

**IDENTIFYING DATA OF THE ISSUER**

**ENDING PERIOD** 31/12/2017

**C.I.F.** A-28294726

**SOCIAL DENOMINATION**  
ENAGAS, S.A.

**PLACE OF BUSINESS**

PASEO DE LOS OLMOS N° 19 28005 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                      X

### A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors.

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
RETAIL OEICS AGGREGATE	0	2,410,274	1.01%
BANK OF AMERICA CORPORATION	0	8,627,588	3.61%
BLACKROCK INC	0	7,652,401	3.21%
LAZARD ASSET MANAGEMENT	0	12,112,916	5.07%
STATE STREET CORPORATION	0	7,180,575	3.01%
FIDELITY INTERNATIONAL LIMITED	0	4,550,822	1.91%

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

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

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

### A.3 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its Group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR LUIS VALERO ARTOLA	2,000	0	0.00%
MR GONZALO SOLANA GONZÁLEZ	440	0	0.00%
MR MARCELINO OREJA ARBURUA	3,875	0	0.00%
MR ANTONIO LLARDEN CARRATALA	56,396	0	0.00%
MR MARTÍ PARELLADA SABATA	910	0	0.00%
MR LUIS JAVIER NAVARRO VIGIL	1,405	0	0.00%
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	0.00%
<b>% of total voting rights held by the Board of Directors</b>			<b>5.02%</b>

Complete the following tables on share options held by Directors.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	Equivalent number of shares	% of total voting rights
MR MARCELINO OREJA ARBURÚA	27,744	0	27,744	0.01%
MR ANTONIO LLARDEN CARRATALA	69,711	0	69,711	0.03%

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

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

Related party name or corporate name
BANK OF AMERICA CORPORATION ENAGÁS, S.A.

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 12,234 thousands of euros

Related party name or corporate name
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) ENAGÁS, S.A.

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 16,926 thousands of euros

Related party name or corporate name
RETAIL OEICS AGGREGATE ENAGÁS, S.A.

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 3,418 thousands of euros

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

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 4,718 thousands of euros

Related party name or corporate name

.....  
 FIDELITY INTERNATIONAL LIMITED  
 .....  
 ENAGÁS, S.A.  
 .....

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 6,877 thousands of euros

Related party name or corporate name

.....  
 STATE STREET CORPORATION  
 .....  
 ENAGÁS, S.A.  
 .....

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 10,182 thousands of euros

Related party name or corporate name

.....  
 LAZARD ASSET MANAGEMENT  
 .....  
 ENAGÁS, S.A.  
 .....

TYPE OF RELATIONSHIP: Corporate

BRIEF DESCRIPTION:

Dividends and other benefits paid: 4,269 thousands of euros

**A.6** Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprise Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes                      No                      X

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

Yes                      No                      X

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

Not applicable.

**A.7** Indicate whether any individuals or legal entity currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Act. If so, identify:

Yes                      No                      X

Observations

**A.8 Complete the following tables on the company's treasury share.**

At year end:

Number of shares held directly	Number of shares held indirectly	% of total share capital
307,643	0	0.13%

(\*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Details of significant changes

**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.**

The Ordinary General Shareholders' Meeting held 27 March 2015 adopted the following resolution:

"To authorise and empower the Board of Directors, with power of substitution, for the derivative acquisition of the company's own shares in accordance with article 146 of the Corporate Enterprises Act, in the following terms:

1. The acquisitions may be carried directly by Enagás, S.A. or indirectly by subsidiaries under the same terms as those set out herein.
2. The acquisitions may be carried out through a purchase and sale, exchange or any other transaction permitted by law.
3. The maximum number of shares to be acquired shall be the maximum number permitted by law.
4. The acquisition price shall not be more than 15 percent higher or lower than the average weighted share price of the session prior the acquisition.
5. The authorisation is granted for a maximum of five years from adoption of this resolution.

In accordance with article 146 of the Corporate Enterprises Act, it is hereby expressly stated that the shares acquired pursuant to this authorisation may, in whole or in part, be directly awarded to employees or directors of the company or of companies belong to its Group, or that the purchase is the result of the exercise of employee or director options.

This resolution repeals and leaves without effect by the amount not used the authorisation granted by the General Shareholders' Meeting of 30 April 2010 for the derivative acquisition of treasury shares.

**A.9.bis Estimated floating capital:**

	%
Estimated floating capital	95.00%

**A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.**

Yes    X    No

## Description of restrictions

Restrictions under law:

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

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

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40% (...) (continues in Section H. "OTHER INFORMATION OF INTEREST": EXPLANATORY NOTE ON SECTION A.10.

**A.11** Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No X

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

**A.12** Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No X

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

### **B. General Shareholders' Meeting**

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

Yes No X

**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 X

Describe how they differ from the rules established in the Corporate Enterprises Act.

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

Article 18 of the Articles of Association states that:

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

Likewise, article 26 states that:

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

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

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

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

**B.4 Indicate the attendance figures for the General Shareholders’ Meetings held during the year.**

Date of general meeting	Attendance data				total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
18/03/2016	0.15%	42.89%		7.74%	50.87%
31/03/2017	0.15%	39.01%		6.49%	45.65%

**B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the General Shareholders’ Meetings:**

Yes                      No                      X

**B.6 Section revoked.**

**B.7 Indicate the address and mode of accessing corporate governance content on your company’s website as well as other information on General Meetings which must be made available to shareholders on the website.**

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

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

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

## **C. Company management structure**

### **C.1 Board of Directors**

C.1.1 List the maximum and minimum number of Directors included in the Articles of Association.

Maximum number of Directors	14
Minimum number of Directors	6



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

Name or corporate name of Director	Representation	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR LUIS VALORE ARTOLA		Independent	DIRECTOR BOARD MEMBER	28/04/2014	28/04/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ANA PALACIO VALLELERSUNDI		Independent	COORDINATOR INDEPENDENT	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR GONZALO SOLANA GONZALEZ		Independent	DIRECTOR	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR ANTONIO HERNÁNDEZ MANCHA		Independent	DIRECTOR CHIEF	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR MARCELINO OREJA ARBURÚA		Executive	CHIEF EXECUTIVE OFFICER	17/09/2012	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR JESÚS MÁXIMO PEDROSA ORTEGA		Proprietary	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ISABEL TOCINO BISCAROLASAGA		Independent	DIRECTOR	25/03/2014	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR ANTONIO LLARDÉN CARRATALÁ		Executive	CHAIRMAN	22/04/2006	25/03/2014	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR MARTÍ PARELLADA SABATA		Other external	DIRECTOR	17/03/2005	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MS ROSA RODRÍGUEZ DÍAZ		Independent	DIRECTOR	24/04/2013	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR LUIS JAVIER NAVARRO VIGIL		Other external	DIRECTOR	09/07/2002	27/03/2015	VOTE AT GENERAL SHAREHOLDERS'MEETING
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MR BARTOLOMÉ LORA TORO	Dominical	DIRECTOR	25/04/2008	18/03/2016	VOTE AT GENERAL SHAREHOLDERS'MEETING
MR LUIS GARCÍA DEL RÍO		Independent	DIRECTOR	31/03/2017	31/03/2017	VOTE AT GENERAL SHAREHOLDERS'MEETING
Total number of Directors						13

Indicate any board members who left during this period.

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

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

#### EXECUTIVE DIRECTORS

Name or corporate name of Director	Position held in the company	
MR MARCELINO OREJA ARBURÚA	CHIEF EXECUTIVE OFFICER	
MR ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN	
Total number of Executive Directors		2
% of the Board		15.38%

## EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Name or corporate name of significant shareholder represented or proposing appointment
MR JESÚS MÁXIMO PEDROSA ORTEGA	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Total number of Executive Directors	2
% of the Board	15.38%

## INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director

MR LUIS VARELO ARTOLA

Profile:

- Trade Technical Expert and State Economist.
- Independent member of the Board of Directors of Banco Cetelem of Grupo BNP
- Former General Secretary of the Ministry of Industry, Energy and Tourism.
- Former General Manager of the Spanish Association of Automobile and Truck Manufacturer's (ANFAC).
- Former member of the Management Committee of the Spanish Confederation of Employers' Organisations (CEOE).
- Former Director of Operadora del Mercado Eléctrico (OMEL).
- Former Business Director of Banco Saudí Español.
- Former Manager of Spanish Foreign Investment Services.
- Former Commercial Director in the Republic of South Africa.

Name or corporate name of Director

MS ANA PALACIO VALLELERSUNDI

Profile:

- Lawyer, founder of Palacio & Asociados law firm.
- Lead Independent Director of Enagás, Director of Pharmamar and Director of AEE Power.
- Elective Director of the Spanish Council of State.
- Member of Investcorp's International Advisory Committee and Member of the Chérifien des Phosphates Offices.
- Member of IE Business School's Governing Board.
- Member of the the Executive Board of the Atlantic Council of the United States Member of the External Advisor Council of Energy Future Initiative and of the Advisor Council of the Sandra Day O'Connor Justice Prize and Member of the Patronage of Human Science Institute.

- Member of the governing bodies of a number of research centres and public institutions: el Conseil d'Orientation et de Réflexion de l'Assurance de France (CORA), the MD Anderson Cancer Center, and the Science Board of Real Instituto Elcano.
- Guest lecturer at Edmund A. Walsh School of Foreign Service at Georgetown University.
- Regular contributor of "Project Syndicate", among other media.
- Regular participant as panellist in international conferences and forums; in the energy sector, among others: the Istanbul G-20 International Energy Forum, the Atlantic Council Energy & Economic Summit and the Schlessinger Awards Energy Security Conference.
- Holder of equivalent master's degrees in law, political science and sociology.
- Honorary doctorate in humanities from Georgetown University and winner of the 2016 Sandra Day O'Connor Justice Prize granted the title of Officier de la Légion d'Honneur by the Republic of France.
- Member of the European advisory council of The European House - Ambrosetti (2015-2016)
- Coordinator of the Trans-European Transport Network (2014).
- Member of the Advisory Group of Foreign Affairs and Security (2010-2014) and of the Committee for the Appointment of Judges and Advocates-General of the European Union Court of Justice (2010-2013).
- Adviser to the European Commission on justice, fundamental rights and citizenship (2010-2012).

Continues in the explanatory notes.

Name or corporate name of Director

MR GONZALO SOLANA GONZÁLEZ

Profile:

- Director of the Nebrija Santander Chair in International Business Management.
- Professor of international economics at a number of universities.
- Founding partner of the law firm Huerta & Solana specialising in competition law and regulations.
- Independent Director of OMIClear, Chairman of the Audit Committee and Deputy Chairman of the Risk Committee.
- Former President of the Tribunal for the Defence of Competition (2000-2005).
- Deputy President and Director of Analysis and Strategy of the High Council of Chambers of Commerce (2006-2011) and Director of Study Services at the High Council of Chambers of Commerce (1986-2000).
- Former Board Member of the National Institute of Statistics (1986-2000 and 2006-2011) and Chairman of the Regional Statistics Committee of the INE.
- Economist at the Institute for Economic Studies (1981-1986).
- Professor of Applied Economics at the University of San Pablo CEU and University of Deusto.

Name or corporate name of Director

MR ANTONIO HERNÁNDEZ MANCHA

Profile:

- Public prosecutor.
- Member of the Court of Arbitration of Madrid's Chamber of Commerce and Industry.
- Founding President and Sole Director of Apple Energy Group Iberia, S.L.
- Member of C.I.M.A. (Civil and Mercantile Arbitration Court)
- Member of the Advisory Committee of M&A Arcano.
- Member of the Board of Directors of Testa Residencial SOCIMI, S.A.U., effective as of 20 October 2016.
- Former Vice President of NAP de las Américas Madrid, S.A.
- Former Chief Executive Officer of NAP de África Occidental e Islas Canarias, S.A.

Name or corporate name of Director

MS ISABEL TOCINO BISCAROLASAGA

Profile:

- President of Banco Pastor.
- Vice President of Santander Spain.
- Elective Councilor of the State Council of the Kingdom of Spain.
- Independent Director of ENCE.
- Member of the Spanish Royal Academy of Doctors.
- Former Spanish Minister for the Environment (1996-2000).
- Former Chairwoman for Spain and Portugal and former Vice-Chairwoman of Siebel (subsequently acquired by Oracle).
- Former legal adviser to the Nuclear Energy Board (currently CIEMAT).

Name or corporate name of Director

MS ROSA RODRÍGUEZ DÍAZ

Profile:

- Doctorate in Economics and Business Administration.
- In her capacity as Tenured Professor of the Department of Financial Economics and Accounting of the University of Las Palmas de Gran Canaria, has financial and accounting knowledge.
- Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands.

- Former Vice-President of Gran Canaria's Cabildo Council.
- Former member of the Board of Directors of the collecting company of the City of Las Palmas of Gran Canaria, ERELPA, S.A., (1999-2003).
- Former member of the Board of Directors of EMALSA, S.A. (1999-2003).
- Former President of the autonomous collection agency dependent on the Cabildo de Gran Canaria VALORA GESTIÓN TRIBUTARIA (2003-2007 and 2011-2012).
- Former member of the Board of Administration of INSULAR SERVICE OF MILK SUPPLY, S.A. (SIALSA), (2003-2007).
- Former member of the Board of Directors of the SOCIETY OF ECONOMIC PROMOTION OF GRAN CANARIA (SPEGC), exercising mainly the functions of economic and financial control (2003-2007) and vice president (2011-2012).
- Former member of the Board of Directors of the Sociedad de 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).

Name or corporate name of Director

MR LUIS GARCIA DEL RIO

Profile:

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

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

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

N/A

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

## OTHER EXTERNAL DIRECTORS

Identify all Other External Directors and explain why these cannot be considered Proprietary or Independent Directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of Director

MR LUIS JAVIER NAVARRO VIGIL

Company, executive or shareholder with whom the relationship is maintained

TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.

Reasons:

MR LUIS JAVIER NAVARRO VIGIL, Director of Enagás, was appointed, at the proposal of Enagás, as Director of the Mexican companies TLA, S. DE R.L. and TLA Servicios S. de R.L. de C.V. In this respect, Enagás entered into the related service level agreements with Newcomer 2000, S.L.U., the company through which MR LUIS JAVIER NAVARRO VIGIL provided his services to Enagás.

This is why it has been considered appropriate to include MR LUIS JAVIER NAVARRO VIGIL in the category of "Other External Director", pursuant to the definition laid down in the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás.

Name or corporate name of Director

MR MARTÍ PARELLADA SABATA

Company, executive or shareholder with whom the relationship is maintained

ENAGÁS, S.A.

Reasons:

For having been a Director of the Company for a continuous period of more than 12 years.

It is the practice of the Board of Directors of Enagás not to propose to the General Shareholders' Meeting the re-election of those Independent Directors who, because they were directors for a continuous period of more than 12 years, would lose with a new re-election the category of Independent Members pursuant to article 529 duodecies . 4 i) of the Consolidated Text of the Capital Companies Act. However, nothing prevents, in accordance with the Law, the Articles of Association and the Rules of Organization and Functioning of the Board of Directors of Enagás, SA, to which an Independent Director may be re-elected even if he or she has been a Director for a continuous period of 12 years, if any. reasons that justify it sufficiently and the structure of the Board as a whole continues to respond to the good governance policy assumed by the Company that the majority of the members of the Board of Directors belong to the category of Independents. In such case and in accordance with Article 529 duodecies of the Consolidated Text of the Capital Companies Act and Article 9 of the Regulations for the Organization and Functioning of the Board of Directors of Enagás, the Director may not be classified as Independent and will become part of the Board of Directors. to the category of "other external directors" in accordance with article 3.2 b3 of the Regulations for the Organization and Functioning of the Board of Directors.

