	82-85
Actions to combat food waste	*	101
Sustainable use of resources		
Sustainable use of resources: water consumption and supply according to local restrictions	GRI 303-3, GRI 303-4, GRI 303-5	83-84
Consumption of raw materials and the measures adopted to improve efficiency in their use		Enagás does not consume raw materials in its production process; only ancillary materials are used
Direct and indirect consumption of energy, measures taken to improve energy efficiency and the use of renewable energy	GRI 302-1, GRI 302-3, GRI 302-4, GRI 302-5	89-92
Climate change		
Climate change: the important elements of greenhouse gas emissions generated as the result of the company's activities, including the use of the goods and services produced	GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4	89-91

Requirements of Law 11/2018	Reporting framework	Number of pages
The measures adopted in order to adapt to the consequences of climate change	GRI 201-2	92
The voluntarily established long and short-term emission reduction targets to reduce greenhouse gas emissions and the measures implemented for this purpose	GRI 305-5	91, 93
Biodiversity protection		
Biodiversity protection: measures taken to preserve or restore biodiversity	GRI 304-3	83
Impacts caused by activities or operations in protected areas	GRI 304-2, GRI 304-4, GRI 0G4	83, 125
II. Information on social and personnel-related issues		
Employment		
Total number and distribution of employees by gender, age, country and professional category	GRI 102-8, GRI 405-1	45-46, 66, 71
Total number and distribution of work contract modalities and yearly average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional category	GRI 102-8	66
Number of dismissals by gender, age and professional category	GRI 102-8, GRI 102-10	66, 67
Average remuneration and its evolution by gender, age and professional category or equivalent	GRI 405-2	70
Gender pay gap, remuneration for equal work or average for the company	GRI 102-38, GRI 102-39, GRI 201-3, GRI 202-1, GRI 405-2	37, 70, 72, 121
The average remuneration of directors and managers, including variable remuneration, expenses, compensation, payments to long-term savings plans and any other item by gender	GRI 102-35	19-20, 49, -50
Implementation of policies related to the disconnecting from work	*	71-72
Disabled employees	GRI 405-1	71
Organisation of work		
Organisation of work hours and number of hours lost to absenteeism	GRI 403-9	75-77
Measures aimed at providing work-life balance and promoting their shared use by both parents	GRI 401-2, GRI 401-3	71-72
Health and safety		
Health and safety conditions in the workplace	GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-4, GRI 403-5, GRI 403-6, GRI 403-7, GRI 403-8	75-79
Work-related accidents, particularly their frequency and seriousness, by gender	GRI 403-9	76
Work-related ill health by gender	GRI 403-10	77
Social relations		
Organisation of social dialogue, including procedures for notifying and consulting employees and negotiating with them	GRI 102-41, GRI 102-43, GRI 403-4	34, 73, 75
Percentage of employees covered by collective bargaining agreements by country	GRI 102-41	73
Results of collective bargaining agreements, particularly in relation to occupational health and safety	GRI 403-4	73, 75
Training		
Implemented training policies	GRI 404-2	68
Total number of hours of training courses by professional category	GRI 404-1	68
Universal accessibility for persons with disabilities		
Universal accessibility for persons with disabilities	*	71
Equality		
Measures adopted to promote equal treatment and opportunities for men and women	GRI 401-3	68-72
Equality plans (Chapter III of Spanish Constitutional Act 3/2007 of 22 March, for Effective Equality between Women and Men)	GRI 405-1	68-71
Measures adopted to promote employment	*	68-71
Protocol against sexual harassment and harassment on the grounds of sex	GRI 102-17	36-38, 53
Integration and universal accessibility for persons with disabilities	GRI 405-1	71
Policy against any type of discrimination and, where appropriate, for managing diversity	*	68-71

Requirements of Law 11/2018

Reporting framework

Number of pages

III. Information on respect for human rights

Application of due diligence procedures in relation to human rights	GRI 102-16, GRI 102-17, GRI 410-1, 412-1, 412-3	36-38, 53, 122
Prevention of the risks of violation of human rights and, where appropriate, measures to mitigate, manage and rectify any possible abuses committed	*	36-38
Formal complaints for cases of violation of human rights	GRI 102-17	36-38, 53
Promotion of and compliance with the provisions of the fundamental conventions of the International Labour Organization in relation to respect for freedom of association and the right to collective bargaining	GRI 412-2	122
Elimination of discrimination in employment and occupation; the elimination of forced or compulsory labour and the effective elimination of child labour	*	36-38

IV. Information relating to the fight against corruption and bribery

Measures adopted to prevent corruption and bribery	GRI 102-16, GRI 102-17, GRI 205-1, GRI 205-2, GRI 205-3	53-56
Measures to combat money laundering	GRI 205-2	53-56
Contributions to foundations and not-for-profit organisations	GRI 201-1, GRI 413-1	56, 99-101, 104

V. Information about the company

The company's commitment to sustainable development

The impact of the company's activity on employment and local development	GRI 413-1	99-101
The impact of the company's activity on local communities and on the region	GRI 413-1, GRI 413-2, OG11	98-101, 127
Relations with key figures of local communities and modalities of dialogue with them	GRI 102-43, GRI 411-1, GRI 413-1, OG10,	98-101
Association and sponsorship actions	GRI 102-13, GRI 413-1	98-101, 119

Subcontracting and suppliers

Inclusion in the procurement policies regarding social issues, gender equality and environment; consideration in supplier and subcontractor relations of their social and environmental responsibilities; systems for supervision and auditing and their results	GRI 308-1, GRI 308-2, GRI 414-1, GRI 414-2	95-96
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Consumers

Measures for the health and safety of consumers	GRI 403-7	75, 79
Systems for lodging complaints, complaints received and their resolution	GRI 102-43	34, 63

Tax information

Profits obtained by country	GRI 201-1	58, 104
Tax paid on profits and public subsidies received	GRI 201-4	60, 123

* The reporting framework is indicated with the report created.

Information from the Annual Corporate Governance Report

Information from the Annual Corporate Governance Report

Company ownership structure	
Company management structure	
Workings of the General Shareholders' Meeting	
Related-party and intragroup transactions	
Risk control systems, including tax risk	
Recommendations of the Unified Code of Good Governance	

Self-assessment in relation to the implementation of the principles and items of integrated reporting



Enagás is committed to integrated reporting



Together with other leading companies in international reporting, Enagás took part in a pilot programme of the International Integrated Reporting Committee (IIRC) to establish a common framework for the preparation of integrated reports and enable participants to share best practices. Up to and including 2017, Enagás was a member of the Integrated Reporting Business Network.

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

Since 2012, Enagás has been progressing towards an integrated report in its Annual Reports.

Strategic focus and future orientation

The report reflects key strategic aspects such as the positioning of Enagás in a low-carbon economy and the context of operation, which includes the outlook for the natural gas sector and the impact they will have on business, based on those established by the company's growth drivers.

In addition, our long-term vision is included, positioning the company with a sustainable business model, which is based on the role of natural gas as the key to achieving sustainable, safe and efficient energy, renewable gases and the creation of value in affiliate companies, as well as in areas such as digitalisation and corporate entrepreneurship and innovation.

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

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



In 2018, Enagás has updated its sustainability strategy and a materiality analysis has been carried out

Connectivity of information

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

- The long-term vision, the context of operation and the business model, from which the company's perceived risks, opportunities, pillars of growth and strategy are derived.
- Strategy and Corporate Governance, through which we leverage opportunities and manage risks, all of which is aimed at creating value, while taking into account the impact on business and society.
- The company's short and long-term objectives, aligned with the strategic drivers and linked to employees' variable remuneration, through which we ensure compliance with the strategy.
- The management of risks and opportunities, along with their impact, and the controls and mitigating actions in various areas of management.
- Our value creation process, prepared in accordance with the capital model, includes in the different chapters the main inputs and impacts on the material topics generated by our activity (see the 'Creating value for our stakeholders' section). This section is also linked with our contribution to the Sustainable Development Goals (SDG), in which we identify those SDG to which we contribute through our activity, management models, policies and corporate guidelines and performance (see the chapter 'Enagás in 2018').
- Also included are navigation icons, hyperlinks and cross-references that facilitate reading and understanding of the connections between different contents.

Responsiveness and stakeholder inclusiveness

[GRI 102-46]

Enagás' Annual Report 2018 targets its main stakeholders. The Enagás stakeholder map is aligned with corporate strategy.

Enagás has identified its stakeholders classified according to the different areas of relationship, identified by material topics.

As in previous years, the 2018 Annual Report has been drafted applying the principles of standard AA1000: inclusivity, materiality and responsiveness.

Materiality and accuracy [GRI 102-44, GRI 102-46]

The report contains all the necessary information to be able to respond to the information relevant to the main stakeholders.

In 2018, Enagás updated its sustainability strategy (see the chapter 'Sustainability') and performed a materiality analysis. The outcome of this analysis was that Enagás identified those material topics that bring together the main interests and concerns of stakeholders. This Report provides detailed information concerning each material issue in the respective chapters of the section 'Creation of value for our stakeholders'.

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

Finally, following Enagás' takeover of GNL Quintero Chile in 2018, information about this affiliate has been consolidated in this report.

For the purpose of only including material topics in the Annual Report, the Consolidated Management Report and its detailed information was separated from the Consolidated Annual Accounts, Annual Corporate Governance Report and Annual Directors' Remuneration Report.

The Integrated Annual Report includes the more relevant data from these publications.

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

Reliability

Both the financial and non-financial information from 2018 was audited and verified, respectively, by the same auditors: EY.

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

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

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

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

Comparability and consistency

The 2018 Annual Report takes account of the content and indicators recommended in the GRI Sustainability Reporting Standards of the Global Reporting Initiative (GRI), particularly with regard to the Oil & Gas sector supplement. Therefore, it provides an internal and external benchmark for comparison based on internationally recognised principles and content.

Furthermore, the indicators included in the 2018 Annual Report are defined so as to facilitate comparison with reports for prior year and other companies in the sector, using studies, CSR indices and benchmarking projects as references.

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



“This report has been prepared in accordance with GRI Standards Comprehensive option”



Integrated reporting framework content

Content element	Aspects included	Sections	Page
Overview of the organisation and its external environment	Activities and material topics	Our business model Sustainability strategy	11-12, 32
	Mission, vision and values	Our business model	13
	Supply chain description	Our supply chain	94
	Operating context	Geographies Operating context	14, 16
	Shareholder composition	Enagás in 2018	7
Corporate	Corporate Governance structure	Governing Bodies	44-46, 48
	Board selection and self-assessment	Performance of the Governing Bodies	46
	Good Corporate Governance practices implemented	Good Governance	44-51
	Remuneration for the Board linked to value creation in the short, medium and long term	Remuneration of the Board of Directors	49-50
Opportunities and risks	Management of opportunities arising from future outlook	Operating context Our project for the future	16, 25-31
	Management of risks associated with future outlook	Risk management Our project for the future	21-31
	Management of opportunities and risks in the supply chain	Supply chain risk management	95-96
Strategy and resource allocation	Growth strategy	Our project for the future	25-31
	Strategy		
Business model	How Enagás creates value from its resources and business processes	Our contribution to SDGs Sustainability strategy	8, 32
	Sustainable management model	Sustainable Management Model	35
Performance	Key company performance indicators	Enagás in 2018 Key indicators	7, 102-108
	Performance in material topics measured by indicators	Good governance People Natural capital management	Financial and operational excellence Health and safety Climate change and energy efficiency
		Ethics and integrity Local communities Supply chain	44, 52, 57, 65, 74, 80, 86, 94, 97
Outlook	The opportunities, challenges and uncertainties the organisation may encounter in pursuing its strategy	Operating context Our project for the future	16, 25-31
	Risks associated with the business and implementation of the strategy	Risk management	21-24