In the specific case of the Director Mr. Martí Parellada Sabata, the Board, with the favorable report of the Appointments, Remuneration and Corporate Social Responsibility Committee, appreciated the concurrence of reasons that justify, in the interest of the Company, its permanence in the Board. of Administration of Enagás. In his capacity as Professor of Applied Economics, he brings to the Board of Directors a vision of the general environment in which the Company carries out its activities, thus completing the skills map of the Board of Directors as a whole and from a perspective that at the moment does not they are covered by other members of the same. His professional experience is coupled with his deep knowledge of the business and activities of the Company, to which he adds rigor in the exercise of the position of Director.

Total number of other external directors ..... 2

% of the Board	15.38%
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List any changes in the category of each Director which have occurred during the year.

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

C.1.4 Complete the following table with information regarding the number of female directors over the last 4 financial years, and their characteristics:

	Number of female directors				% total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	3	3	3	3	37.50%	37.50%	37.50%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	3	3	3	3	23.08%	23.08%	23.08%	20.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female Directors on the board to guarantee an even balance between men and women.

#### Explanation of measures

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

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

C.1.6 Explain the measures taken, if applicable, by the Appointments Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female Directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

#### Explanation of measures

In order to select Directors, the Appointments, Remuneration and CSR Committee adheres to the provisions of the Director Selection Policy, approved by the Board of Directors at the request of this Committee on 19 September 2016. In application of this policy, the selection of a new Director takes into account at least the following criteria:

Suitable professional knowledge and experience. Appointments are limited to persons of recognised prestige and who possess knowledge and experience suited to the exercise of their functions.

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

Requirements for Independent Directors. In addition to the previous criteria, which shall be applied to all Directors, regardless of their category, the persons selected in the category of Independent Directors must

meet the requirements for independence under the provisions of the applicable law at all times, and the additional conditions for independence, as the case may be, stipulated in the company's internal regulations.

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

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

Enagás Directors selection processes shall at all times take into account any other conditions, where applicable, determined by the company's Appointments, Remuneration and CSR Committee and the applicable laws.

In addition, for the presentation of the proposed candidates, the Appointments, Remuneration and CSR Committee receives support from executive recruitment and development firms of recognised renown.

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

#### Explanation of measures

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

At present, THREE (3) of the THIRTEEN (13) members of the Board of Directors of Enagás are women: MS ROSA RODRÍGUEZ DÍAZ, MS ANA PALACIO VALLELERSUNDI and MS ISABEL TOCINO BISCAROLASAGA. In addition,

MS ROSA RODRÍGUEZ DÍAZ is a member of the Audit and Compliance Committee, MS ISABEL TOCINO BISCAROLASAGA is Chair of the Appointments, Remuneration and CSR Committee and MS ANA PALACIO VALLELERSUNDI is Lead Independent Director and member of the Appointments, Remuneration and CSR Committee.

C.1.6.bis Explain the Appointments Committee's conclusions on the checks carried out to ensure that the director selection policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020.

#### Explanation of measures

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

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

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



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

C.1.7 Explain how shareholders with significant holdings are represented on the board.

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is currently the only shareholder with a significant holding that has a seat on the Board of Directors.

Moreover, MR JESÚS MÁXIMO PEDROSA ORTEGA was appointed, at the proposal of SEPI, as a Proprietary Director for the four-year term provided for in the Articles of Association at the General Shareholders' Meeting held on 24 April 2013. He was reappointed for said position for the statutory term of four years at the General Shareholder's Meeting held on 31 March 2017.

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

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

Yes No X

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

Name or corporate name of director:

MR MARCELINO OREJA ARBURÚA

BRIEF DESCRIPTION:

Pursuant to the resolution passed by the Board of Directors of Enagás, S.A. on 25 March 2014, MR MARCELINO OREJA ARBURÚA was delegated 34 joint and several powers and 13 joint powers. These powers are those which the Board of Directors considered had to be delegated to the Chief Executive Officer within statutory limits, in accordance with article 43 of the company's Articles of Association and article 19 of the Board Regulations. These powers delegated to the Chief Executive Officer, MR MARCELINO OREJA ARBURÚA, by Enagás' Board of Directors, were granted in the public deed dated 28 May 2014 and executed before the Notary Public of Madrid Mr Pedro de la Herrán Matorras, with number 1,306 in his notarial archive and is recorded in Volume 32,018, Book 0, File 5, Section 8; Sheet M-6113; Entry 777 of the Madrid Companies Register.

Further details on the powers delegated by the Board of Directors are provided in section H) "OTHER INFORMATION OF INTEREST" (EXPLANATORY NOTE ON SECTION C.1.10 of this Report).

C.1.11 List the Directors, if any, who hold office as Directors or executives in other companies belonging to the listed company's group:

Name or corporate name of Director	Corporate name of the Group company	Position	Do they have executive duties?
MR MARCELINO OREJA ARBURÚA	COMPAÑÍA TRANSPORTITS DE GAS	REPRESENTATIVE OF	
	GANARIAS, S.A.	SOLE DIRECTOR	YES
MR MARCELINO OREJA ARBURÚA	ENAGÁS CHILE, S.P.A.	BOARD DELEGATE	NO

MR MARCELINO OREJA ARBURUA	ENAGÁS EMPRENDE, S.L.U.	JOINT DIRECTOR	YES
MR MARCELINO OREJA ARBURUA	ENAGÁS TRANSPORTE DEL NORTE, S.L.	CHAIRMAN	YES
MR. ANTONIO LLARDÉN CARRATALÁ	ENAGÁS GTS, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR. ANTONIO LLARDÉN CARRATALÁ	ENAGÁS TRANSPORTE, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR	YES
MR LUIS JAVIER NAVARRO VIGIL	TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.	DIRECTOR	NO
MR LUIS JAVIER NAVARRO VIGIL	TLA SERVICIOS, S. DE R.L. DE C.V.	DIRECTOR	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

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

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its Directors may sit.

Yes    X    No

Explanation of rules

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

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

C.1.14. Section revoked

C.1.15 List the total remuneration paid to the Board of Directors in the year.

Board remunerations (*)	4,184
Cumulative amount of rights of current Directors in pension scheme (*)	2,701
Cumulative amount of rights of former Directors in pension scheme (*)	0

(\*) Thousands of euros

C.1.16 List any members of senior management who are not Executive Directors and indicate total remuneration paid to them during the year:

Name or corporate name	Position
MR DIEGO ANTONIO VELA LLANES	General Manager Technical System
MR ISIDRO DEL VALLE SANTÍN	Director of Internal Audit
MR CLAUDIO PEDRO RODRÍGUEZ SUÁREZ	General Manager of Infrastructures
MR JESÚS LUIS SALDAÑA FERNÁNDEZ	General Manager Business Development
MR JUAN ANDRÉS DÍEZ DE ULZURRUN MORENO	General Manager Engineering
MR FRANCISCO BORJA GARCÍA-ALARCON ALTAMIRANO	Chief Financial Officer
MS FELISA MARTÍN VILLAN	General Manager Communications and Institutional Relations
MR RAFAEL PIQUERAS BAUTISTA	General Secretary
MR JAVIER PERERA DE GREGORIO	General Resources Manager
DOÑA MARÍA SALVADORES SÍCILIA	Strategy Director
<b>Total remuneration received by senior management (thousand of euros)</b>	<b>4,340</b>

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any changes have been made to the board regulations during the year:

Yes No X

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies and the processes and criteria to be followed for each of these procedures.

Appointment of Directors:

Pursuant to article 8 of the Regulations of Enagás' Board Regulations:

- 1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions of the Ley de Sociedades de Capital (the "Corporate Enterprises Act") and the company's Articles of Association.
- 2.- In order to be considered for appointment, candidates must have a solid reputation and possess the professional know-how and experience required to discharge their duties, in addition to complying with all requirements associated with the post imposed by law and the Articles of Association. The Appointments, Remuneration and Social Corporate Responsibility Committee is responsible for proposing the appointment of Independent Directors. The proposals for the appointment or re-election of Non-independent Directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments, Remuneration and Social Corporate Responsibility Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes. Proposals shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board. The foregoing will also be applicable to natural persons appointed as representatives of a legal person Director. The proposal for a natural-person representative must be submitted to the Appointments, Remuneration and Social Corporate Responsibility Committee.
- 3.- The Board of Directors must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge, that do not suffer from implicit biases that entail any discrimination and, in particular, that facilitate the selection of female directors.

(Continues in section H) OTHER INFORMATION OF INTEREST.- EXPLANATORY NOTE ON SECTION C.1.19).

C.1.20 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

#### Description of amendments

The annual evaluation of the Board has paid special attention to those key aspects with respect to which the Directors expressed interest or some concern in the evaluation of previous years. The areas analyzed were the following:

Composition and structure of the Board and its Committees, functioning and debate within the Board, leadership, personal contribution, global assessment and an open question aimed at offering the Director the opportunity to provide more direct and subjective feedback.

The evaluation has resulted in a series of positive issues and certain areas for improvement. The Directors have considered very positively, among other issues, the open and effective communication between the Board and the Management of the company as well as the relevant and useful expertise and knowledge of the Directors who have recently joined the Board.

Likewise, the Directors value the efforts made in order to supervise the strategic plan, the supervision of risks

and the internationalization of the company. Training plans in general and lunches / presentations with Personalities of the sector aimed at strengthening the skills of the Directors and their performance have also been valued positively by the Directors, as well as the training received on regulation.

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

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board, assisted, if applicable, by an external adviser, concerning diversity in its composition and skills, the functioning and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

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

Morrow Soldali sent a questionnaire to each Director and conducted interviews with several key Directors, who issued their opinions on a series of questions related to the composition and structure of the Board and its committees, on the performance of the Board and its committees, on the relations and procedures of the Board and its committees, and on implementation of improvement plans.

C.1.20.ter Explain, if applicable, the business relationship the adviser or any group company maintains with the company or any group company.

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

C.1.21 Indicate the cases in which directors must resign.

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

- 2.- Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:
- a) When they are affected by instances of incompatibility or prohibitions laid down in Law, the Articles of Association, and in these Regulations.
  - b) When they are in serious breach of their obligations as Directors.
  - c) When they may put the interests of the company at risk or damage its credibility and reputation. Once a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the Board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign.
  - d) When the reason for which they were appointed as Directors no longer exists.
  - e) When Independent Directors cease to meet the conditions required under article 9.
  - f) When the shareholder represented by a Significant-Shareholder Appointed Directors sells its entire interest. They shall also do so, in the appropriate number, when that shareholder reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

Should the Board of Directors not deem it advisable to have a Director tender their resignation in the cases specified under letters d), e) and f ), the Director must be included in the category that, in accordance with

these Rules and Regulations, is most appropriate based on their new circumstances.

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

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

C.1.22. Section revoked.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

If applicable, describe the differences.

Yes No X

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

Yes No X

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

Yes No X

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

Yes No X

C.1.27 Indicate whether the Articles of Association or the Board regulations set a limited term of office for Independent Directors different to the one established in the regulations:

Yes X No

Maximum number of years in office ..... 12

C.1.28 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

According to article 39 of the Articles of Association, the Board of Directors' meeting shall be validly constituted when one half of the membership plus one member are in attendance or represented at it. The Directors must attend the meetings of the Board in person. Without prejudice to the foregoing, Directors may grant a proxy to another Director. Non-Executive Directors may only grant a proxy to other Non-Executive Directors.

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

C.1.29 Indicate the number of board meetings held during the year. Indicate, where appropriate, how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

.....  
Number of Board meetings ..... 11

Number of Board meetings held without the Chairman's attendance	0
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If the Chairman is an Executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the Lead Director.

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

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

Committee	No. of meetings
AUDIT AND COMPLIANCE COMMITTEE	7
APPOINTMENTS, REMUNERATIONS AND CSR COMMITTEE	5

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

Number of meetings with all members present	9
% of attendance of the total votes cast during the year	82.00%

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

Yes    X    No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the Board.

Name	Position
MR FRANCISCO BORJA GARCÍA-ALARCÓN ALTAMIRANO	CHIEF FINANCIAL OFFICER
MR ANTONIO LLARDEN CARRATALA	CHAIRMAN

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

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

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

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

- 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 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.
- 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 of Directors on the annual financial statements prior to their preparation, as well as

on financial information which the Company must periodically disclose publicly.

- e) Ensuring that the Board of Directors endeavours to present the financial statements in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
- f) Assessing any proposals made by senior managers regarding changes in accounting practices.
- g) Liaising with the External Accounts Auditor to obtain information on issues related to the procedure for auditing financial statements, and on potential safeguards to adopt and pre-empt conflicts that may arise.
- h) Reviewing the content of audits, limited review reports of interim financial statements and other required reports of statutory auditors prior to their issue in order to prevent qualifications.

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

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

C.1.33 Is the secretary of the Board also a Director?

Yes                      No                      X

Complete if the Secretary is not also a Director:

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

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

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

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

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

- a) Establish an appropriate relationship with the External Auditors in order to receive information on those questions which may represent a threat to their independence. Specifically, the discrepancies that may arise between the auditor of accounts and Company management, for their examination by the Committee, and any other discrepancies relating to the audit process, as well as the possible safeguard measures to be adopted, discussing the significant weaknesses detected in internal control with the auditor of accounts, and never jeopardizing the independence of the audit, and finally reaching a conclusion with respect to the system's reliability.

- b) Receive those other communications provided for in audit legislation and audit standards.
- c) Proceed with the authorization of services other than those prohibited, in accordance with prevailing regulations..
- d) By ensuring that the company and External Accounts Auditor adhere to the current laws regarding auditor independence.
- e) Ensuring that the fees of the External Accounts Auditor do not threaten their quality and independence, and are not based on any form of contingency.
- f) In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
- g) It shall receive an annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to them, in conformity with audit regulations.
- h) Annually report, prior to the issuance of the audit report, the Audit and Compliance Committee shall issue a report in which an opinion is expressed on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered contained in it that could comprise the independence of the Accounts Auditor, and it shall be published on the Corporate website sufficiently in advance of the date of the Ordinary General Shareholders' Meeting.
- i) Establishing a maximum term of auditor engagement, ensuring a gradual rotation with the main audit partners.

In relation to the mechanisms set out to safeguard the independence of financial analysts, investment banks and rating agencies. Communication and Contact Policy with Shareholders, Institutional Investors and Proxy Advisers, approved by the Board in 2015, sets out the framework of action for the company's relationship with shareholders, analysts, investors and proxy advisers, with the application of the principles of good governance and corporate values, such as transparent reporting, continuity, accessibility and immediacy, the fostering of shareholder trust, protection of their rights and encouraging their participation, equal treatment and non-discrimination, and compliance with the laws in force, etc.

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

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

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

Last, likewise, article 7 section f ) of the Enagás Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, this Committee is responsible for assessing compliance with the Internal Code of Conduct in Matters Relating to Securities Markets, the company's governance regulations in general,



and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.

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

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes No X

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

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its Group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its Group.

Yes No X

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No X

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its Group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

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

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

Yes X No

Procedures

Article 15 of the Regulations of the Board stipulates that Directors shall further be entitled to propose to the Board of Directors the engagement, at the company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to such performance.

The proposal must be communicated to the Chairman of the Board via the Secretary of the Board. The Board of Directors may withhold its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost (disproportionate in relation to the problem and assets and revenues of the company) or believes that such technical assistance can be adequately provided by experts and technicians from within the company.