Index of contents according to the EFQM Model

EFQM-Management Report

EFQM criterion	Subcriterion	References (chapters)	Pages	EFQM criterion	Subcriterion	References (chapters)	Pages
1. Leadership	1a Leaders develop the mission, vision, values and ethical principles, and act as a role model.	Interview with the Executive Chairman	4	3. People	2c. Strategy and supporting policies are developed, reviewed and updated.	Our contribution to SDGs	8
		Mission, vision, values	13			Our purpose and activities	11
		Good governance	44-51			Strategy	18
		Ethics and integrity	52-56			Sustainability Strategy	32-34
		Respect for human rights	36-38			Sustainable Management Model	35-38
	1b. Leaders define, monitor, review and drive the improvement of the organisation's management system and performance.	Strategy	18		2d. The strategy and its supporting policies are communicated, implemented and monitored.	Sustainability strategy	32-34
		Sustainability strategy	32-34			Local Community Management Model	97-101
		Sustainable Management Model	35-38				
	1c. Leaders engage with external stakeholders.	About our Consolidated Management Report	3		3a People plans support the organisation's strategy.	Sustainability strategy	32-34
		Corporate Entrepreneurship and Open Innovation	29			People	65-73
Sustainability strategy		32-34	Stable and quality employment	66			
Affiliate management		39	Professional development programmes	67			
1d. Leaders reinforce a culture of excellence with the organisation's people.	Creating value for our stakeholders	44-101	3b. People's knowledge and capabilities are developed.	Diversity	68-71		
	Corporate Entrepreneurship and Open Innovation	29		Collective bargaining	73		
	Operating excellence	57-64		Employee satisfaction and motivation	73		
	Professional development programmes	67					
1e. Leaders ensure that the organisation is flexible and manages change efficiently.	Board structure: independence and diversity	46	3c. People are aligned, involved and empowered.	Our employees	66		
	Diversity	68-71		Awareness of in-house talent	67		
	Our contribution to SDGs	8		Professional development programmes	67		
2. Strategy	2a The strategy is based on understanding the needs and expectations of stakeholders and the external environment.	Our project for the future	25-31	3d. People communicate effectively throughout the organisation.	Training	68	
		Sustainability strategy	32-34		3e. People are rewarded, recognised and cared for.	Achievement of 2018 targets	19
		Operating context	16			Corporate Entrepreneurship and Open Innovation	29
		Natural gas as a key element	25			Code of Ethics	53
	2b. The strategy is based on understanding internal performance and capabilities.	Renewable gases	26	3d. People communicate effectively throughout the organisation.	Social investment	99-101	
		Sustainability strategy	32-34		Sustainability strategy	32-34	
		Operating excellence	57-64			Operating excellence	57-64
		Board structure: independence and diversity	46			Employee satisfaction and motivation	73
		Diversity	68-71				
		Our contribution to SDGs	8				
		Our project for the future	25-31				

EFQM criterion	Subcriterion	References (chapters)	Pages
4. Partnerships and Resources	4a Managing partners and suppliers for sustainable profit	Creating value in affiliates	28
		Corporate Entrepreneurship and Open Innovation	29
		Affiliate management	39
		Supply chain	94
	4b. Finances are managed to secure sustained success.	Achievement of 2018 targets	18
		Tax responsibility	55
		Financial excellence	58
		Social investment	99-101
		System for internal control of financial reporting Consolidated Annual Accounts	XX XX
	4c. Buildings, equipment, materials and natural resources are managed in a sustainable way.	Sustainable Management Model	35-38
Crisis and emergency management		78	
Natural capital management		80	
Climate change and energy efficiency		86	
4d. Technology is managed to support the delivery of strategy.	Our project for the future	25-31	
4e. Information and knowledge management to support effective decision-making and build up the organisation's capability.	Sustainability strategy	32-34	
	Information security	78	
5. Processes, Products and Services	5a Processes are designed and managed to optimise value for stakeholders.	Strategy	16-24
		Sustainability strategy	32-34
		Affiliate management	39
		Operating excellence	61
	5b. Products and Services are effectively promoted and marketed.	Renewable gases	26
		Corporate Entrepreneurship and Open Innovation	29
		Digitalisation	30
		Technological innovation	30
		Operational excellence	61
		Circular economy	82
5c. Products and Services are promoted and effectively marketed.	Sustainability strategy	32-34	
	Sustainable Management Model	35-38	
	Operating excellence	61	
	Information security	78	

EFQM criterion	Subcriterion	References (chapters)	Pages
	5d. Products and services are produced, delivered and managed.	Our purpose and activities	11
		Operating excellence	61
		Health and safety	74-79
		Natural capital management	80-85
		Climate change and energy efficiency	86-93
	5e. Customer relationships are managed and enhanced.	Sustainability strategy	32-34
		Operating excellence	61
6. Customer Results	6a Perceptions	Operational Excellence	61
		Key social indicators	105
	6b. Performance indicators	Enagás in 2018	7
		Operational excellence	61
7. People Results	7a Perceptions	Employee satisfaction and motivation	75
		7b. Performance indicators	Enagás in 2018 People Key social indicators
8. Society Results	8a Perceptions	Sustainability strategy	32-34
		Sustainable Management Model Index positioning and certifications	35 41-42
	8b. Performance indicators	Enagás in 2018	7
		Key indicators	102
9. Business Results	9a Business Outcomes.	Enagás in 2018	7
		Key economic indicators Consolidated Annual Accounts	103-105 XX
	9b. Business Performance Indicators.	Enagás in 2018	7
		Key indicators	103-109
		Consolidated Annual Accounts	XX

GRI Standards content index

[GRI 102-55]



General content

GRI Standard	Contents	Page numbers or URLs	Omissions
	Organisation profile		
	102-1 Name of the organisation	3, 131	
	102-2 Activities, brands, products and services	11	
	102-3 Location of the organisation's headquarters	14, 131	
	102-4 Location of operations	14	
	102-5 Ownership and legal form	3	
	102-6 Markets served	14	
GRI 102: General content 2016	102-7 Scale of the organisation	103, 106	
	102-8 Information on employees and other workers	66, 69, 95	
	102-9 Supply chain	95	
	102-10 Significant changes in the organisation and its supply chain	11, 14, 66, 95	
	102-11 Precautionary principle and approach	21-22	
	102-12 External initiatives	3, 36, 100	
	102-13 Membership of associations	Enagás is also involved with the governing bodies of a number of Spanish associations and organisations such as Sedigas, Enerclub and Instituto Elcano, and international bodies such as IGU, ENTSG, GIE, EASEE Gas, GIIGNL and UNECE. It also cooperates with regulators, both directly and through industry associations, to propose regulatory improvements, whether directly or as part of consultations by the regulators.	
	Strategy		
	102-14 Statement from senior decision-maker	4-6	
	102-15 Key impacts, risks and opportunities	21-22, 25, -27	

GRI Standard

Contents

Page numbers or URLs

Omissions

Ethics and integrity

102-16 Values, principles, standards and rules of the organisation

53

102-17 Mechanisms for offering advice and concerns about ethics

53

Governance

102-18 Governance structure

35, 45-46

102-19 Delegating authority

35

102-20 Executive-level responsibility for economic, environmental and social matters

35

102-21 Consulting stakeholders on economic, environmental, and social topics

33, 35, 47, 63, 73, 96

102-22 Composition of the highest governance body and its committees

45-46

102-23 Chair of the highest governance body

45

102-24 Appointment and selection of the highest governance body

[Article 8 of the Regulations of the Enagás Board of Directors](#)

[Enagás Internal Code of Conduct in Matters Relating to Securities Markets \(pp. 9-19\)](#)
[Article 25 of the Regulations of the Enagás Board of Directors](#)

GRI 102:
General content 2016

102-25 Conflicts of interest

102-26 Role of highest governance body in setting purpose, values, and strategy

13

102-27 Collective knowledge of highest governance body

46-47

102-28 Evaluating the highest governance body's performance

46

102-29 Identification and management of economic, environmental and social impacts

21, 35, 87, -88

102-30 Effectiveness of risk management processes

21

102-31 Review of economic, environmental, and social topics

21, 35, 87, -88

102-32 Highest governance body's role in sustainability reporting

3, 6

102-33 Communicating critical concerns

47

102-34 Nature and total number of critical concerns

47

102-35 Remuneration policies

19-20, 49-50

102-36 Process for determining remuneration

49

GRI Standard	Contents	Page numbers or URLs	Omissions
GRI 102: General content 2016	102-37 Stakeholders' involvement in remuneration	49	
	102-38 Annual total compensation ratio	In 2018, the ratio of the highest remuneration to the median total compensation of employees per country was 30.2 in Spain and 12.9 in Chile.	
	102-39 Percentage increase in annual total compensation ratio	In 2018, the percentage change in the ratio between the highest remuneration and the average total remuneration of employees per country was -10.5% in Spain and -42.2% in Chile.	
	Stakeholder engagement		
	102-40 List of stakeholder groups	34	
	102-41 Collective bargaining agreements	73	
	102-42 Identifying and selecting stakeholders	32, 34, 63	
	102-43 Approach to stakeholder engagement	32, 34, 63	
	102-44 Key topics and concerns raised	32, 34, 63, 114	
	Reporting practice		
GRI 102: General content 2016	102-45 Entities included in the consolidated financial statements	3	
	102-46 Defining report content and topic boundaries	32, 34, 114	
	102-47 List of material topics	34, 43	
	102-48 Restatements of information	85	
	102-49 Changes in reporting	3	
	102-50 Reporting period	3	
	102-51 Date of most recent report	2017	
	102-52 Reporting cycle	Yearly	
	102-53 Contact point for questions regarding the report	131	
	102-54 Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with GRI Standards Comprehensive option	
102-55 GRI content index	119-127		
102-56 External assurance	3, 128-129		

Material topics

GRI Standard	Contents	Page numbers or URLs	Omissions
Good Governance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	44	
	103-2 The management approach and its components	44	
	103-3 Evaluation of management approach	44	
GRI 419: Socio-economic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	See section 2.4. 'Property, plant and equipment', 'a) Grants' in the Consolidated Annual Accounts. The Group did not benefit from other significant financial assistance received from governments in 2018.	
Ethics and integrity			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	52	
	103-2 The management approach and its components	52	
	103-3 Evaluation of management approach	52	
GRI 205: Anti-Corruption 2016	205-1 Operations assessed for risks related to corruption	55	
	205-2 Communication and training about anti-corruption policies and procedures	52, 56	
	205-3 Confirmed incidents of corruption and actions taken	53	
GRI 410: Security Practices 2016	OG12 Operations/facilities where involuntary resettlement took place, the number of resettled households and how their livelihoods were affected in the process	Expropriations resulting from Enagás activities did not involve involuntary resettlement of communities	
	OG13 Number of process safety events taking place in operations, by activity	No process safety events were reported according to the API RP 754 standard	
GRI 412: Human Rights Assessment 2016	410-1 Security personnel trained in human rights policies or procedures	37	
	412-1 Operations that have been subject to human rights reviews or impact assessments	36	
GRI 412: Human Rights Assessment 2016	412-2 Employee training on human rights policies or procedures	83.5% of employees received training on human rights (18,958 hours). Training by means of at least one of the following types of courses: Equality and Anti-Corruption, Human Rights (general), and Prevention and the Environment.	
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	100% of the significant agreements with suppliers include human rights clauses.	

GRI Standard	Contents	Page numbers or URLs	Omissions
GRI 415: Public Policy 2016	415-1 Political contributions	The financing of political parties is expressly prohibited, and this is one of the risks that Enagás has defined in its crime prevention model. In 2018, Enagás did not make political contributions of any kind.	
Financial and operational excellence			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundaries	57	
	103-2 The management approach and its components	57	
	103-3 Evaluation of management approach	57	
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	7, 104	
	201-2 Financial implications and other risks and opportunities due to climate change	21, 26–27, 87–88, 90, 92	
	201-3 Defined benefit plan obligations and other retirement plans	71-72	
	201-4 Financial assistance received from government	See section 2.4. 'Property, plant and equipment', 'a) Grants' in the Consolidated Annual Accounts. The Group did not benefit from other significant financial assistance received from governments in 2018.	
People			
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its boundaries	65	
	103-2 The management approach and its components	65	
	103-3 Evaluation of management approach	65	
GRI 202: Presence in the market 2016	202-1 Ratio of standard initial category salary by sex to the local minimum wage	37, 70	
	202-2 Proportion of senior management hired from the local community	100% of executives in Spain are local and 63% in Chile. There is a local general manager in both Mexico and Greece and a non-local general manager in Peru/Chile. Employees with the nationality of the country in which they work are considered local.	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	66-67	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	71-72	
	401-3 Parental leave	73	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	65, 68	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	68	
	404-3 Percentage of employees receiving regular performance and career development reviews	65, 67	