The company shall organise induction programmes for new Directors to acquaint them rapidly with the workings of the company and its corporate governance rules. It shall also offer Directors refresher courses when circumstances so dictate.

C.1.41 Indicate, and give details if any, whether there are procedures for Directors to receive the information

they need in sufficient time to prepare for meetings of the governing bodies.

Yes      X      No

Procedures

Article 6 of the Board Regulations establishes that:

1.- The Board of Directors shall meet at least once every two months and, in any case eight times a year, and on the motion of the Chairman, whenever the Chairman deems it fit for the proper running of the company.

A call must be issued when so requested by a majority of the Directors, as set forth in article 39 of the Articles of Association.

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

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

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

Ordinary meetings of the Board shall transact general business relating to the Group's performance, earnings, balance sheet, investments, the company's cash position and how it compares to the adopted budget, the business referred to in article 5, if applicable, and the business listed on the agenda, to be drawn up pursuant to these Board Regulations.

At these regular meetings the Board shall receive timely information on the movements of the shareholders and of the opinion that significant shareholders, investors and rating agencies hold regarding the company and its Group. Similarly, the Board of Directors shall receive timely information on the main operational achievements and difficulties and any foreseeable circumstances which may prove critical for the company's affairs, and shall consider the course of action proposed by company management in response.

2.- Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any channel, and shall specify the meeting venue and agenda. The Chairman shall call the Board to meet when so requested by the Lead Independent Director in accordance with article 18 of these Board Regulations.

The notice of meeting, which other than in exceptional circumstances shall be issued at least three days in advance of the intended date of the meeting, shall contain all information and documents thought appropriate or relevant for Directors to be properly informed. Directors shall further be furnished with the minutes of the previous meeting, whether or not such minutes have been adopted.

The power to set the agenda of a meeting rests with the Chairman, but any Director may request in advance of the calling of such meeting that there be added to the agenda any items which in his/her view ought to be addressed by the Board.

The Board shall be properly constituted without need of prior notice if, all Directors being present in person or by proxy, the Directors unanimously consent to the holding of the meeting.

3.- Board Meetings shall ordinarily be held at the registered office, but may also be held at any other venue

determined by the Chairman of the Board and specified in the notice of meeting.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging Directors to inform the board of any circumstances that might harm the Organisation's name or reputation, tendering their resignation as the case may be.

Yes      X      No

Details of rules

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

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

C.1.43 Indicate whether any Director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Corporate Enterprises Act:

Yes X              No

Name of the director:

DON ANTONIO LLARDÉN CARRATALÁ

Criminal Cause:

Subject Caixa Catalunya.

Observations:

Pending conclusion of oral trial.

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

Yes X              No

Decision taken / action taken:

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

Reasoned explanation:

In accordance with the provisions of the Regulations for the Organization and Functioning of the Board of Administration of the Company, the Chairman of its Board of Directors has kept punctually informed the Nominating, Compensation and Corporate Social Responsibility Committee and Board of Directors of all the incidents of a judicial procedure that affects more than 40 people who, as is their case, were part of the day of

the Caixa Board of Directors Catalunya, position in which it ceased in 2011, and that as of the date of this report is pending of holding oral trial.

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

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Enagás does not have such significant agreements

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	11
-------------------------	----

Type of beneficiary

Executive Directors and Senior Management

Description of the agreement:

The company has an agreement with the Executive Chairman, the Chief Executive Officer and NINE (9) of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute provided the resolution is certified by means of conciliation between the parties, court judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

The termination benefits to which the Executive Chairman and Chief Executive Officer are entitled are equivalent to two years of their fixed and variable remuneration.

The termination benefits to which the NINE (9) Officers are entitled depend on their length of service at the company and their age.

All such contracts have been approved by the Board of Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its Group.

	Board of Directors	General Shareholders' Meeting
Body authorizing clauses	Yes	No
Is the General Shareholders' Meeting informed of such clauses?	Yes	No X

## C.2 Board committees

C.2.1 Give details of all the Board committees, their members and the proportion of Proprietary and Independent Directors.

### AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Category
MS ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
MS ROSA RODRÍGUEZ DÍAZ	Member	Independent
MR LUIS VALERO ARTOLA	Member	Independent
MR MARTÍ PARELLADA SABATA	Member	Independent
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Member	Proprietary
% of Proprietary Directors		20.00%
% of Independent Directors		60.00%
% of other External Directors		20.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

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

The Audit and Compliance Committee comprises five (5) members, which is within the limits established in article 44 of the Articles of Association, article 26 of the Board Regulations, and article 3 of the Audit and Compliance Committee Regulations, which set a minimum of three (3) and maximum of five (5) members, appointed by the Board of Directors based, in particular, on their knowledge and experience on accounting, auditing and risk management. Overall, the members of the Audit and Compliance Committee shall have the pertinent technical knowledge of the gas industry.

No executive Director may sit on the Audit and Compliance Committee and the majority of its members must be independent. Four (3) of the Committee's members are independent and we highlight that the President of the Comision and we highlight that the President of the Committee, MS. DOÑA ISABEL TOCINO BISCAROLASAGA, is the only independent director and (1), SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is a Proprietary Director.

MR MARTÍ PARELLADA SABATA, an Independent Director, External Director was appointed Chairman of the Audit and Compliance Committee on 19 May 2015 by the Board of Directors of Enagás based on his knowledge and experience on accounting, auditing or both, as provided for in articles 44 of the Articles of Association and 26 of the Board Regulations.

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

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

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

In the exercise of his office, a member of this Committee shall, according to article 6 of the Committee regulations, be under the same duties and subject to the same principles of action as those prescribed for

Directors in the Articles of Association, the Board Regulations and current legislation.

In keeping with article 8 of the Committee Regulations, this Committee must meet at least four (4) times a year and the Chairman shall call as many further meetings as they believe are required for the Committee to discharge its duties.

In 2017, the Audit and Compliance Committee met seven times.

Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director.

Any company employee or Manager of the company deemed relevant may be called to attend the Committee meetings, even ordering their appearance without the presence of another senior officer.

The main purposes of the Committee are to evaluate the company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct and the legislation in force in the area of their competence.

To achieve these objectives, the Audit and Compliance Committee, in addition to the functions established by law for this committee, shall carry out those detailed in Appendix I (Explanatory notes) to this Report.

Identify the Director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years said Director has been Chairman.

Name of Director	MR MARTÍ PARELLADA SABATA
Number of years as Chairman	0

#### APPOINTMENTS, REMUNERATION AND CSR COMMITTEE

Name	Position	Category
MS ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
MS ANA PALACIO VALLELERSUNDI	Member	Independent
MR ANTONIO HERNÁNDEZ MANCHA	Member	Independent
MR JESÚS MÁXIMO PEDROSA ORTEGA	Member	Proprietary
MR LUIS JAVIER NAVARRO VIGIL	Member	Other External
MR RAMÓN PÉREZ SIMARRO	Member	Independent
% of Proprietary Directors		16.67%
% of Independent Directors		66.67%
% of other External Directors		16.67%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The Appointments, Remuneration and Corporate Social Responsibility (CSR) Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations, as amended by the Board of Directors at its meeting of 21 December 2015.

The Appointments, Remunerations and CSR Committee is composed of six (6) Directors, appointed by the Board of Directors, which is within the limits established in the Articles of Associations and the Board Regulations, which set a minimum of three (3) and maximum of six (6) Directors. It consists of six (6) Directors, of which four (4) are Independent Directors, including the Chairman, one (1) is a Proprietary Director and one (1) is an Other External Director.

Article 25 of the Board Regulations stipulates that members of this Committee shall be selected by the Board of Directors, which shall ensure that they have the necessary knowledge, competencies and experience to perform their tasks.

A majority of the members of the Appointments, Remuneration and CSR Committee must be Independent

Directors. Executive Directors may not sit on the Committee, although they may be present if so expressly decided by the Committee.

The Committee Chairman shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

The Committee Chairman is an Independent Director, as provided for in the Board Regulations. Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments, Remuneration and CSR Committee must meet at least four (4) times a year. In 2017, the Enagás Committee met four (5) times.

In addition, meetings shall be called by its Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel of the company and its Group, as deemed necessary in the execution of its duties. Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to every Director.

The duties of the Appointments, Remuneration and CSR Committee are set out in article 45 of the Articles of Association and expanded in article 25 of the Regulations of the Board of Directors. For more information see Appendix I (“Explanatory notes”) to this Report.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female Directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	2	40.00%	1	20.00%	1	20.00%	1	20.00%
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	1	16.67%	2	33.33%	1	20.00%	1	16.67%

C.2.3 Section revoked.

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the Board Committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. In addition, indicate whether on a voluntary basis any of the Board Committees has produced an activity report.

The Regulations of the Audit and Compliance Committee are available for consultation at the headquarters of Enagás and on its website at [www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com). The latest amendment to these regulations was approved by the Board of Directors of Enagás, S.A at its meeting of 21 December 2015 to adapt to good governance recommendations and Law 22/2015, of 20 July on Auditing. The Appointments, Remuneration and CSR Committee prepared a report on the Audit and Compliance Committee’s activities in 2017, which will be published on the website sufficiently in advance of the General Shareholders’ Meeting and is included in this Report in Appendix II.

The Appointments, Remuneration and CSR Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations. The Articles of Association and the Board Regulations are available for consultation at the headquarters of Enagás and on its website ([www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com)).

C.2.6. Section revoked.

## D Related party and intragroup transactions

### D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

#### Procedures for approving related party transactions

In accordance with the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A.:

1.- It will be the responsibility of the Board of Directors to identify and approve, pursuant to a report from the Audit and Compliance Committee, transactions carried out by the company or the companies in its Group with Directors under the terms set forth in Articles 229 and 230 of the Corporate Enterprises Act, or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the boards of other companies belonging to the Group or with persons associated with them. The affected Directors or those who represent or are related to the affected shareholders must refrain from participating in deliberating and voting on the resolution in question.

The aforementioned transactions shall be assessed from the point of view of equal treatment and on an arm's length basis, and shall be disclosed in the Annual Corporate Governance Report and in the company's regular public reporting as provided in applicable laws and regulations.

2.- The approval provided in the previous paragraph shall not be required, however, for transactions that simultaneously comply with the three following conditions:

- a) they are governed by standard form contracts applied on an across-the-board basis to a large number of customers;
- b) they go through at market prices, generally set by the person supplying the goods or services; and
- c) their amount does not exceed 1% of the company's annual revenues.

3.- If the conditions provided in the paragraph above are met, the affected parties shall not be under a duty to report said transactions.

4.- In the event of duly documented, urgent reasons, related party transactions may be authorised, as applicable, by delegated bodies and persons, who must be ratified at the first meeting of the Board of Directors held after the decision is adopted.

### D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its Group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BANK OF AMERICA CORPORATION	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	12,234
RETAIL OEICS AGGREGATE	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,418
BLACKROCK INC	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,718
FIDELITY INTERNATIONAL LIMITED	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	6,877
STATE STREET CORPORATION	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	10,182
LAZARD ASSET MANAGEMENT	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	4,269

### D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or Directors.



Name or corporate name of manager or Director	Name or corporate name of related party	Relationship	Type of transaction	Amount (in thousands of euros)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	ENAGÁS, S.A	Director	Dividends and other benefits paid	16,926

**D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

**Corporate name of the Group company:**

ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

Amount (in thousands of euros): 3,439

Brief description of the transaction: Financial revenue on the loan.

**Corporate name of the Group company:**

GASODUCTO DE MORELOS SAPI DE CV

Amount (in thousands of euros): 2,640

Brief description of the transaction: Financial revenue on the loan.

**Corporate name of the Group company:**

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

Amount (in thousands of euros): 277

Brief description of the transaction: Financial revenue on the loan.

**Corporate name of the Group company:**

TRANS ADRIATIC PIPELINE AG

Amount (in thousands of euros): 4,234

Brief description of the transaction: Financial revenue on the loan.

**Corporate name of the Group company:**

GASODUCTO DE MORELOS SAPI DE CV

Amount (in thousands of euros): 8,376

Brief description of the transaction: Guarantees and sureties extended.

**Corporate name of the Group company:**

SWEDEGAS, AB

Amount (in thousands of euros): 24,131

Brief description of the transaction: Guarantee commitment.

**Corporate name of the Group company:**

TRANS ADRIATIC PIPELINE AG

Amount (in thousands of euros): 68,800

Brief description of the transaction: Investment commitments acquired.

**Corporate name of the Group company:**

BAHÍA DE BISKAI A GAS, S.L.

Amount (in thousands of euros) 14

Brief description of the transaction: Profit from sales of assets

**Corporate name of the Group company:**

MIBGAS, S.A.

Amount (in thousands of euros) 21,620

Brief description of the transaction: Purchase of operational gas

**D.5 Indicate the amount from related party transactions.**

139,134 (in thousands of euros).

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its Group, and its Directors, management or significant shareholders.**

Article 13 of the Board Regulations states that Directors shall perform their positions with the loyalty of a reliable representative, acting in good faith and in the best interest of the company. In particular, the duty of loyalty requires that Directors:

[...]

- c) Refrain from participating in deliberating and voting on resolutions or decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect them in their capacity as Director, such as their appointment to or removal from posts on the governing body or others of a similar nature, will be excluded from the preceding obligation.
- d) Perform their functions according to the principle of personal responsibility with freedom of judgement or judgement and independence relating to instructions from and links with third parties.
- e) Adopt the measures required to avoid becoming involved in situations in which their interests, either for their own personal reasons or those of another party, may conflict with the company's interest or with their duties with the company.

In particular, the obligation to avoid conflicts of interest referred to in the preceding paragraph requires that Directors refrain from:

- a) Conducting transactions with the company, except for routine transactions carried out under standard conditions for the customers and having little import, which are understood to be those that are not required to be reported in order to express a true and fair view of the equity, the financial position and results of the entity.
- b) Using the name of the company or invoking their position as director to improperly influence the conducting of private transactions.
- c) Using the corporate assets, including the company's confidential information, for private purposes.
- d) Taking advantage of the company's business opportunities.
- e) Obtaining benefits and remunerations from third parties other than the company and its group associated with the performance of their duties, except for acts of mere courtesy.
- f) Conducting activities for themselves or for another party which, actually or potentially, entail effective competition with the company or which, in any other manner, place them in permanent conflict with the company's interests.

The above provisions will also be applicable if the beneficiary of prohibited acts or activities is a person related to the Director.

In any event, Directors must inform the other Directors and the Board of Directors of any direct or indirect situation of conflict that they or persons related to them make have with the company's interests.

Direct and indirect conflicts of interest in Directors become involved shall be disclosed in the Annual Report.

In addition, concerning transactions carried out with related parties, the company must adopt the following measures:

- a) Report them twice a year to the CNMV and include them in the Annual Report in the Corporate Governance section.
- b) Submit them in a draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Appointments, Remuneration and CSR Committee, and assess whether they satisfy market criteria

All those described as being subject to this Internal Code of Conduct must:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal assets and liabilities or any other reason. Communications must be made within fifteen (15) days and, in any case, before the decision that may be affected by the potential conflict of interest is taken.
- Keep the information updated, taking into account any modification or cessation of previously reported situations as well as the emergence of new conflicts of interest.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the company.