GRI Standard	Contents	Page numbers or URLs	Omissions
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	44–46, 66, 69, 71	
	405-2 Ratio of basic salary and remuneration of women to men	70	
Health and safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	74	
	103-2 The management approach and its components	74	
	103-3 Evaluation of management approach	74	
GRI 403: Occupational health and safety 2018	403-1 Occupational health and safety management system	74-75	
	403-2 Hazard identification, risk assessment and incident investigation	77-78	
	403-3 Occupational health services	79	
	403-4 Worker participation, consultation, and communication on occupational health and safety	75	
	403-5 Worker training on occupational health and safety	74-75	
	403-6 Promotion of worker health	79	
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	75, 79	
	403-8 Workers covered by an occupational health and safety management system	75-76	
	403-9 Work-related injuries	74, 76-77, 107	
	403-10 Work-related ill health	77	
Natural capital management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	80	
	103-2 The management approach and its components	80	
	103-3 Evaluation of management approach	80	

[GRI 102-55]

GRI Standard	Contents	Page numbers or URLs	Omissions
GRI 303: Water and effluents 2018	303-1 Interactions with water as a shared resource	83-84	
	303-2 Management of water discharge-related impacts	84	
	303-3 Water withdrawal	83-84 Enagás does not withdraw water in water-stressed areas.	
	303-4 Water discharge	83-84	
	303-5 Water consumption	80, 85	
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Enagás infrastructure occupies a surface area of 4 km ² of lands included in the Natura 2000 network (SACs/SPAs)	
	304-2 Significant impacts of activities, products and services on biodiversity	83	
	304-3 Habitats protected or restored	83 Monitoring and verification is conducted internally	
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	83 Enagás takes into consideration special protection areas and habitats of international interest listed by the International Union for Conservation of Nature (IUCN), along with the protection of the cultural heritage associated with them, in addition to the Spanish national and regional conservation lists	
	OG4 Number and percentage of significant operational sites in which biodiversity risk has been assessed and monitored	83	
GRI 306: Effluents and waste 2016	306-1 Water discharge by quality and destination	84	
	306-2 Waste by type and disposal method	80, 85	
	306-3 Significant spills	84	
	306-4 Transport of hazardous waste	There are no cross-border movements of the waste produced by Enagás	
	306-5 Water bodies affected by water discharges and/or run-off	Enagás does not discharge any wastewater into watercourses located in protected nature reserves or considered to be of particular ecological value	
	OG5 Volume and disposal of formation or produced water		Enagás generates produced water in underground storage facilities given that the extraction of natural gas is performed with water. In 2018 the volume of produced water was 1,934 m ³ .
	OG6 Volume of flared and vented hydrocarbon	The main hydrocarbon burnt in the flare and/or vented is natural gas. In 2018, the volume of natural gas flared and/or vented amounted to 2,159,361 Nm ³	

GRI Standard	Contents	Page numbers or URLs	Omissions
GRI 306: Effluents and waste 2016	OG7 Total drilling waste (drilling mud and cuttings). Strategies implemented for its treatment and elimination		Not applicable. As shown in the graph in 'Our business model', the company's activity commences with tankers offloading at any of its regasification plants or at international connections in the pipeline network. Therefore, as it is not involved in extraction activities, Enagás does not generate drill mud
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	In 2018, no significant sanctions or fines were received in the environmental area	
Climate change and energy efficiency			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	86	
	103-2 The management approach and its components	86	
	103-3 Evaluation of management approach	86	
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	89-90	
	302-2 Energy consumption outside of the organisation	17	
	302-3 Energy intensity	92	
	302-4 Reduction of energy consumption	92	
	302-5 Reductions in energy requirements of products and services	92	
	OG2 Total amount invested in renewable energy	There were no significant investments in renewable energies in 2018	
	OG3 Total amount of renewable energy generated by source	92	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	86, 89-91, 108	
	305-2 Energy indirect (Scope 2) GHG emissions	86, 89-91, 108	
	305-3 Other indirect (Scope 3) GHG emissions	91	
	305-4 GHG emissions intensity	90	
	305-5 Reduction of GHG emissions	92-93	
	305-6 Emissions of ozone-depleting substances (ODS)	90	
	305-7 Nitrogen oxides (NO _x), sulphur oxides (SO _x) and other significant air emissions	80, 85	

GRI Standard	Contents	Page numbers or URLs	Omissions
Supply chain			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	94	
	103-2 The management approach and its components	94	
	103-3 Evaluation of management approach	94	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	95	
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	96	
	308-2 Negative environmental impacts in the supply chain and actions taken	95-96	
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	96	
	414-2 Negative social impacts in the supply chain and actions taken	95-96	
Local communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	97	
	103-2 The management approach and its components	97	
	103-3 Evaluation of management approach	97	
GRI 411: Rights of Indigenous Peoples 2016	411-1 Incidents of violations involving rights of indigenous peoples	No incidents of violations involving rights of indigenous peoples were identified in 2018	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	99-101	
	413-2 Operations with significant actual and potential negative impacts on local communities	98	
	OG10 Number and description of significant disputes with local communities and indigenous peoples	98	
	OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned	No sites were decommissioned in 2018	

[GRI 102-55]

External verification report

[GRI 102-56]

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

INDEPENDENT ASSURANCE REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT AND INFORMATION ON SUSTAINABILITY

To the shareholders of ENAGÁS, S.A.:

In accordance with article 49 of the Commercial Code, we have verified, with a limited scope, the Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018 of ENAGÁS, S.A., and subsidiaries (hereinafter the Group), which is part of the Group's accompanying Consolidated Management Report

The content of the Consolidated Management Report contains information in addition to that required by prevailing company law in respect of non-financial information that was not included in the scope of our assurance work. Consequently, our work was limited exclusively to verifying the information identified in the "Non-financial and diversity reporting requirements (Spanish Law 11/2018)" table and in conformity with the "GRI Standards content index" included in the accompanying Consolidated Management Report.

Responsibility of the directors

The preparation of the NFS included in the Group's Consolidated Management Report and its content is the responsibility of the directors of ENAGÁS, S.A. The NFS was prepared in accordance with the content required by prevailing company law and in conformity with the criteria outlined in the GRI Sustainability Reporting Standards (GRI standards), comprehensive option, as well as other criteria, including the GRI Oil and Gas sector supplement, described as explained for each subject matter in the "Non-financial and diversity reporting requirements (Spanish Law 11/2018)" table, in conformity with the "GRI Standards content index" of said report, and in accordance with principles stated in AA1000 AP (2018) issued by AccountAbility (Institute of Social and Ethical Accountability).

This responsibility likewise includes the design, implementation, and maintenance of the internal control considered necessary to ensure that the NFS is free of material misstatement, due to fraud or error.

The directors of ENAGÁS, S.A., are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information for preparing the NFS is obtained.

Our independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Compañía Social: Calle de Raimundo Fernández Villaverde, 45, 28003 Madrid - Inscrita en el Registro Mercantil de Madrid, tomo 3.204 general, G-130 de la sección 2ª del Libro de Sociedades, folio 65, hoja 4ª. Nº 00001, inscripción 1ª. C.I.F. B-78020204.
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Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and applicable regulatory provisions.

The EY team is made up of experts in non-financial information engagements and specifically, information on economic, social, and environmental performance.

Our responsibility

Our responsibility is to express our conclusions on the Independent Assurance Report with limited assurance, based on the work performed, which refers exclusively to the 2018 financial year. Prior year data were not reviewed in compliance with prevailing company law.

We have carried out our work in accordance with the requirements established in the International Standard on Assurance Engagements (ISAE) 3000 (revised), "Assurance Engagements Other than Audits and Review of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the Guidelines on performing non-financial statement assurance engagements issued by Spain's Institute of Auditors and AA1000 AS (2008), with a moderate level of type 2 assurance.

In a limited assurance engagement, the procedures carried out vary in their nature and timing, and are less in extent than those carried out for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is also substantially lower.

Our work consisted in making inquiries of management and of the Group's various business units participating in the preparation of the NFS, reviewing the processes for compiling and validating the information presented therein, and applying certain analytical procedures and sample review tests as described in general terms below. These procedures included:

- ▶ Holding meetings with Group personnel to gain an understanding of the business model, the policies and management approaches applied, and the main risks related to these matters, as well as to gather the information needed to perform the independent assurance work.
- ▶ Analyzing the scope, relevance, and integrity of the contents of the 2018 NFS, based on the materiality assessment performed by the Group and described under "Sustainability Strategy," in light of the content required under prevailing company law.
- ▶ Analyzing the processes used to compile and validate the data presented in the 2018 NFS.
- ▶ Reviewing the disclosures relating to the risks, policies, and management approaches applied with respect to the material matters presented in the 2018 NFS.
- ▶ Checking, via tests of a selected sample, the information underlying the contents of the 2018 NFS and the satisfactory compilation of the NFS based on data taken from information sources.
- ▶ Analyzing the consistency of the information described in the appendix, "Self-assessment of adoption of integrated reporting principles and elements" and the information contained in the Management Report.
- ▶ Obtaining a representation letter from the directors and management.



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In addition, with respect to GRI indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1, and GRI 405-1, our responsibility is to express an opinion, for which we have carried out reasonable assurance work. The work entailed understanding the internal control system relevant to the aforementioned indicators contained in the NFS, assessing the risk of material errors that the indicators might contain, testing and evaluating their content, as well as performing other procedures we considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

In addition, we reviewed the adequacy of the structure and content in accordance with the principles established in standard AA1000 AP (2018), with a moderate level of type 2 assurance.

Conclusions

Based on the limited assurance procedures conducted and the evidence obtained, no matter has come to our attention that would cause us to believe that the Group's NFS for the year ended December 31, 2018 has not been prepared, in all material respects, in accordance with the contents required by prevailing company law and the criteria established by the GRI standards, comprehensive option, as well as other criteria, including the GRI Oil and Gas sector supplement, described as explained for each subject matter in the "Non-financial and diversity reporting requirements (Spanish Law 11/2018)" table and in conformity with the GRI content index of the Consolidated Management Report.

In addition, in our opinion, GRI indicators GRI 102-41, GRI 401-1, GRI 403-2, GRI 404-1, and GRI 405-1, reviewed with a reasonable level of assurance, are prepared and presented, in all material respects, in accordance with the GRI Sustainability Reporting Standards (GRI standards), comprehensive option, described as explained for each subject matter in the GRI Standards content index of said report.

With regard to the application of the principles established in standard AA1000 AP (2018), no matter has come to our attention that would cause us to believe that the Group has not applied the principles of inclusivity, materiality, responsiveness, and impact, as explained under "About our consolidated Management Report."

Recommendations

We presented our recommendations to Enagás management regarding areas of improvement related to the application of standard AA1000 AP (2018). The most significant recommendations are summarized below:

- ▶ **Inclusivity:** Enagás continues to make progress in identifying and diagnosing its main stakeholders, including investees, based on its specific management model for these companies. We also recommend that Enagás continue to update the stakeholders as it determines new strategic priorities, and that it likewise persist in processing data and consulting with local communities to enhance management of local stakeholders.
- ▶ **Materiality:** Enagás identifies and values material matters that are relevant to its stakeholders, enabling it to define its sustainability strategy focusing on strategic levers. We recommend that Enagás periodically reassess material matters to ensure that they are incorporated in its sustainability strategy.



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▶ **Responsiveness:** Through its Sustainable Management Plan, Enagás monitors its achievements and challenges in parallel to the material matters identified for the organization. We recommend that Enagás continue to focus its efforts on meeting stakeholders' expectations in the future by ensuring to monitor its three-lever strategy.

▶ **Impact:** Enagás's 2019-2021 Sustainability Strategy supports the Company's strategic levers and is the cornerstone of projected medium and long-term growth. We recommend that Enagás step up its efforts to measure and analyze the Company's long-term value and that it develop a process for assessing and managing both real and potential impacts on the various areas of the organization they affect.