The Audit and Compliance Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 26 of the Board Regulations, is assigned the following duties:

- a) To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
- b) To report to the Board of Directors on any related party transactions before authorisation thereof. Under no circumstances shall the Board of Directors authorise any transaction which has not been issued a favourable report from the Appointments, Remuneration and CSR Committee as outlined in article 14 bis of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., except for those transactions which meet the three conditions stipulated in article 14 bis.
- c) To report to the Board of Directors on measures to be taken in the event of breach of these Rules and Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and CSR Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

#### D.7 Is more than one Group company listed in Spain?

Yes                      No                      X

Identify the listed subsidiaries in Spain:

#### *Listed subsidiary*

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies;

Define business dealings between the parent and listed subsidiary, as well as between the subsidiary and other Group companies
--

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other Group companies.

Mechanisms to resolve possible conflicts of interest
--

## **Risk control and management systems**

### **E.1 Describe the risk management system in place at the company, including fiscal risks.**

The Enagás Group has established a risk management and control model aimed at ensuring the continuity of the business and the achievement of the objectives of the company in a predictable manner and with a medium-low profile for all of its risks. This model allows you to adapt to the complexity of your business activity in a competitive environment globalized, in a complex economic context, where the materialization of risks is faster and with a contagious effect evident. The model is based on the following aspects:

- The establishment of a risk appetite framework that is consistent with the stated business targets and the market context within which the company carries out its activities (see details in section E.4);
- The consideration of standard risk typologies to which the company is exposed (see details in section E.3);
- The existence of governance bodies with responsibilities for overseeing the company's level of risk (see section E.2);
- The segregation and independence of the functions of risk control and management at the company, on three lines of "defence";
- The transparency of information supplied to third parties, to guarantee its reliability and accuracy.

The risk control and management function is articulated around three lines of defence, with differentiated roles and responsibilities, as follows:

- 1st line of defence: made up from the organisational units which assume the risks in the ordinary course of their activities. They own and are responsible for identifying the risks.
- 2nd line of defence: the Risk Department, in charge mainly of ensuring that the risk control and management system works correctly, defining the regulatory framework and approach, and performing periodic monitoring and overall control of the company's risks.
- 3rd line of defence: the Internal Audit Department, in charge of supervising the efficiency of the risk controls in place.

The integral analysis of all risk permits the appropriate control and management thereof, an understanding of the relationships between them and facilitates their joint assessment. This is accomplished by taking into account the differences of each type of risk in terms of its nature, handling capacity, risk measurement tools, etc.

Enagás has established a regulatory framework for risk through the "Risk Control and Management Policy" and the "General Regulations for Risk Control and Management" setting out the basic principles governing the risk function and identifying the roles of the various decision-making bodies and the constituent parts of the risk management system.

According to the nature of the events and the triggers, monitored risks are classified as: strategic and business risks, operational and technological risks, credit and counterparty risks, financial and fiscal risks, criminal liability risks, reputational risks and compliance and model risks.

### **E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.**

The main bodies responsible for the Risk Management System and their main functions are:

### *Board of Directors*

The Enagás Group Board of Directors is responsible for approving the risk control and management policy. Other responsibilities with respect to risks are delegated in the Audit and Compliance Committee.

### *Audit and Compliance Committee*

The mission of the Audit and Compliance Committee is to assist the Board of Directors in all matters related to the company's risks. Its functions related to risk control and management are:

- To oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the company's internal policy. To submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them.
- To assess the company's risks and examine the analyses of risks, the types of which are set out in the internal risk policies, that affect the business. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- To disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

### *Risk Committee*

The Enagás Group's Risk Committee is an executive governance body that assists the Management Committee on all matters related to the company's risks. It coordinates the set of strategic and operational activities to maximise the profitability of the business with certain degrees of uncertainty. Part of the duties of this committee are:

- To oversee compliance with risk regulations, proposing the actions it considers necessary in the event of any breach.
- To establish the risk principles and overall strategy, promoting the integration of the risk management function at all levels and areas of Enagás' business through a common risk culture aligned with the company's objectives.
- To approve risk-measurement approaches, ensuring consistent metrics in order to consolidate the overall risk level.
- To approve the company's overall risk limits and/or thresholds, and, where appropriate, those of the business units and/or corporate departments.
- To supervise that risk remains within levels that the company is willing to accept and that are aligned with its strategy and objectives.
- To regularly review the level of exposure to risk: i) analyse overall risk exposure and exposure of the various businesses and departments, and verify, by risk typology, that the level of risk exposure is below the level of acceptable risk; ii) review the corrective actions proposed by the business units and/or corporate departments to address potential breaches of the established limits.
- To report to and advise the Management Committee on matters related to the company's risks.

### *Risk Department*

The corporate Risk Department is in charge of the overall management of all regulations related to risk, supervising that risk management is applied correctly, disclosed, monitored and improved continuously so that it is aligned with the business needs at all times.

Part of their duties are:

To ensure that the risk control and management systems are functioning correctly. To define the framework of rules and methodologies for the identification, measurement and management of the main risks affecting the company.

- Ensure the proper functioning of risk control and management systems. Define the normative and methodological framework that allows identify, quantify and manage the important risks that affect the company.
- Participate actively in the preparation of risk strategies and in key decisions about their management. To analyse, from a risk perspective, the main risks and participate in the decisions that affect them.
- To supervise that the risk control and management actions proposed by the business units are mitigating risks effectively in the frame of the policy and strategy drawn up.
- To propose to the Risk Committee the company's risk appetite and tolerance, and the structure of the related limits.
- To monitor and control all the company's risks, validating the measurements made by the business units and/or departments.
- To advise the company's departments in risk assessment.
- To propose a global and consistent view of the company's risk through an internal information and control system.
- To disclose the Group's risks and report on the key matters relating to risk to the senior management and Governing Bodies.

### *Business and corporate units*

These are the various business and corporate units that assume risk in the ordinary course of their activities. Part of their duties are:

- To identify risks in their activity on a regular and systematic basis through the year.
- To assess and measure risks following the established identification and assessment approaches.
- To define risk-management and risk-mitigation and impact control actions in accordance with the defined strategy and the nature of the risks.
- To pass down risk limits and thresholds to lower levels.

### **E.3 Indicate the main risks, including fiscal, which may prevent the company from achieving its targets.**

The main risks affecting the Enagás Group in the development of its business can be classified as follows:

#### *Strategic and Business Risks:*

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

The Enagás Group's activities are mainly exposed to the following risks:

- Changes in the regulatory framework.

- Evolution of demand, with short, medium and long-term effects, associated with weather conditions, the competitiveness of natural gas with other energy sources, evolution of the economy, etc.
- Permits and administrative approvals.
- Delays and cost over-runs in the execution of infrastructure projects.
- Etc.

#### *Operational and Technological Risks:*

Operation of the Enagás Group's infrastructures may give rise to losses of value or earnings resulting from inadequate or failed internal processes, human error or other external factors.

The main operational and technological risks to which the Enagás Group is exposed are:

- Industrial risks (conditioned by the nature of the fluid being handled), those related to incidents during the operation of transmission infrastructures, regasification plants and underground storage facilities, which may involve large-scale damage.
- Internal and/or external fraud.
- Cybersecurity (economic fraud, espionage, activism and terrorism).

#### *Financial and Fiscal Risks:*

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

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

Exchange rate fluctuations may affect positions held with regard to debt denominated in foreign currency, certain payments for services and the purchase of capital goods in foreign currency, income and expenses relating to companies whose functional currency is not the euro and the effect of converting the financial statements of those companies whose currency is not the euro during the consolidation process. This risk affects the Enagás Group, both owing to its international operations, fundamentally in Latin America, and intragroup loans in currencies other than the euro, mainly the US dollar.

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

As regards the execution of large projects, Enagás Group is exposed to uncertainties owing to the effective procurement of finance in conditions similar to those forecast in its business plans. On certain occasions this financial risk may be associated with other risks arising from the agreement terms that set out the conditions of service (which may even lead to the cancellation of the concession agreement).

It is also exposed to potential changes in legal frameworks for taxation and uncertainty arising from the possible different interpretations of prevailing tax laws, which could have a negative impact on results.

#### *Credit and Counterparty Risks:*

Credit risk consists of the possible losses arising from a failure to pay the financial or quantifiable obligations owed by a counterparty to which the Enagás Group has extended net credit and is pending settlement or collection. The counterparty risk includes the potential breach of obligations acquired by a counterparty in commercial agreements that are generally established in the long-term.

### *Reputational Risks:*

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

### *Criminal Liability Risks:*

The amendments made to the Criminal Code in 2010 and 2015 establish criminal liability on the part of legal entities. In this regard, Enagás could be held liable in Spain for certain crimes committed by its directors, officers and staff in the interest of the company. To prevent this risk from materialising, Enagás has approved a Crime Prevention Model and has implemented the measures needed to prevent corporate crime and the avoid liability for the company.

Likewise, as a result of the company's international activity, the Model has been broadened to cover the requirements of Mexican criminal law and US anti-corruption measures.

### *Compliance and Model Risks:*

The Enagás Group is exposed to compliance risks, which comprises the costs associated with possible sanctions owing to infringement of laws or sanctions derived from the materialisation of operational events, conducting of improper business practices, non-compliance with internal policies and procedures and/or the incorrect use of models.

#### **E.4 Identify if the company has a risk tolerance level, including fiscal.**

The Enagás Group Risk Management and Control Model defines the risk appetite framework, which corresponds to the maximum level of risk the company is willing to take on in order to meet its objectives, and which is expressed by means of risk limits. The level of risk tolerance is the result of the deviation in the level of risk the company takes on at a specific moment in relation to the defined risk appetite.

The Enagás Group has defined a set of limits for the main types of risk that the company may present (strategic risks and business, operational, technological, financial and tax-related, credit and counterparty, and criminal liability risks), with the establishment of the maximum acceptable level of risk, which is updated yearly by the Risk Committee. These limits are specified by a set of indicators that are regularly monitored throughout the year.

#### **E.5 Identify any risks, including fiscal, which have occurred during the year.**

The company had a medium-low risk profile over the course of 2017, similar to that of 2016, partly due to the existence of corporate risk control and management systems. This allowed certain risks to be eliminated from the company's inventory, without their having any negative impact.

Risks that materialised with a negative impact on the company in 2017 related to its heavy exposure to regulatory risk, as certain regulatory developments had a negative impact on the company. Likewise, certain risks materialised, such as in the case of incidents relating to infrastructure and systems involving small economic amounts, as a result of circumstances arising out of transactions carried out and business operations.

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

#### **E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including fiscal.**

A series of control activities defined by each of the business units and corporate departments are associated with the main risks identified by the company to ensure that it can respond adequately and in a timely manner. The Audit and Compliance Committee and the Risk Committee oversee the implementation of these control activities and monitor the action plans.

The type of controls in place vary considerably depending on the nature of the risk. For instance:



- Regarding regulatory risks, controls and mitigating actions include, inter alia, ongoing cooperation with (domestic and European) regulators and public administrations.
- Regarding infrastructure operation (e.g. damage, incidents), risks are mitigated through the design of maintenance and continuous improvement plans, the definition and monitoring of quality indicators, and control systems and alerts, which ensure service continuity and quality, among others.
- Regarding risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- Credit and counterparty risks are mitigated via establishment of guarantee mechanisms, in accordance with specific regulatory requirements, such as continuous monitoring of the main counterparties' credit profiles.
- To prevent criminal liability risk from materialising, the Enagás Group has approved a Criminal Prevention Model (reviewed in 2016) and has implemented the measures needed to prevent corporate crime and the avoid liability for the company. The finance risks of international projects are handled through a steady and ongoing relationship with the different financial institutions and advisers, and through the continuous monitoring of market conditions.

## **F. Internal control over financial reporting (ICFR)**

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management systems at the company.

### **F.1 The entity's control environment**

Specify at least the following components with a description of their main characteristics:

F1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

As part of the ICFR responsibilities at Enagás, S.A. and Subsidiaries (hereinafter the "Group"), the following bodies and/or functions develop, maintain and oversee the preparation of Group financial information:

#### *Board of Directors*

Pursuant to article 5 b) of the Rules and Regulations of the Organisation and Functioning of the Board of Directors, the Board of Directors is responsible for "the determination of the company's tax strategy and of its risk control and management policy, including regarding tax risks, and the oversight of its internal formation and control systems", and is ultimately responsible for guaranteeing an internal control environment conducive to complete, reliable and timely financial reporting.

Pursuant to article 26 of the same regulations, the Audit and Compliance Committee has been delegated the duty of overseeing the internal formation and control systems.

#### *Audit and Compliance Committee*

The Audit and Compliance Committee is responsible for "overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles". It must also "report to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information", according to article 7 a) of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A and Subsidiaries.

Likewise, article 44 of the Consolidated Articles of Association states that the Audit and Compliance Committee is responsible for seeing to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems. In addition to discussing any

significant weaknesses in the internal control system detected in the course of audit with the auditors without impinging on its independence.

To carry out its duty of oversight of the effectiveness of internal control, the Audit and Compliance Committee has the support of an Internal Audit Unit, as established in the General Internal Audit Regulations.

### *Finance Department*

The Finance Department is responsible for designing, implementing and ensuring there is a suitable and efficient ICFR system. The Internal Control over Financial Reporting Unit assists it in these duties, it is key to managing ICFR and has the following tasks:

- Guaranteeing the integrity and internal coherence of the ICFR.
- Monitoring the updating and documentation of the sub-cycles/processes which affect the preparation of financial information (carried out by the people in charge of the sub-cycles/processes).
- Overseeing the updating and maintenance of the ICFR management tools.
- Managing the self-assessment of the ICFR system and monitoring the results.
- Coordinating the ICFR risk assessment and periodically updating the risk map.
- Carrying out an annual evaluation of the requirements to update the document attributing the accounts to ICFR areas, in order to maintain the required standard of financial information.
- Drawing up and updating the Enagás Group Internal Control over Financial Reporting System Manual (ICFR system Manual).
- Updating and disseminating applicable ICFR system regulations, both internal and external.
- Identifying the training needs and organisational/execution needs for courses relating to ICFR or other related issues (these are channelled via the Training School programme included in the Training Plan and Training Programme).
- Monitoring and updating the model for defining scopes.
- Collaborating with the Internal Audit Department, ensuring independence at all times.
- Collaborating in classifying any deficiencies detected during reviews of the ICFR system (material weaknesses, significant deficiencies, insignificant deficiencies).
- Collaborating in implementing corrective measures detected in the reviews of the ICFR.

### *Internal Audit Department*

The Internal Audit Department reports to the Audit and Compliance Committee as per the Internal Audit General Regulations. It is responsible for “assessing and improving the efficiency of risk management processes, internal control and corporate governance”.

Its main ICFR duties, which are coordinated by, overseen and supervised by the Audit and Compliance Committee, include:

- Performing tests and assessments of the design, implementation and operational effectiveness of the ICFR system.
- Conducting a series of limited checks on the documentation of cycles and sub-cycles to achieve a preliminary understanding of whether the documentation prepared by Enagás is up to date and to detect which potential control activities should be designed.

- Conducting a series of limited checks to gain a preliminary understanding of the degree of compliance and formalisation of the (manual and automated) controls established by Enagás.
- Verifying the correct implementation of corrective action concerning the ICFR system in accordance with the Internal Annual Audit Plan.