Use and distribution

This report was prepared in response to the requirement established by prevailing company law in Spain and may not be appropriate for other uses and jurisdictions.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alberto Castilla Vida

February 22, 2019

Contents of the Global Compact



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

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

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

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

GC	Human Rights	GRI Standard indicators	Page
1	Companies must support and protect internationally acknowledged basic human rights within their sphere of influence	GRI 410-1, GRI 411-1, GRI 412-1, GRI 412-2, GRI 412-3, GRI 414-1, GRI 414-2	36-37, 95-96, 122, 127
2	Companies must ensure they are not party to human rights violations	GRI 410-1, GRI 412-3	37, 122
Labour standards			
3	Companies must support freedom of association and the right to organise, and provide effective recognition of the right to collective bargaining	GRI 102-41	73
4	Companies must support all steps to eradicate forced or coerced labour	GRI 412-1, GRI 412-2, GRI 412-3	36, 122
5	Companies must support the eradication of child labour	GRI 412-1, GRI 412-3	36, 122
6	Companies must support the abolition of discriminatory practices in employment and occupation	GRI 401-1, GRI 405-1, GRI 405-2	44-46, 66-67, 69-71
Environment			
7	Companies must uphold a preventive approach that helps protect the environment	GRI 305-5, Management approach natural capital management	80, 92-93
8	Companies must promote initiatives that foster greater environmental responsibility	GRI 302-4, GRI 302-5, GRI 304-3, GRI 304-4, GRI 305-5, GRI 306-1, GRI 306-2	80, 83-85, 92-93, 125
9	Companies must foster the development and dissemination of environmentally friendly technology	GRI 302-4, GRI 302-5, GRI 304-3, GRI 304-4, GRI 305-5, GRI 306-1, GRI 306-2	80, 83-85, 92-93, 125
Anticorruption			
10	Entities must work against corruption in all its forms including extortion and bribery	GRI 205-1, GRI 205-3	53, 55

Contact

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



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

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On 22 February 2019, the Board of Directors of Enagás, S.A. authorised the consolidated annual accounts and management report for the year ended 31 December 2018, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce and other applicable provisions.

In accordance with the provisions of article 262.5 of the Consolidated Text of the Corporate Enterprises Act and the reference contained in the Management Report of the individual company Enagás, S.A. corresponding to the year ended 31 December 2018, Enagás, S.A., as a subsidiary of the Enagás consolidated group of companies, includes the Non-Financial Information Statement in the Consolidated Management report of Enagás, pursuant to the provisions of Law 11/2018 governing non-financial and diversity reporting.

DECLARATION OF RESPONSIBILITY. For the purposes of article 8.1.b) of Spanish Royal Decree 1362/2007 of 19 October, 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. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the Annual Accounts and Management Report.

Chairman

Mr Antonio Llardén Carratalá

Directors

Sociedad Estatal de Participaciones Industriales-SEPI
(Represented by Mr Bartolomé Lora Toro)

Mr Luis Javier Navarro Vigil

Mr Martí Parellada Sabata

Mr Luis García del Río

Mr Gonzalo Solana González

Mr Luis Valero Artola

Secretary to the Board

Mr Rafael Piqueras Bautista

Chief Executive Officer

Mr Marcelino Oreja Arburúa

Mr Antonio Hernández Mancha

Ms Ana Palacio Vallelersundi

Mr Santiago Ferrer Costa

Ms Rosa Rodríguez Díaz

Ms Isabel Tocino Biscarolasaga

The financial information disclosed by Enagás contains figures and measurements prepared in line with applicable accounting legislation, in addition to a series of measurements prepared in accordance with reporting standards established and developed internally, known as Alternative Performance Measures (APMs).

These APMs are considered to be adjusted figures compared to those disclosed under International Financial Reporting Standards as adopted in the EU (IFRS-EU), which is the applicable accounting framework for the Enagás Group's consolidated financial statements. They should therefore be considered by the reader to supplement but not replace them.

APMs are important for users of financial information as they are the measures used by Enagás management to assess financial performance, cash flows and financial position for the Group's operational or strategic decision-making. These APMs are consistent with the main indicators used by the investment and analyst community in the capital markets.

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

For the sake of clarity, reference is made herein to the concept referred to as "**Stand Alone**". This has also been used by the Enagás management to refer to pro forma financial information, which integrates the stake in GNL Quintero through the equity method.

1. Alternative Performance Measures relating to the Income Statement

EBITDA

EBITDA ("Earnings Before Interest, Tax, Depreciation and Amortization") is an indicator that measures a company's operating income before the deduction of interest, taxes, depreciation and amortisation. By stripping out financial and tax figures, and accounting costs that do not imply a cash outflow, this indicator is used by Management to assess the company's earnings over time and compare them with those of other companies in its sector.

EBITDA is calculated as Operating profit (loss) plus depreciation and amortisation, in addition to any impairment, and other items that do not imply cash inflows or outflows in Enagás' operations (such as capital gains or losses on disposals, provisions, etc.)

The reconciliation from Operating Income seen in the financial statements for the period ended 31 December 2018 is shown below:

	Q4 2018 Stand-Alone	Q4 2018 Quintero	Q4 2018 Overall
Operating income	1,168.7	173.5	1,342.2
Affiliate results (*)	117.0	-23.8	93.2 (*)
Operating expenses	-342.3	-32.5	-374.7
EBITDA	943.5	117.2	1,060.7

1

(*) For management purposes, the concept "Affiliate results" presented as part of the operating income, shown as 93.2 million euros (117.0 million euros Stand-Alone), does not include the impact of the amortisation of the purchase price allocation (PPA) for the sum of 22.2 million euros, which is regarded as the largest amortisation expense and is therefore excluded from EBITDA. Jointly, these two concepts would amount to 71.0 million euros (86.7million euros Stand-Alone), as indicated in the income statement of the consolidated financial statements for the period ended 31 December 2018.

Adjusted EBITDA

Adjusted EBITDA is an indicator that measures the company's operating income before the deduction of interest, taxes, depreciation and amortisation, and includes dividends received as interest on subordinated debt from associates that are accounted for by the Enagás Group using the equity method.