#### *Departments and Business Units involved in preparing financial information*

The people in charge of the sub-cycles/processes involved in the preparation of financial information and whose main duties are:

- Supervising the actions and evaluations carried out for each of the processes for the cycles in the Areas, with the possibility of eventually carrying out tests to confirm the results of specific controls.
- Establishing, monitoring and evaluating the effectiveness of the control activities within the cycles/sub-cycles, mainly concerning communication, allocating responsibilities, delegating competences, segregating duties and managing access to information and other critical resources, developing and modifying the processes (both operational and control) and support systems.
- Coordinating the design, documentation and implementation of ICFR system processes, ensuring objectives to manage all processes in question are met.
- Ensuring that all documentation concerning the process is kept up to date (who, what, how, rules, proof, etc.) as well as that concerning the ICFR system control and risk objectives.
- In the case of amendments or updates to regulations, procedures, instructions etc., the owner of the process shall notify the ICFR Unit.
- Reporting, formally and periodically on the outcome of the self-assessments carried out.
- Collaborating in identifying qualitative factors which may affect the inclusion of this process in the general ICFR model.
- Implementing and promoting the implementation of corrective action in the area of ICFR.

The allocation of ICFR responsibilities is reflected in the positions within the Group's organisational structure, and included in the job analysis and description sheets containing the description of the assigned tasks. Any changes in the allocation of responsibilities are made to the organisational structure and these sheets, as set forth in the company's "Organisational Development and Processes" procedure.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

The design and review of the organisational structure as well as defining clear lines of responsibility falls to the Appointments, Remuneration and Corporate Responsibility Committee as stipulated in article 25 of the Regulations of the Board of Directors of Enagás, S.A.. The Appointments, Remuneration and CSR Committee under article 45 of the Articles of Association, has the following duties and powers [...]: To formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of Senior Management posts in order to achieve improved and more efficient company administration [...]."

Likewise, the Corporate Resources and People Department is responsible for designing, implementing and updating the organisational structure. The internal mechanisms used by this department, to clearly define the lines of responsibility, are enumerated in:

- "Job Analysis and Description Sheets"
- The "Human Resources Development Procedure"
- The "Organisational Development and Processes Procedure"

Which, among other issues, establish and develop, in accordance with the company's strategy and business and operating needs, the organisational structure of the departments/units, the overall management model for processes and job descriptions.

The particular features of the ICFR lines of responsibility and authority are regulated by the "Enagás ICFR Manual" as well as various rules and regulations concerning the key governing bodies and Senior Management. Meanwhile, specific ICFR-related responsibilities are considered in the design of the model, aligned with those defined in the Job Analysis and Description Sheets. Versions of the ICFR model are generated periodically to reflect the changes over time in job responsibility.

Also worth noting is the Powers of Attorney and Electronic Signature Certificates Management procedure, which sets out the actions to ensure that responsibilities are given appropriately. The organisational structure is available to all employees on the Intranet in the form of an organisational chart and is regularly updated. In addition, the specific rules and procedures detailing the related responsibilities are published on the Intranet, as stipulated in the General Regulations for Rules and Process Management.

Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

The following documents are available to all employees as part of the Group's Policy on Sustainability and Good Governance and other corporate policies:

#### *Internal Code of Conduct in Matters Relating to Securities Markets*

As stipulated in article 5 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., the company has an Internal Code of Conduct in matters relating to Securities Markets which was drawn up and approved by the board. These regulations establish the rules for acting in securities markets and mandatory registries, in particular concerning the following:

- Conduct in situations of Privileged or Classified Information, and the handling of such information;
- The trading of Affected Securities of Enagás or companies in its business group;
- Detecting and dealing with conflicts of interest;
- Company relations with related parties;
- The treasury share policy of Enagás and its subsidiaries;
- Generally, compliance with securities market and market abuse regulations.

These regulations are applicable to the members of the Board of Directors of Enagás, to the members of the Board of Directors, where appropriate, of the Management Committee for Subsidiaries and affiliates to Senior Management, as well as managers and other staff involved in securities market operations or with access to privileged or classified company information, including External Advisers, as stipulated in articles 2, 3 and 4. In this regard, upon receiving a copy of the regulations covered, persons must sign a statement acknowledging receipt and declaring that they are aware of their obligations. These regulations are also available on the Corporate website and via Intranet.

The Audit and Compliance Committee is responsible for ensuring compliance with the regulations and the company's general governance rules, and makes suggestions, as necessary, to improve these (Article 7 of the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. And Subsidiaries). The person in

charge of Regulatory Compliance, in coordination with the General Secretariat, will ensure precise and true compliance with the obligations contained therein, with the requirement to regularly report to the Audit and Compliance Committee on the degree of compliance and any incidents detected in relation to its application for evaluation by the Committee, as stipulated by Article 20.1 of the regulations.

### *Enagás Group Code of Ethics*

The “Enagás Group Code of Ethics, approved by the Board of Directors at its meeting of 15 December 2014, is designed to formalise “[...] the ethics and compliance model of the company, providing a description of the conduct expected of its employees, managers and directors (“persons”) irrespective of their responsibilities and their geographic or functional location [...]”.

Moreover, the company “[...] undertakes to inform and train appropriately both the persons at Enagás and third parties so that they are aware of and comply with this Code of Ethics, as well as the regulations, commitments and procedures that implement it. All these receive this Code and expressly confirm their commitment to knowing, complying with and enforcing it [...]”. The Code is available on the external website and the Intranet.

The conduct guidelines contained in the document, which are listed below, address issues related to financial reporting:

- Be trustworthy and transparent: “[...] The persons at Enagás ensure the reliability and rigour (they provide accurate, complete, understandable and timely information) of the financial and non-financial information both for internal use and provided to the market, and the accounting policies, control systems and supervisory mechanisms defined are applied so that the relevant information is identified, prepared and communicated in due time and form [...]”
- Expressly reject fraud, corruption and bribery: “In their relationships with third parties, including public authorities, the persons at Enagás can neither offer nor accept gifts or preferential treatment that is of more than a purely symbolic nature or that could be interpreted as an attempt to gain undue influence [...]”

In this regard, in 2013 the Procedures for Managing the Offering and Acceptance of Gifts was approved and in 2015 the Anti-Fraud, Corruption and Bribery Policy was approved.

The Code states that the Audit and Compliance Committee “[...] is responsible for supervising due execution of the ethics and compliance model, which includes measures for supervision and monitoring to prevent irregularities and offences. Enagás has an Ethical Compliance Committee which reports directly to the Audit and Compliance Committee and which will be responsible for supervising the operation of the ethics and compliance model [...]”

### *Code of Conduct of the Technical Manager of the Spanish Gas System*

A Code of Conduct of the Technical Manager of the Spanish Gas System has been drawn up to “[...] guarantee that the functions of the Technical Manager of the Spanish Gas System are carried out independently from the rest of the activities of the Enagás Group, in compliance with the legally established criteria in the Hydrocarbons Sector Law, Law 34/1998 of 7 October [...]”. It was approved by the Board of Directors on 15 December 2014.

As set out in the Code: “It is the obligation of Enagás GTS to keep the list of the individuals subject to this Code of Conduct updated at all times and to send each of these a copy of the Code, requiring them to furnish a letter in which they confirm they have received the Code and declare that they know and accept compliance with the obligations they are subject to”.

It also provides that: “[...] The Ethical Compliance Committee is entrusted with ensuring compliance with this Code of Conduct and the effectiveness hereof. It will therefore periodically report to the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. on the results of its assessment and on any deficiencies detected. However, the Managing Director of the Technical Manager of the System will address any queries that may be raised by the employees of Enagás GTS regarding the Code of Conduct [...]”.

The Ethical Compliance Committee, pursuant to Article 63.4 d) of the Hydrocarbons Sector Law,

shall prepare a report containing the following information:

- The measures adopted to guarantee the segregation of activities.
- The conflicts of interest reported and the measures adopted to resolve them [...].”

This report will be submitted to the Ministry of Industry, Energy and Tourism and to the National Markets and Competition Commission. Moreover, both this report and the Code of Conduct of the Technical Manager of the Spanish Gas System are available on the external website.

### *Internal Audit Code of Ethics*

A Code of Ethics for Internal Audit was approved in 2017 laying down the ethical culture in the function as an independent activity. It includes:

1. Principles relevant for the profession and practice of the internal audit:
  - Integrity
  - Objectivity and Independence
  - Confidentiality
  - Competence
2. The Rules of Conduct which describe the behaviour expected from all internal auditors. These rules serve to assist with the interpretation of the Principles in their practical application. Their aim is to guide the ethical conduct of internal auditors.

Once a year all internal auditors must sign a declaration stating that they are cognisant of, understand and uphold these rules. This Code of Ethics is available on the Intranet.

Whistleblowing channel, for reporting any irregularities of a financial or accounting nature to the Audit Committee, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

The company has a whistleblowing channel, the Ethics Channel, for consultation and reporting of irregularities or breaches of the Enagás Group Code of Ethics and the Code of Conduct of the Technical Manager of the Spanish Gas System

The Ethical Compliance Committee is responsible for processing consultations and notifications. This Committee shall respond to all reports and periodically prepare a report to be submitted to the Audit and Compliance Committee. However, according to the “Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics”), if the consultation or notification is of a financial or accounting nature or concerns internal control or fraud, it shall be forwarded directly to the Audit and Compliance Committee.

Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Human Resources Development Division, which reports to the Corporate Resources Department, has a “Training School” which manages and plans all the training programmes and other instruction initiatives for all employees included in the Training Plan and Training Programme.

The Resources and People Department, in coordination with the Finance Department and the Internal Audit Department, identifies and analyses the specific training needs of all personnel involved in preparing and reviewing financial reporting, including issues concerning accounting, internal control and risk management.

During 2017, General Financial Management participated in various training activities together with the Internal Audit Department, amongst which the following were included: Updating the ICSFR, Internal Audit of Information Security, Key Issues in Cybersecurity, model for prevention of non-compliance offenses, Risk Assessment, Prevention and Investigation of Fraud, amongst others.

## F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

The process exists and is documented

Identifying risk is one of the core fundamentals in risk analysis with regards to the preparation of financial information. This process follows the COSO 2013 methodological framework (Committee of Sponsoring Organizations of the Treadway Commission), one of its objectives being to contribute to the transactions carried out are recorded faithfully, in accordance with the corresponding accounting framework providing reasonable security in relation to the prevention or detection of errors that could have a significant impact on the information contained in the consolidated annual accounts.

The “Enagás Risk Control and Management Policy” provides a reference in the area of risk identification, as it states the company’s policies on how to deal effectively with uncertainty, risks and the associated opportunities, thereby improving its capacity to generate value in order to achieve the aims of the Organisation, which include reliable financial reporting.

The principles and criteria included in the policy were issued by the Enagás Risk Committee. This Committee is charged with defining, approving and updating the basic criteria and principles guiding actions in relation to risk, as set out in “Functioning of the Enagás Risk Committee” procedure.

The principles set out in the “Enagás Risk Control and Management Policy” are articulated in the “General Regulations for Risk Control and Management”, providing an organisational and methodological framework that ensures the risk control and management process is implemented appropriately and effectively.

Specific risks related to the company’s Internal Control over Financial Reporting System are classified in this framework under the Group’s operational risk category. The identification and measurement of these risks are performed as set out in the Internal Control over Financial Reporting System Manual.

The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

Pursuant to the “ICFR System Manual”, the risk identification process covers all financial reporting objectives to ensure the accuracy and completeness of the same. The manual describes the risks related to the financial reporting process as follows:

- Completeness: the risk that all transactions, and other circumstances and events are recorded.
- Rights and obligations: the risk that all financial information at any given date does not reflect the rights and obligations through the corresponding assets and liabilities in accordance with applicable standards.
- Existence and occurrence: the risk that not all transactions, circumstances and events exist and are not all recorded at the appropriate time.
- Valuation: the risk that not all transactions, circumstances and events are recorded and valued in conformity with applicable standards.
- Presentation, disclosure and comparability: the risk that not all transactions, circumstances and events are classified, presented and disclosed in the financial information in accordance with applicable standards.

- Internal fraud: includes the risk of manipulation of files, software and information, and the risk of unauthorised activities (involving employees) leading to intentional financial statement misstatements; and misappropriation of funds and assets due to inappropriate use of corporate assets.

Periodically, the ICFR Unit fully evaluates all control processes and corresponding specific risks mitigation measures in place, and at the same time, assesses whether new risks need to be added.

A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.

The Finance Department operates a management and updating process to identify those companies which should be included in the scope of consolidation. This process is detailed in the Period-End Procedures for Consolidated Financial Statements and Annual Accounts.

In compliance with article 7 of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, the Committee's duties and competencies include "Overseeing the preparation and presentation of financial information on the company and the Group, checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles".

In determining the companies covered by the ICFR scope, the Group considers those in which it has a direct 100% shareholding, and so for all other consolidated companies, the Group includes controls to ensure consistency, validity and reliability of the financial information provided for inclusion in the consolidated financial statements.

The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The process of identifying risks associated with achieving the financial reporting objectives takes into account the possible effects derived from the materialisation of other types of risks contained in the risk control and management model described in section e) of this document. These effects would arise, as the case may be, through strategic and business risks, operational and technological risks, credit and counterparty risks, financial and fiscal risks, criminal liability risks, reputational risks and compliance and model risks.

Finally, which of the company's governing bodies is responsible for overseeing the process.

The Audit and Compliance Committee is responsible for overseeing the preparation and presentation of financial information on the company, and to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information. It also sees to the proper operation of the company's, and its Group's, internal control, internal audit function, if applicable, and risk management systems, including risks related to the treatment of financial information, according to article 44 of the Consolidated Articles of Association and article 7 of the Regulations of the Audit and Compliance Committee.

### F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics

- F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

#### *Procedures for reviewing and authorising financial information to be disclosed to the markets*

The Organisation has the following documents to ensure the reliability of the financial information to be disclosed to the securities markets:



- “The “Manual of Accounting Policies (PGC)” and the “Manual of Accounting Policies (IFRS)”, which establish and provide clear information on the accounting policies required for performing accounting estimates and preparing the company’s Separate and Consolidated Financial Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows.
- “Period-end procedures for the Separate Financial Statements and Annual Accounts” and “Period-end procedures for the Consolidated Financial Statements and Annual Accounts” approved by the Chief Financial Officer establishing the process of preparing, processing, reviewing and authorising the financial information at the closing of accounts by the persons in charge. These also establish the controls of judgements, estimates and evaluations which may materially affect the financial statements.
- “Procedure on the provision of Regular Reports to Securities Market Regulators” which establishes the process to be followed when preparing periodic financial information to be disclosed to the regulated markets regarding interim financial reports, interim management reports and, if applicable, quarterly financial reports.

This also establishes the people in charge of approving this financial information. With regard to the preparation and subsequent disclosure of financial reporting, the Investor Relations Department, the Finance Department, the General Secretariat, the Board of Directors and the Chairman of the Board all play a key role at the various levels within the Organisation in the validation and approval of all financial information.

#### *Description of ICFR: Control and Activities*

The Group’s ICFR control structure is based on the five components of the COSO Model (The Committee of Sponsoring Organisations of the Treadway Commission) included in the Internal Control-Integrated Framework report (2013):

1. The control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

Likewise, the recommendations of the report on “Internal Control over Financial Reporting at Listed Companies” prepared by the CNMV’s Internal Control Working Group (ICWG) (2010) are taken into consideration.

In this regard, the ICFR model states a number of key control objectives which, if fully implemented, allow reliability and transparency in preparing financial reporting. Implementation of these objectives is intrinsically tied to the effectiveness of “Control activities” at each stage of their execution.

In this context, the control structure defined is based on two classes of control:

- General controls
- Process controls

#### *General Controls*

The General Controls form the basis of the ICFR model. These are interlinked controls that directly affect the Enagás organisational structure and procedures. These are known as the “control environment” in the CNMV and COSO recommendations.

At the end of 2017, there were 41 ICFR general controls in operation. Senior Management is responsible for overseeing these controls, which are split between the following divisions:

- Secretary to the Board of Directors
- General Secretariat

- Gas System Technical Management Department
- Finance Department
- Resources and People Department
- Investor Relations Department
- Risks Department
- Communication and Public Affairs Office

These controls are assessed once a year to incorporate any updates and to identify new control components.

### *Process controls*

Process controls (control activities) are controls over an organisation's operating processes that are more specific than general controls. These are part of each of the main cycles and sub-cycles comprising the ICFR procedures, guaranteeing the reliability and transparency of Enagás financial reporting. These are factors which mitigate the risks inherent in the financial reporting procedure mentioned above to ensure the established control objectives are met.

These control activities are used throughout all the ICFR model and the eight Areas which affect financial reporting:

- Acquisitions
- Fixed assets
- Inventories
- Income
- Payroll and personnel
- Financial management
- Support services

### *Financial reporting*

These areas in turn affect a further 30 cycles and 64 subcycles and are formally documented in a corporate IT tool.

These process controls can be classified with the following different characteristic attributes:

#### *According to their nature:*

- Preventative: Preventing errors or any irregularities which may affect the information, i.e. preventing the impact of financial risks.
- Detective: Identifying errors or irregularities which may affect the financial information, i.e. identifying errors when they arise.
- Corrective: Correcting errors or irregularities which may affect the financial information, i.e. rectifying errors when they arise.
- Directive (Policy): controls based on the corporate policies procedures/instructions; such controls normally require an authorised signature or formal approval.

- According to level of automation:
- Manual: control mechanisms directly executed by people.
- Semi-automated: control mechanisms executed by people and validated by “IT support” or vice-versa.
- Automated: control mechanisms with “IT support”.

The quarterly self-assessment process carried out by the ICFR unit allows the Organisation to confirm the validity of the description of these controls by the people responsible, identifying any updates (new process controls, elimination, automation, etc.).

At the end of 2017, there were 271 ICFR process controls, approximately 15% of which were automated.

### *Operating activities*

In addition to the controls we have mentioned above, when designing the ICFR subcycles a series of operating activities are defined to establish a flow chart showing how these impact financial reporting. Likewise, these activities are included in a corporate IT tool which establishes the models for the ICFR subcycles.

At 31 December 2017 there were 814 operating activities, approximately 12% of which were automated.

F.3.2 Internal control policies and procedures for Information Technology (IT) systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

IT systems play an important role and are configured to support the preparation, processing and extraction of the financial information to be disclosed. This is why they are included in the ICFR actions and configuration.

All actions concerning information systems are regulated in the Cybersecurity Policy which defines the principles to effectively manage information security in the IT systems, as well as the assets involved in the processes.

Based on the principles of this policy, Enagás has designed the General Rules for Management of IT Systems establishing the responsibilities and the relationship between the requesting units and the IT Systems Department.

We also have General Computer Controls (GCCs). These provide a control framework designed to offer a reasonable level of security in IT systems used for financial reports, guaranteeing, to the greatest degree possible, that the information is confidential, available and complete. At 31 December 2016, there were 46 General Computer Controls covering five control areas:

- Management and Planning
- Physical and logical security
- Application development and maintenance
- Infrastructure development and maintenance
- Fraud prevention and detection

Here we would note that within the Infrastructure Development and Maintenance area is the GCC relating to the Business Continuity and Disaster Recovery Plan.

The objectives established within the framework of General Computer Controls help achieve control objectives related to the processing of computer generated information, through the defining, development, implementation and reviewing of control activities such as user and authorisation management, administrator

management, access control, incident management, change management, business continuity, information storage and recovery, operations monitoring, etc.

Integral to the objectives of control of IT systems is the need to establish an appropriate segregation of duties, which is a prerequisite for an ICFR system to function efficiently and effectively. It is therefore of vital importance that there is a clear distinction between who has to execute actions related to the treatment of financial information, and who has to review and/or approve them. For this reason, correctly allocating profiles, both in IT systems and in terms of positions and functions, is critical to the success of the process.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Enagás is particularly vigilant about any activities carried out by third parties which may significantly impact the financial statements to ensure maximum control over key procedures that may be outsourced, and that the activities are carried out to a standard that the Group demands.

The internal rules regulating this can be found in Identification and Treatment Procedures for Service Organisations.

The Group also has the following regulations and internal procedures regulating the contracting process and ensuring quality control of third parties:

- The General Management Regulations pertaining to Supplier Selection and Contracting
- The Purchase Management Procedures
- The Supplier Accreditation Procedure
- The Procedure for Ensuring Supplier Reliability

When the Organisation engages the services of independent experts for appraisal, calculation or valuation services, we request that they certify they are reputable firms in their field and are independent. This helps ensure that the Group's management is able to supervise and take the ultimate decisions on the estimate processes which may impact accounting records.

#### **F.4 Information and communication**

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Accounting, Consolidation, and Accounting Policy Management, which reports to the Finance Department is responsible for keeping all accounting policies regularly updated and communicating these to all personnel involved in the financial reporting process.

It has therefore drawn up the Accounting Policy Manual (PGC) and the Accounting Policy Manual (IFRS), internal documents which outline all procedures and the accounting policies required for performing accounting estimates and preparing the company's Separate and Consolidated Financial Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows. Those employees involved in the process are informed of any updates to the policies via the Intranet.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the Entity or Group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The preparation, review and approval of all financial information in standard format is regulated by the Period-end procedures for the Individual Financial Statements and Annual Accounts and the "Period-end procedures for the Consolidated Financial Statements and Annual Accounts", as well as the Accounting Policy Manual (PGC) and the Accounting Policy Manual (IFRS), which serve as guides to carrying out these tasks.

Furthermore there is a specific mechanism for the process of preparing the financial statements and accompanying notes, where the Audit and Compliance Committee, as a Board Committee, takes on a special relevance, overseeing this process (e.g. monitoring the supervision work of the Internal Audit unit, being cognisant of the internal control systems as well monitoring the work performed by the external auditor) before the financial statements are certified by the Board of Directors. The functions of the Audit and Compliance Committee in this regard are detailed in article 7 of the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries.

The Group has an IT tool to record and treat all financial information which satisfies the needs of both individual and consolidated reporting.

## F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

In this context, one of Enagás' top priorities is to take a proactive, and thereby preventative role during a phase of constantly overseeing the model, to ensure that the model is updated and aligned with both the business and the best regulatory practices.

Constant analysis of and following up of ICFR, detecting possible flaws and making sure the corresponding improvements and adjustments are achieved by taking the following measures:

- A regular evaluation of the design and effectiveness of current anti-fraud programmes and controls. Its scope and frequency depends on the importance of the associated risk and the demonstrated effectiveness of the controls in place.
- The participation of the Internal Audit Department, through the supervision functions attributed by the ICFR model through the General Internal Audit Regulations, the Enagás Group ICFR Manual and the Rules and Regulations of the Audit and Compliance Committee of Enagás, S.A. and Subsidiaries.
- Effective supervision by the Audit and Compliance Committee, relative to overall control of the ICFR model, delegated by the Board of Directors, and instrumented by Internal Audit.
- Reporting on weaknesses found, taking corrective measures to solve them, establishing mechanisms to track them and assigning the necessary resources to achieve them, according to the instructions in the ICFR Manual.
- Finally, once finalised, and subsequent to the implementation of the proposed measures, a design and final validation process will be undertaken, which will eventually be incorporated into the ICFR model.
- Key throughout this oversight process is the function of Internal Audit which, as set out in the General Internal Audit Regulations, is responsible for:
- Collaborating with the Audit and Compliance Committee in fulfilling its duties, particularly with regard to the supervision of the internal control system and the risk control and management process, to relations with the external auditor and to supervision of the financial information preparation process.

- Participating in the review of the Internal Control over Financial Reporting (ICFR) system established by the company for its subsequent certification.

In order to ensure that these objectives are met, there is an Annual Internal Audit Plan, which is overseen and approved by the Audit and Compliance Committee, and includes a review of the ICFR system.

The Group's management conducted an internal assessment of the ICFR system and concluded that the system in place for Enagás, S.A. and Subsidiaries at 31 December 2017 is effective and contains no significant deficiencies.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's Senior Management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 7 of the Regulations of the Audit and Compliance Committee of the Enagás, S.A. Board of Directors details the objectives and functions of the Committee, including ensuring that the auditor, the Internal Audit function and other experts can inform Senior Management and the Board of Directors, of any significant internal control weaknesses encountered during their review of the financial statements or other assignments. These reports are made after each review task has been completed. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Committee is also in charge of supervising compliance with the Internal Code of Conduct in Matters Relating to Securities Markets. The reports on the activities of the Audit and Compliance Committee contain important information about communication procedures and the conclusions reached at the end of each year.

## F.6 Other relevant information

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

## F.7 External auditor review

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has voluntarily subjected its ICFR to review since 2008. All reviews have been carried out by the auditor of Enagás, S.A. and Subsidiaries.

The report for 2017 is attached.

## G. Degree of implementation of corporate governance recommendations

This indicates the degree to which the recommendations of the Good Governance Code of publicly traded companies are implemented.

In the case where a recommendation is not implemented or only partially implemented, a detailed explanation of the reasons for this is to be included so that shareholders, investors and the market in general have sufficient information in order to evaluate the company's course of action. General explanations are not acceptable.

1. The Articles of Association of publicly traded companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Cumple                      Explique    X

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

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

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, dated 28 July, on the Securities Market, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Act 24/1988, 28 July.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties.” Meanwhile, section 3 of Additional Provision 31 of this law states that:

“The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by article 66 of Act 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system”.

Meanwhile, article 6 bis of the company's Articles of Association (“Limitations on holdings in share capital”) establishes that:

“No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas

sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation."

2. When a dominant and subsidiary company are stock market listed, they should provide detailed disclosure on:

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
- b) The mechanisms in place to resolve possible conflicts of interest.

Compliant                      Partially compliant                      Explain                      Not applicable      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) Reviews of the operation of the Audit Committee and the Appointments and Remuneration Committee.



c) Audit Committee report on third-party transactions.

d) Report on corporate social responsibility policy.

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 X 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 X Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the Director class to which they belong, in the case of Proprietary Directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a Board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Compliant  Partially compliant Explain

19. The Annual Corporate Governance Report, with prior verification by the Appointments, Remuneration and CSR Committee is to provide an explanation for the reasons Proprietary Directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary Directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They shall also do so, in the appropriate number, when that shareholder reduces their stake to a level requiring a reduction in the number of its Proprietary Directors

Compliant  Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of Independent Directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant  Explain

22. Companies are to stipulate rules obliging Directors to inform of and, as the case may be, resign in situations that may harm the credit and reputation of the company. In particular, they are to inform the Board of Directors of any criminal cases for which they are under indictment, and of their subsequent legal proceedings.

Once a Director is indicted or tried for any of the crimes stated in the Corporate Enterprises Act, the Board shall examine the matter and, in view of the particular circumstances, decide whether or not the Director shall be called on to resign. The Board of Directors is to provide a reasoned account of such events in the Annual Corporate Governance Report.

Compliant  Partially compliant Explain

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The Independent Directors and other Directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a Director.

Compliant          Partially compliant          Explain          Not applicable    X

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   X          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   X          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   X          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   X          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   X          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   X          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 Lead Independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or vice chairmen give voice to the concerns of non- executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant X Partially compliant Explain Not applicable

35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant X Explain

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the Board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- d) The performance of the Chairman of the Board of Directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the Chairmen of Board Committees.

The evaluation of Board Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant X Partially compliant Explain

37. When an executive committee exists, its membership mix by Director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.

Compliant Partially compliant Explain Not applicable X

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.

Compliant Partially compliant Explain Not applicable X

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by Independent Directors.

Compliant X 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 X Partially compliant Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant X 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) Actively participate in the preparation of the risk strategy and in important decisions about its management.
- c) Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the board of directors.

Compliant X Partially compliant Explain

47. [Members of the Appointments and Remuneration Committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.](#)

Compliant X Partially compliant Explain

48. [Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.](#)

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

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

Compliant Explain X Not applicable

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

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

Compliant X Partially compliant Explain

50. [The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:](#)

- a) Propose to the Board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) To verify information on remuneration of directors and senior executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

Compliant 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) To monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
- f) To monitor and assess the processes of liaising with different stakeholders.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant X 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 Partially compliant Explain

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant 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 18 March 2016 passed a three-year long-term incentive plan (2016-2018) with payment based on the fulfilment of the objectives and metrics established in the plan. For Executive Directors, this incentive may result, at most, in the delivery of shares representing 150% of their annual remuneration (50% per year). This is the first long-term incentive provided by the company in years and is for a limited amount. When other plans are adopted, the limit proposed in this recommendation (of not transferring shares equivalent to twice their annual fixed remuneration) will be considered.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Compliant 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 the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or Group, explain briefly.

- 2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

- 3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This report includes the following Appendices in an attached document.

APPENDIX I. - Clarification notes.

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

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

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

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

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

Yes                      No                      X

# H. Other information of interest:

## APPENDIX I.-

### Explanatory notes

#### Explanatory notes on section A.2.-

The list of direct and indirect holders of significant stakes set out in section A.2 of this Report includes those significant shareholders who on 31 December 2017 qualified as such in the relevant official register of the Spanish National Securities Market Commission (CNMV). The foregoing is independent of the question of whether or not the issuer received timely notice from any relevant shareholder in pursuance of article 23 of Royal Decree 1362/2007, of 19 October.

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

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

#### Explanatory note on section A.3.-

The table for this section uses information published in official CNMV records, in accordance with the communication filed by the company's Directors.

#### Explanatory note on section A.5.-

Regarding dividends paid by Enagás to the significant shareholders referred to in section A.5 of this Report, note:

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

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

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

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

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

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

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

## Explanatory notes on section A.7.-

At the date of preparation of this Report, SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), in addition to having a seat on the Board, also had a significant holding (5%) in the share capital of Enagás, S.A.

SEPI cannot exercise control over Enagás, S.A. as it is not in any of the circumstances set out in Article 4 of the Spanish Securities Market Act 24/1988, of 28 July (LMV).

Accordingly, no individual or legal person exercises or could exercise control over Enagás, S.A. in accordance with Article 4 of the LMV.

## Explanatory note on section A.8.-

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

## Explanatory note on section A.10.-

Further text of section 2 of the thirty-first additional provision of the Hydrocarbons Sector Law 34/1998, of 7 October (LSH):

(...)“For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by Article 4 of the Securities Markets Act [Act 24/1988], stakes shall be attributed to one and the same individual or legal person when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or legal person in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of the LMV”.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limit on interests in the share capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or legal persons found to be the owners of the securities or whoever the excess interest in the share capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties.” Meanwhile, section 3 of Additional Provision 31 of this law states that:

“The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by Article 66 of Act 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system”.

## Restrictions under the company's Articles of Association:

In accordance with the aforementioned legal provision, article 6a bis of Enagás, S.A.'s Articles of Association ('Limitations on holdings in share capital') establishes that:

"No individual or legal person may hold a direct or indirect stake of more than 5% in the equity capital of the company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or legal persons that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the company of over 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical management of the system, which are regulated businesses under Hydrocarbons legislation".