This measure is used by the Management to calculate the leverage ratios described in the section "Alternative Performance Measures relating to the balance sheet and leverage ratios", enabling them to be compared with other sector companies. The reconciliation of adjusted EBITDA for Q4 2018 is shown below, which is used to calculated leverage ratios:

	Q4 2018 Stand-Alone	Q4 2018 Overall
EBITDA	943.5	1,060.7
Dividends (*)	123.6	102.3
Affiliate Results (**)	-117.0	-93.2
ADJUSTED EBITDA	950.0	1,069.8

(*) This basically refers to dividends received from companies accounted for using the equity method (89.9 million euros during 2018 with GNL Quintero by Global Integration). Interest on subordinated debt charged to affiliates is also included (12.5 million euros).

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

EBIT

EBIT (Earnings Before Interest and Taxes) is an indicator that measures a company's operating income before the deduction of interest and taxes. As with the previous indicator, it is used by Management to assess the company's earnings over time, and compare them with those of other companies in its sector.

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

The EBIT for Q4 2018 reached 691.0 million euros, 72.4 million euros of which correspond to GNL Quintero. This figure matches the operating income for that period

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

Net Debt

2

Net financial debt or net debt is the main indicator used by Management to measure the level of the Group's debt. It is gross debt less cash.

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

The cash amount is taken from the consolidated balance sheet heading "Cash and cash equivalents".

The reconciliation between the APM and the figures corresponding to the interim consolidated balance sheet for the period ending 31 December 2018 are shown below (in millions of euros)

	Q4 2018 Stand-Alone	T4 2018 Overall
Cash and cash equivalents	829.4	1,171.5
Bank borrowings	-1,363.0	-1,363.0
Bonds and other marketable securities (1)	-3,092.5	-4,079.2
Other long-term loans (2)	-3.9	-3.9
Net debt	-3,630.1	-4,274.7

(1) The Stand Alone information has been adjusted to reflect the amortised costs of the Afac Bond, which is +14.6 million euros. In addition to this adjustment, the Overall information has been adjusted to reflect the amortised cost of the GNL Quintero debt, which is -4.3 million euros.

(2) The amount included in this section concerning the loans from the General Energy and Industry Secretariat, the General Energy Secretariat and Oman Oil 3.9 million euros.

Ratios linked to Net Debt

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

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

	Q4 2018 Stand Alone	Q4 2018 Global
Net debt	3,630.1	4,274.7
Adjusted EBITDA	950.0	1,069.8
Net debt/adjusted EBITDA	3.8x	4.0x

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

	Q4 2018 Stand Alone	Q4 2018 Global
FFO (*)	725.0	805.2
Net debt	3,630.1	4,274.7

3

FFO / Net debt 20.0% 18.8%

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

3. Alternative Performance Measures relating to cash flow and investments

Funds from Operations (FFO)

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

It is calculated as:

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

FFO for Q4 2018 amounted to 805.2 million euros. The reconciliation between this APM and the figures indicated in consolidated the financial statements for the period ended 31 December 2018 is shown below:

	Q4 2018 Stand Alone	Q4 2018 Global
Operating income	618.7	691.0
Depreciation and amortisation (**)	324.8	369.7
EBITDA	943.5	1,060.7
Taxes received /(paid)	-124.0	-124.0
Interest received/paid (**)	-79.4	-118.9
Dividends (**)	123.6	102.3
Other adjustments	-21.6	-21.7
Affiliate results (*)	-117.0	-93.2
Funds From Operations (FFO)	725.0	805.2

(*) For management purposes, in addition to the provision for impairment of assets, the concept "Provisions for depreciation and amortisation" also includes the impact of the amortisation of the purchase price allocation (PPA), which is (22.2 million euros) in column Global (30.3 million euros Stand Alone).

(**) Interest on subordinated debt charged to affiliates (12.5 million euros) is included, for management purposes, under "Dividends."

Operating cash flow (OCF)

Operating cash flow measures the company's capacity to generate operating cash flow after changes in working capital. The calculation is based on FFO and includes changes in working capital.

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OCF amounted to 883.9 million euros in Q4 2018. The reconciliation between this APM and the figures in the interim consolidated financial statements for the period ended 31 December 2018 is shown below (in millions of euros):

	Q4 2018 Stand Alone	TQ 2018 Global
Funds From Operations (FFO)	725.0	805.2
Changes in working capital	76.7	78.7
OPERATING CASH FLOW (OCF)	801.7	883.9

Free cash flow (FCF)

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

The reported **FCF** for Q4 2018 was 1,146.6 million euros. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 31 December 2018 is shown below (in millions of euros):

	Q4 2018 Stand alone	Q4 2018 Global
OPERATING CASH FLOW (OCF)	801.7	883.9
Payments for investments	-252.8	-261.8
Disposal proceeds	524.6	524.60
Other cash flows from investing activities	-	-
Free Cash Flow (FCF)	1,073.5	1,146.6

Discretionary cash flow (DCF)

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

The reported DCF for Q4 2018 was 780.8 million euros. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 31 December 2018 is shown below (in millions of euros):

	Q4 2018 Stand alone	Q4 2018 Global
Free Cash Flow (FCF)	1,073.5	1,146.6
Dividends paid	-355.6	-376.7
Effect of changes in exchange rates	-1.2	10.9
Discretionary Cash Flow (DCF)	716.7	780.8

5

Cash Contribution from affiliates

The cash contribution from affiliates is an indicator calculated as the dividends received by affiliates plus subordinated debt repayment (both principal and interests) plus equity repayments from these affiliates.

This APM for Q4 2018 reached 132.6 million euros. The reconciliation between this APM and the figures seen in the Consolidated Financial Statements for the period ended on December 31, 2018 is as follows:

	Q4 Overall
TOTAL CASH REPAYMENTS FROM AFFILIATES (*)	524.6
Trans Adriatic Pipeline debt repayment	-415.2
Cash contribution from the sale of the entire stake held in the Swedegas Group	-100.5
DEBT REPAYMENT (PRINCIPAL)	8.9
+Dividends (**)	123.6
+Others	0.1
CASH CONTRIBUTION FROM AFFILIATES	132.6

(*) Amounts corresponding to the Consolidated Cash Flow Statement at December 31, 2018.
(**) For management purposes, the concept "Dividend" basically refers to dividends received from equity-accounted affiliates (89.9 million euros during 2018 with GNL Quintero by Global Integration). Interests on subordinated debt charged to affiliates are also included (12.5 million euros).

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