## Explanatory note on section C.1.3.-

The following is included in the profile given for Ms Ana Palacio Vallelersundi:

- Vice-president and member of the AREVA Executive Committee (2008-2009)
- Senior vice-president and General Director of the World Bank Group (2006-2008)
- Secretary General of the International Center for Settlement of Investment Disputes (2006-2008)
- Member of Parliament, President of the Mixed Parliamentary and Senate Committee for the EU (2004-2006)
- Spain's first woman Minister of Foreign Affairs (2002-2004).
- Member of the Presidium of the Convention for the Future of Europe: participated in the drafting and legal discussions on the European Constitution project (2001-2003).
- Member of the European Parliament, Chair of the Legal Affairs and Internal Market, Citizen Rights, Justice and Internal Affairs Committees, and Chair of the Conference of Committee Chairmen (1994–2002).

## Explanatory note on section C.1.10.-

The Chief Executive Officer, Mr Marcelino Oreja Arburúa, has been delegated the following powers:

### A) 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

5. and administrators, appoint representatives; accept and reject debtors' proposals and appoint members of conciliation bodies.

6. 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.



7. Enter into contracts of any kind with central, regional, provincial and local government authorities and executive agencies and, in general, with any private individual or legal entity in the public or private sectors, including contracts for works, supplies and services (excluding regasification, gas transmission and storage, and gas supply contracts); arrange auctions, calls for bids, competitive tendering, direct procurement or any other legal form of procurement; sign proposals and procurement specifications, award contracts and accept contract awards, sign the related contracts and any public and private documents that may be required for their formalisation, fulfilment or performance and discharge.
8. 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.
9. 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.
10. Lease property as the lessor or lessee thereof.
11. Enter into finance lease agreements, subject to such terms and conditions as he may freely determine.
12. 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.
13. 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.
14. 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.
15. 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.
16. 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.
17. With regard to proceedings for compulsory purchase, imposition of rights of way and temporary occupation governed by the Law and Regulations on Compulsory Purchase that are instituted by the company granting power of attorney for the construction of gas pipelines, networks and branches and ancillary installations, they may:
  - a) Formulate requests and petitions, request and respond to certificates and summonses of all kinds, request affidavits, certificates and certified copies in which the company has an interest, in dealings with private individuals and legal entities in the public or private sectors, without any exception.
  - b) Make and withdraw deposits of any kind, including cash, at public entity depositaries of any kind and those held by private individuals or legal entities, at any of their offices and agencies.
  - c) Attend the drawing up of official records of facts and events prior to and after the completion of compulsory purchase actions.

- d) Group together, aggregate, segregate and divide real estate, making the filings relating thereto with the relevant Property Registers.
  - e) Arrange for the imposition of rights of way and title restrictions and for the acquisition and occupation by mutual agreement of property and rights affected by the laying of gas pipelines, their networks and branches and ancillary installations, fixing prices and conditions.
  - f) Discharge or redeem any charges or liens affecting the properties, fixing the price and conditions of such redemption.
  - g) Authorise and as appropriate empower by granting power of attorney to such persons as he considers appropriate to represent the company at the official recording of facts and events prior to and at the time of the occupation of properties affected by compulsory purchase proceedings.
  - h) 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.
  - i) 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.
  - j) 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.
17. 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.
  18. 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.
  19. Acquire and dispose of intellectual and industrial property rights.
  20. Organise, direct and inspect all of the company's services and installations and verify audits of company funds.
  21. 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.
  22. Grant loans and credits to company staff and agree subsequent renewals, alterations, subrogations and cancellations thereof.
  23. 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.
  24. 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.
  25. 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.

26. 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.
27. 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.
28. 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.
29. 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.
30. 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.
31. Grant such powers of attorney as he considers necessary, being able to confer each and every one of the aforementioned powers granted hereunder or part of them on such person or persons as he considers appropriate. He may also revoke the powers granted by the Board of Directors, by himself or by other company bodies.

## **B) Jointly.**

1. Enter into all types of banking arrangements including: factoring, leasing, lease financing, reverse factoring and any other similar banking arrangements with any Spanish or foreign bank, including the Bank of Spain and the branches thereof, the European Investment bank, the Spanish Official Credit Institute, registered savings banks, savings banks, post office savings banks, the Confederation of Spanish Savings Banks, the General Deposit Fund or any other similar Spanish or foreign trading, transfer, exchange or credit institution.
2. Open, monitor, cancel or drawn down from ordinary current accounts or credit, sight or fixed-term deposit accounts, secured through a security interest, personal guarantee, pledged securities or trade notes, with or without a guarantee.
3. With regard to ordinary current accounts or credit, sight or fixed-term deposit accounts opened on behalf of the company, write personal cheques, issue bank drafts, issue bank cheques, perform bank transfers or use any other accepted payment system or mechanism; pay in or withdraw voluntary or required amounts and deposits of cash or securities, signing any documentation required to perform such transactions.
4. Issue, cash, accept, endorse, receive, sign, intervene, challenge, pay and negotiate any type of bills of exchange, letters of credit, non-credit or credit facilities, promissory notes, cheques and other bank bills, commercial bills, bank giros, or bills of exchange.
5. Obtain and award loans or credits, with or without collateral or personal guarantees, including the pledging of securities, and arrange subsequent renewals, amendments and subrogations. Acquire and extend credits.
6. Request, cancel and withdrawn personal and collateral-backed sureties, guarantees and payment bonds.
7. Enter into discounting arrangements for promissory notes issued by the company with banks and financial institutions authorised to perform discounting, and enter into loan or other financing arrangements represented by promissory notes with these entities; contract agency services to facilitate such financing arrangements.
8. Buy and sell shares, debentures, bonds, stakes and any other type of security or instrument, and collect any yield from these.

9. Pay in bearer cheques paid to the company, signing the reverse, for the sole purpose of paying them into the current accounts held with the Bank of Spain, and other banks, credit institutions and savings banks.
10. Arrange transfers between current and credit accounts or loan accounts set up in the company's name through bank transfers, bank cheques or any other accepted payment system or mechanism in all types of banks, including the Bank of Spain, savings banks and other credit institutions, both Spanish and foreign.
11. Award and accept loans to/from subsidiaries and affiliates and the parent company.
12. Make payments to settle invoices for gas purchases and settle taxes by personal cheque, bank giro or transfer, bank cheque or any other accepted payment system or mechanism from ordinary current accounts and credit, sight or fixed-term deposit accounts opened by the company, to which end any type of document may be signed.
13. Sign any public or private documents that may be necessary in order to jointly exercise the powers granted hereunder as effectively as possible.

The powers described in this section can only be exercised jointly with one of the authorised signees stipulated in the deed of powers of attorney executed before the notary of Madrid Pedro de la Herrán Matorras on 28 May 2014 with number 1,306 of his notarial archive and registered as entry 777 in the record of Company M-6113. The terms of these powers of attorney are as follows:

- Jointly with another authorised signee from Group B or from Group A, up to a limit of 30,000 thousands of euros, except for power of attorney 12, jointly with another signee from Group B or from Group C.
- Jointly with another authorised signee from Group C up to a limit of 20,000 thousands of euros.

### Explanatory note on section C.1.11.-

The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS, S.A., a company that is not part of the Enagás Group and in which Enagás GTS, S.A.U. holds a 13.33% stake. The Director Mr Marcelino Oreja Arburúa also holds the position of Director of MIBGAS Derivatives, S.A., a company that is not part of the Enagás Group and in which Enagás SA, S.A.U. holds a 19.4% stake.

### Explanatory note on section C.1.12.-

SEPI has representation on the Board of Directors of the listed company EBRO FOODS, S.A. through ALYCESA (a 91.96%-owned subsidiary of SEPI).

### Explanatory note on section C.1.16.-

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

### Explanatory note on section C.1.17.-

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

## Explanatory note on section C.1.19.-

### Duration in charge and co-optation:

Article 10 of the Regulations of the Board of Directors stipulates that Directors may hold office for a period of four years, and may be re-elected for similar periods. Directors appointed by co-option will perform their duties until the date of the first General Meeting, or until the date of the following meeting, if the vacancy arises after the General Meeting has been convened and before it is held.

### Re-election of Directors:

Article 11 of the Regulations of the Board stipulates that the Appointments, Remuneration and CSR Committee, responsible for evaluating the quality of work and dedication to their offices of the Directors proposed during the previous term of office, shall provide the information required to assess proposals for re-election of non-Independent Directors presented by the Board of Directors to the General Meeting and proposals for the re-election of Independent Directors.

Proposals for re-election shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the candidate. This report shall be attached to the minutes of the General Meeting or of the Board.

As a general rule, appropriate rotation of Independent Directors should be ensured. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified.

### Removal and dismissal:

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Articles of Association and these Regulations (Article 12.1 of the Regulations of the Board).

The Board of Directors shall not propose the removal of any independent Director prior to the end of the period mandated by the Articles of Association for which they have been appointed, unless there are due grounds acknowledged by the Board following a report from the Appointments, Remuneration and Corporate Social Responsibility Committee. In particular, it shall be understood that there is just cause when the Director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of Director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law (art. 12.3 of the Regulations of the Board).

## Explanatory note on section C.1.37.-

As disclosed in note 4.6 c) to the financial statements, Law 22/2015 on the Audit of Accounts establishes that non-audit services provided by the auditor must be less than 70% of the average fees paid for audit services for three consecutive years. The amount of non-audit services rendered by the auditor of accounts (Ernst & Young, S.L.) amounts to 18% of the audit service fees invoiced during 2017 (17% for the Group).

## Explanatory note on section C.2.1.-

### Audit and Compliance Committee (Continued):

The duties and responsibilities of the Audit and Compliance Committee are:

- a) With regards to the financial statements and other accounting information
- Overseeing the preparation and presentation of financial information on the company and the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
  - Examining the information on the company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.
  - Reporting to the Board of Directors on recommendations or comments it deems necessary on the application of accounting criteria, internal control systems and any other relevant matter, and in particular, to present recommendations or proposals to the Board of Directors to safeguard the integrity of such financial information.
  - Informing the Board with regard to the annual financial statements and any other information that must be regularly disclosed prior to these being drawn up.
  - Ensuring that the Board of Directors endeavours to present the financial statements in such a way that there are no grounds for limitations or qualifications by the company's Accounts Auditor.
  - The Board of Directors must properly explain any departure from the Audit and Compliance Committee's prior Report in the financial statements finally authorised for issue.
  - Assessing any proposals made by senior managers regarding changes in accounting practices.
- b) Competencies relating to legality
- Reporting to the Board of Directors prior to it approving the creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a similar nature that, by their nature, might impair the transparency of the company or the Group.
  - Reporting to the Board of Directors prior to transactions with related parties, pursuant to article 14 Bis of the Regulations of the Board.
  - Receiving and analysing information on the fiscal criteria applied by the company during the year, particularly with regard to the degree of compliance with corporate tax policy, prior to the preparation of the annual financial statements.
- c) Competencies with regard to the Internal Audit unit
- Ensuring the independence of the unit that performs internal audit functions, which reports functionally to the Chairman of the Committee. It also ensures the smooth running of internal control and information systems submitting recommendations and proposals to the Board of Directors, with related monitoring periods, as it deems appropriate.
  - The head of the unit responsible for the internal audit function shall present an annual work programme to the Committee, and report on any incidents arising during its implementation, and shall submit an activity report at the end of each year.

- Ensuring the unit has sufficient resources and suitably qualified personnel for optimum performance of the function.
- Approving the Internal Audit Plan and related work plans, and proposing the annual budget for this, ensuring that activity focuses mainly on the most significant risks facing the company.
- Supervising the company's Internal Audit services, receiving regular information on its activities and verifying that senior management takes its conclusions and recommendations into account.
- Making proposals to the Board of Directors on the selection, appointment, re-election and removal of the head of Internal Audit.

d) Competencies relating to the relationship with the external auditor

- With regard to the appointment, re-election and replacement of the external auditor:
  - Taking responsibility for the selection process, pursuant to applicable legislation.
  - Reporting on the remuneration of the external auditor and other contract conditions.
  - Proposing the appointment, re-election or replacement of the external auditors of the Enagás Group to the Board of Directors for presentation to the General Shareholders' meeting.
  - As applicable, ensuring that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- With regard to the independence of the external auditor and absence of causes for prohibition and incompatibility:
  - Establishing appropriate relations with the External Auditor for the receipt of information on issues that might represent a threat to its independence and any other issues related to the audit process, and any safeguards to be adopted, discussing any significant weaknesses in internal control systems identified in the audit process, without in any way impinging on its independence.
  - Receiving other communications as set down in auditing legislation and audit standards.
  - Authorising services other than those that are prohibited, in accordance with applicable legislation.
  - 
  - Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
  - Ensuring that the fees of the External Accounts Auditor do not threaten its quality and independence, and are not based on any form of contingency.
  - In the event of resignation of the Accounts Auditor, the Committee should investigate the issues giving rise to the resignation.
  - Receiving the annual statement from the External Auditor on their independence with respect to the Enagás Group (included in the delivery of the supplementary report) or entities directly or indirectly related to it, in addition to detailed and individual information on additional services of any kind rendered to these entities by the External Auditor or by persons or entities related to it, in conformity with audit regulations.
  - Issuing an annual report, prior to the issue of the audit report, giving an opinion on whether the independence of the auditors is compromised. This report shall in all cases include a reasoned assessment of each additional service rendered, as referred to in the previous section, that could 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**

- To oversee the effectiveness of risk control and management systems in order to mitigate risks adequately, in the framework of the company's internal policy. To submit recommendations or proposals to the Board of Directors to improve these systems along with the corresponding deadline with dealing with them.  
In particular, the company shall have a risk control and management unit, supervised by the Audit and Compliance Committee, which shall, among other functions, ensure the proper functioning of the risk control and management systems and, in particular, identify, manage and adequately quantify all material risks affecting the company; actively participate in the development of the risk strategy and major decisions on its management; and ensure that the risk control and management systems adequately mitigate risk under the policy defined by the Board of Directors.
- To assess the company's risks and examine the analyses of risks that affect the business, which are set out in the internal risk policies. This periodic information is prepared in accordance with internal rules, including the identification, measurement and establishment of management measures for the key risks affecting the company.
- To disclose to the Board of Directors any risks uncovered, with an assessment thereof, and any key issues concerning risks.

**f) In relation to Corporate Governance**

- Reporting in advance to the Board of Directors on structural and corporate changes that the company plans to carry out, their economic conditions and their accounting impact and, in particular, where appropriate, the proposed exchange ratio.
- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Rules and Regulations of the Audit and Compliance Committee and the company's governance regulations in general, and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee liaises with the Appointments, Remuneration and CSR Committee in considering company Directors' and managers' compliance with the Code.
- Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.
- Supervising a whistle-blowing mechanism enabling employees to report - confidentially and anonymously
- any potentially significant incidents they identify in the company, particularly with regard to financial and
- Accounting issues, whilst respecting personal data protection regulations and the basic rights of the parties involved.
- Preparing an annual report on the work of the Audit and Compliance Committee that will form part of the Corporate Governance Report.
- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning information transparency and conflicts of interests.



**g)** Competencies relating to the Compliance function

- Ensuring the independence of the compliance function.
- Ensuring that the compliance unit performs its mission and competences with regard to regulatory compliance and the prevention and correction of behaviour that is illegal or fraudulent or otherwise breaches the Enagás Group Code of Ethics.
- Ensuring that the compliance unit has the human and material resources needed for optimum performance of its functions.
- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Compliance.

**h)** In relation to shareholders

- Providing information on issues within the scope of its duties at the General Meeting.

### **Appointments and Remuneration Committee (Continued):**

The duties and responsibilities of the Appointments and Remuneration Committee are:

- To evaluate the competencies, knowledge and experience required on the Board of Directors. To this end, it shall determine the functions and capacities required of the candidates to fill each vacancy, and evaluate the precise amount of time and degree of dedication necessary for them to effectively perform their duties, while overseeing that the Non-Executive Directors have sufficient time available to properly perform their functions.
- To review the structure of the Board of Directors, the criteria for the renewal of Directors required under the Articles of Association, the addition of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that the Committee considers necessary.
- To establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- To forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- To report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- To report on the appointment and dismissal of the Secretary and Vice secretary of the Board of Directors.
- To report on proposed appointments and removals of senior management and the basic terms of their contracts.
- To examine and organize the succession of the Chairman of the Board of Directors and CEO of the company and, if appropriate, to make proposals to the Board to ensure the succession is smooth and well-planned.
- To draw up and review the criteria that must be utilized for the composition of the Board and for selection of those nominated as Directors, ensuring that their access to the Board does not affect the company's status as technical transmission operator, pursuant to the provisions of regulations applicable concerning hydrocarbons.

The Committee shall verify on an annual basis compliance with the selection policy of Directors of the company approved by the Board of Directors.

- To formulate proposals to the Board of Directors regarding the company's organizational structure, including the creation of senior management posts in order to achieve improved and more efficient company administration.
- To propose to the Board of Directors a policy of remuneration of Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to the Chairman, to executive committees or Chief Executives, along with individual remuneration and other terms of Executive Directors' contracts, ensuring that said policy is abided by. To this end, the committee will periodically review the remuneration policy for Directors and senior management and ensure that their individual remuneration is proportional to that paid to the other Directors and Senior Management of the company.
- To propose a general remuneration policy for Enagás management, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has suitable highly qualified staff for administering its business at all times, proposing to the Board the basic conditions of their contracts.
- To verify information on remuneration of Directors and senior management contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- To ensure that any conflicts of interest do not impair the independence of external advisers to the Committee on remuneration.
- To report to the Board on general policy concerning Corporate Social Responsibility and Corporate Governance, ensuring the adoption and effective application of best practices – both those which are compulsory and those that are in line with generally-accepted recommendations. To this end, the Committee shall be responsible for the following functions:
  - a) To submit to the Board the initiatives and proposals it deems appropriate and provide information on proposals submitted to the Board and information the company releases to shareholders annually regarding these issues.
  - b) To monitor compliance with the rules of corporate governance of the company, periodically assessing the adequacy of the company's system of corporate governance, in order to fulfil its mission of promoting the corporate interest, and consider, as appropriate, the legitimate interests of other stakeholders.
  - c) To monitor the communication strategy and relations with shareholders and investors, including small and medium shareholders.
  - d) To monitor the corporate social responsibility strategy and practices and assess their degree of compliance.
  - e) To monitor and assess the processes of liaising with different stakeholders.
  - f) To review the corporate responsibility policy of the company, ensuring that it is aimed at creating value.

In particular, the Committee shall ensure that the policy of corporate responsibility identifies at least:

- The goals of its corporate social responsibility policy and the support instruments to be deployed.
- The corporate strategy with regard to sustainability, the environment and social issues.
- Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- The mechanisms for supervising non-financial risk, ethics and business conduct.
- Channels for stakeholder communication, participation and dialogue.
- Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

The report, which, if any, may be issued by the Committee on the company's general policy of Corporate Social Responsibility, shall be developed using any of the internationally accepted methodologies, and shall be published on the website of the company sufficiently in advance of the Ordinary General Shareholders' Meeting.

- To report to the Board of Directors on measures to be taken in the event of breach of these Board Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and Corporate Social Responsibility Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

The Committee shall consult the Chairman of the Board and Chief Executive Officer of the company, especially on matters relating to the appointment of the executive directors and the remuneration of senior management and Executive Directors. Any board member may suggest directorship candidates to the Appointments Committee for their consideration.

## Explanatory note on section D.2.-

Regarding dividends paid by Enagás to significant shareholders, excluding Directors, referred to in section D.2 of this Report, note:

On July 5th, 2017, Enagás paid **BANK OF AMERICA CORPORATION** a final dividend for 2016 of 7,195 thousands of euros, as approved by the General Shareholders' Meeting. Additionally, in December 2017, a 5,039 thousands of euros interim dividend against 2017 earnings was paid. The total dividend paid therefore stands at 12,232 thousands of euros.

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

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

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

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

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

## Explanatory note on section D.3.-

Regarding dividends paid by Enagás to Directors who are significant shareholders, as referred to in section D.3 of this Report, note:

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

The remuneration received by the Board of Directors in 2017 is set out in the Annual Directors' Remuneration Report, which will be made available to shareholders at the time of the publication of the call notice for the 2018 General Shareholders' Meeting.

## Explanatory note on section D.4.-

The criteria used by Enagás for reporting information on significant operations carried out by the company with other entities in the same group is as follows:

1. Significant operations with other entities in the group shall be reported provided that they are not eliminated in the 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 **48,604 thousands of euros**, and for the item Services rendered, the company invoiced for **7,563 thousands of euros**, an amount which was not included in D.4 of this report because it involved operations that were part of the ordinary traffic of Enagás, S.A. and its Group in terms of object and conditions.

## Explanatory note on section D.5.-

The amount from related party transactions is obtained from the following breakdown:

Group Entity	Related Party	Item	Amount (€ thousand)
Enagás S.A.	Banco Santander, S.A.	Finance cost	3,654
Enagás Internacional S.L.U.	Banco Santander, S.A.	Finance cost	4,605
Enagás Financiaciones, S.A.U.	Banco Santander, S.A.	Finance cost	456
<b>Total finance cost, other related parties</b>			<b>8,715</b>
Enagás, S.A.	Banco Santander, S.A.	Agent Services	15
Enagás Transporte S.A.U.	Banco Santander, S.A.	Vehicle leasing	120
Enagás Internacional S.L.U.	Newcomer 2000, S.L.U.	Services received	72
<b>Total services received, other related parties</b>			<b>207</b>
Enagás S.A.	Banco Santander, S.A.	Sureties	130,212
<b>Guarantees and sureties received, other related parties</b>			<b>130,212</b>
<b>Total transactions with other related parties</b>			<b>139,134</b>

## Transactions with BANCO SANTANDER, S.A.-

### Finance costs:

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

### Guarantees and sureties:

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

### Receipt of services:

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

Services received from Banco Santander				
Item	Amount	Price policy	Payment terms	Guarantees
Agency commission	15	-	-	-

### Receipt of services:

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

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

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

### Receipt of services:

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

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

## APPENDIX II

### Report on the Activities of the Audit and Compliance Committee, 2017



# **Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2017**

Audit and Compliance committee  
February 19<sup>th</sup>, 2018

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## Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2017

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

### 1. Composition during 2017

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

#### President

- D<sup>a</sup> Isabel Tocino Biscarolasaga, Independent Director

#### Members

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

#### Secretary

- Mr. Rafael Piqueras Bautista.

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

- In the last General Shareholder´s Meeting on March 31, 2017, the reelection of Mr Martí Parellada as External Director was approved, having reached the maximum period of 12 years, established in article 9 of the Regulations of the Board of Directors, as Director Independent. Therefore, the recomposition of the Audit and Compliance Committee is necessary, and it is essential to appoint an Independent Director as its Chairman.
- At the meeting on April 24, 2017, when the position of Chairman of the Audit and Compliance Committee was vacant, in accordance with corporate texts for the Board of Directors (article 38), the session was chaired by the Director, Mr. Luis Valero Artola.
- The Board of Directors, dated June 19, 2017, in accordance with the best practices of Corporate Governance and on the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, agreed:
  - Appoint Mrs. Isabel Tocino Biscarolasaga, President of the Audit and Compliance Committee, in her capacity as Independent Director.
  - At the same time, the Board agrees that Mr. Martí Parellada continue to perform his duties in the Committee as External Director.
  - Finally, it is agreed that Mr Gonzalo Solana González becomes a member of the Appointments, Remuneration and Corporate Social Responsibility Committee.

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

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

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

[www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion](http://www.enagas.es/enagas/es/QuienesSomos/ConsejoAdministracion).

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

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

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

## 2. Regulation of the Audit and Compliance Committee

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

## 3. Competencies of the Audit and Compliance Committee

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

- Report at the General Shareholders' Meeting on the issues that arise in relation to those matters that fall within the competence of the Commission and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial information and the function that the Commission has played in this process.
- Oversee the effectiveness of the internal control of the Company and its Group, internal audit, and risk management systems and discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit, all it without breaking its independence. For such purposes, and where appropriate, may submit recommendations or proposals to the Board of Directors and the corresponding deadline for follow-up.

- Oversee the preparation and presentation of mandatory financial information and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of their recruitment and regularly collecting information on them the audit plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establish the opportune relations with the external auditor to receive information on those issues that may pose a threat to their independence, for their consideration by the Commission, and any other related to the process of developing the audit of accounts and, where appropriate, the authorization of services other than those prohibited, in the terms contemplated in the applicable regulations, as well as those other communications provided for in the regulations governing the activity of auditing accounts and audit standards. In any case, they must receive annually from the account auditors the declaration of their independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind provided and the corresponding fees. received from these entities by the external auditor, or by the persons or entities linked to it in accordance with the provisions of the regulations governing the activity of auditing accounts
- Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditors or audit companies is compromised. This report must contain, in any case, the motivated assessment of the provision of each and every one of the additional services referred to in the previous section individually considered and as a whole, other than the legal audit and in relation to the regime of independence or with the regulations governing account auditing
- Reporting, in advance, to the Board of Directors on all the matters set forth in the Law, the Bylaws and the Regulations of the Board and, in particular, on:
  - the financial information that the Company must periodically publish,
  - the creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and
  - transactions with related parties.

## 4. Activities of the Audit and Compliance Committee during 2017

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

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

### 4.1. In relation to Financial Information

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

#### Formulation and approval of the Enagás Financial Statements for 2016

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

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

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

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

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

Therefore, the Commission agreed to recommend to the Board of Directors of Enagás the formulation of the accounts. The Board of Directors, in its session of

February 13, 2017, following the recommendation of the Commission, formulated the accounts in the same terms that had been pointed out by the Commission.

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

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

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

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

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

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

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

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

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

## Internal Control over Financial Reporting System (ICFR).

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

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

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

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

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

It should be emphasized that during 2017, Enagás proceeded to extend the Internal Control over Financial Reporting System of the subsidiary GNL Quintero, SA, a subsidiary of the Enagás Group, as the year 2017 was the first year in which the subsidiary consolidates globally in the financial statements. During December, the GNL Quintero accounts auditor has submitted an internal report to the group's auditor, positively concluding the internal control of the subsidiary and no significant event has been detected. The report shall be integrated into the Certification presented by the auditor of the Group's accounts to the Audit and Compliance Committee at its meeting on February 19, 2018.

## 4.2. External Auditor

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

### Participation in the Commission and Board of Directors.

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

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

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

### Authorization of non-audit services.

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

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

### Reception of the letter of Independence of the Auditor EY

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

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

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

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

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

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

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

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



article 529 quaterdecies of the Capital Companies Law and article 7.d) of the Regulations of the Board.

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

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

This report concludes that:

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

#### 4.3. Related-party transactions.

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

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

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

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

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

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

#### 4.4. Internal auditor

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

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

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

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

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

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

#### 4.5. In relation to risk management and control

Competencies related to the supervision of the effectiveness of the risk management and control model, the annual monitoring of risks and the quarterly monitoring of the evolution thereof.

The Audit and Compliance Committee considers the risk control work of special relevance. On a quarterly basis, the Chief Executive Officer and the Director of Risks have informed the Commission of the state of control and risk management of the Company.

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

## 4.6. In relation to Execution

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

### Execution Model.

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

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

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

### Ethical channel

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

## 5. Information to the General meeting

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

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

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

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

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

## 7. Activities subsequent to year-end

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

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

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

For legal purposes, it is stated that this report was approved by the Audit and Compliance Committee at its meeting on February 19, 2018.

Secretary of the Board of Directors  
Rafael Piqueras Bautista  
Enagás, S.A.

## APPENDIX III

### Audit opinion on Internal Control over Financial Reporting ("ICFR"), 2017

**Independent Assurance Report on the "Information Regarding  
Internal Control over Financial Reporting (ICFR) System"**

**ENAGÁS, S.A.**

**2017**

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

## INDEPENDENT ASSURANCE REPORT ON THE "INFORMATION REGARDING THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) SYSTEM"

To the shareholders of ENAGÁS S.A.:

### Scope of the work

We have examined the accompanying information on the Internal Control over Financial Reporting (ICFR) system of ENAGÁS S.A. and subsidiaries (the "Group") contained in Section F of the Annual Corporate Governance Report for the year ended December 31, 2017.

The objective of this system is to contribute to the faithful representation of the transactions performed and to the provision of reasonable assurance in relation to the prevention or detection of any errors that might have a material effect of the consolidated financial statements.

The aforementioned system is based on the rules and policies defined by the Boards of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report.

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail, (ii) guarantee that these transactions are performed only in accordance with the authorizations established; (iii) provide reasonable assurance that transactions are recognized appropriately to enable the preparation of the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorized acquisition, use or sale of the company's assets that could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

### Directors' Responsibility

The Directors of ENAGÁS, S.A. are responsible for maintaining the System of Internal Control over Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness.



## **Our responsibility**

Our responsibility is to issue an independent assurance report on the effectiveness of the System of Internal Control over Financial Reporting (ICFR) based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the ENAGÁS' Group consolidated financial statements as at December 31, 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

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

Reasonable assurance work includes comprehension of internal control over financial information contained in the financial statements; risk evaluation regarding possible material errors within them; tests and evaluations on design and daily effectiveness of the system and the use of any other procedures we considered necessary. We consider that our audit provides a reasonable basis for our opinion.

## **Independence and quality control**

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

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

## **Conclusion**

In our opinion, at December 31, 2017, the Group had, in all material respects, an effective System of Internal Control over Financial Reporting contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by the Board of Directors of ENAGÁS, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework (2013) report. Also, the disclosures contained in section F of the Annual Corporate Governance Report at December 31, 2017 comply, in all material respects, with the requirements established by the Corporate Enterprises Act, the ECC Order /461/2013, of March 20, and Circular 7/2015, of December 22, which amends Circular 5/2013, of June 12, of the Spanish National Securities Market Commission (CNMV).

## 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.



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David Ruiz-Roso Moyano

February 19, 2018

## APPENDIX IV

Audit opinion on the Annual Corporate Governance Report,  
2017

**Independent Assurance Report on the “Information Regarding  
the Annual Corporate Governance Report”**

**ENAGÁS, S.A.**

**2017**

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

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

To the shareholders of ENAGÁS, S.A.:

### Scope of the work

We have examined with the scope of a reasonable assurance engagement the Annual Corporate Governance Report for 2017 of ENAGÁS, S.A. prepared in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, and Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12.

### Responsibility of the Board of Directors

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

The directors of ENAGÁS, S.A., are also responsible for defining, implementing, 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, 2017 of ENAGÁS, S.A. has been prepared, in all material respects, in accordance with article 540 of the Corporate Enterprises Act, ECC order /461/2013 of March 20, and Circular 7/2015, of December 22, of the Spanish National Securities Market Commission (CNMV), which amends Circular 5/2013, of June 12.

### **Other matters**

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

ERNST & YOUNG, S.L.



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David Ruiz-Roso Moyano

February 19, 2018