ENAGÁS, S.A. AND SUBSIDIARIES

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ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 30 JUNE 2018
(Thousands of euros)

ASSETS	Notes	06.30.2018	12.31.2017
NON-CURRENT ASSETS		**8,430,444**	**8,428,869**
Intangible assets	2.5	941,887	929,889
Goodwill		186,788	181,704
Other intangible assets		755,099	748,185
Investment properties		19,610	19,610
Property, plant, and equipment	2.4	5,346,996	5,501,351
Investments accounted for using the equity method	1.5	1,037,970	1,022,058
Other non-current financial assets	3.3.a	1,064,953	936,049
Deferred tax assets		19,028	19,912
CURRENT ASSETS		**1,337,499**	**1,143,767**
Non-current assets held for sale	2.6	26,068	-
Inventories		24,588	23,772
Trade and other receivables	2.2	301,173	478,887
Other current financial assets	3.3.a	7,059	6,695
Short-term accruals		6,405	6,549
Cash and cash equivalents	3.6	972,206	627,864
TOTAL		**9,767,943**	**9,572,636**

LIABILITY	Notes	06.30.2018	12.31.2017
EQUITY		**2,985,028**	**2,941,284**
SHAREHOLDERS' EQUITY		**2,599,064**	**2,585,639**
Subscribed capital	3.1.a	358,101	358,101
Reserves		2,024,169	1,879,996
Treasury shares	3.1.b	(8,219)	(8,219)
Profit for the year		219,842	490,837
Interim dividend		-	(139,241)
Other equity instruments	4.2	5,171	4,165
VALUATION ADJUSTMENTS		**8,067**	**(13,327)**
MINORITY INTEREST (EXTERNAL PARTNERS)	3.2	**377,897**	**368,972**
NON-CURRENT LIABILITIES		**5,935,546**	**6,174,709**
Non-current provisions	2.7.a	174,308	178,404
Financial debt and non-current derivatives	3.3.b	5,198,745	5,468,810
Deferred tax liabilities		488,802	485,156
Other non-current liabilities	2.8	73,691	42,339
CURRENT LIABILITIES		**847,369**	**456,643**
Financial debt and current derivatives	3.3.b	618,379	230,003
Trade and other payables	2.3	143,966	206,904
Current tax liabilities		85,024	19,736
TOTAL		**9,767,943**	**9,572,636**

Notes 1 to 4.5 to the Interim Condensed Consolidated Financial Statements constitute an integral part of the Consolidated Balance Sheet at 30 June 2018

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT AT 30 JUNE 2018
(Thousands of euros)

	Notes	06.30.2018	06.30.2017
Revenue	2.1.a	651,880	676,124
Income from regulated activities		547,471	565,960
Income from non-regulated activities		104,409	110,164
Other operating income		31,328	11,910
Personnel expenses	2.1.b	(64,134)	(64,347)
Other operating expenses	2.1.c	(124,176)	(126,023)
Amortisation/depreciation allowances	2.4 and 2.5	(154,716)	(161,679)
Impairment losses and gains (losses) on disposal of assets	2.4	(19,101)	(31)
Gain (loss) from equity-accounted investments	1.5	38,906	25,905
OPERATING PROFIT		**359,987**	**361,859**
Finance income and similar		20,446	67,352
Finance expenses and similar		(78,019)	(85,149)
Exchange differences (net)		(604)	923
Change in fair value of financial instruments		(7,593)	(930)
NET FINANCIAL GAIN (LOSS)		**(65,770)**	**(17,804)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**294,217**	**344,055**
Income tax expense		(64,019)	(66,044)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**230,198**	**278,011**
Profit attributable to minority interest	3.2	(10,356)	(8,937)
PROFIT ATTRIBUTABLE TO THE PARENT		**219,842**	**269,074**
Attributable to:			
Parent		**219,842**	**269,074**
BASIC AND DILUTED EARNINGS PER SHARE (euros)	**1.6**	**0.9221**	**1.1285**

Notes 1 to 4.5 to the Interim Condensed Consolidated Financial Statements constitute an integral part of the Consolidated Income Statement at 30 June 2018

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES
AT 30 JUNE 2018
(Thousands of euros)

	Notes	06.30.2018	06.30.2017
CONSOLIDATED PROFIT FOR THE YEAR		**230,198**	**278,011**
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		**32,880**	**(77,193)**
From companies accounted for using the full consolidation method		**18,512**	**(2,858)**
Cash flow hedges		9,965	(17,817)
Currency translation differences		10,763	10,505
Tax effect		(2,216)	4,454
From companies accounted for using the equity method		**14,368**	**(74,335)**
Cash flow hedges		(2,503)	(2,804)
Currency translation differences		16,205	(72,253)
Tax effect		666	722
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		**1,340**	**(10,360)**
From companies accounted for using the full consolidation method		**(1,811)**	**(12,588)**
Cash flow hedges		(2,477)	7,972
Currency translation differences		-	(18,575)
Tax effect		666	(1,985)
From companies accounted for using the equity method		**3,151**	**2,228**
Cash flow hedges		4,561	2,953
Tax effect		(1,410)	(725)
TOTAL RECOGNISED INCOME AND EXPENSE		**264,418**	**190,458**
Attributed to minority interest		**23,182**	**8,937**
Attributed to the parent company		**241,236**	**181,521**

Notes 1 to 4.5 to the Interim Condensed Consolidated Financial Statements constitute an integral part of the Consolidated Statement of recognised Income and Expenses at 30 June 2018

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY AT 30 JUNE 2018
(Thousands of euros)

	Share capital (Note 3.1.a)	Share premium and reserves	Other equity instruments	Treasury shares (Note 3.1.b)	Profit for the year	Interim dividend	Valuation adjustments	Minority interest (Note 3.2)	Total equity
BALANCE AT BEGINNING OF 2017	**358,101**	**1,737,183**	**1,959**	**(8,219)**	**417,222**	**(132,565)**	**74,559**	**14,696**	**2,462,936**
Total recognised income and expense	**-**	**-**	**-**	**-**	**269,074**	**-**	**(87,553)**	**8,937**	**190,458**
Transactions with shareholders	**-**	**-**	**-**	**-**	**(198,848)**	**-**	**-**	**(2,763)**	**(201,611)**
- Distribution of dividends	-	-	-	-	(198,848)	-	-	(2,763)	(201,611)
Transactions with treasury shares	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other changes in equity	**-**	**126,344**	**1,256**	**-**	**(218,374)**	**132,565**	**-**	**366,931**	**408,772**
- Payments based on equity instruments	-	-	1,256	-	-	-	-	-	1,256
- Transfers between equity accounts	-	85,809	-	-	(218,374)	132,565	-	-	-
- Differences due to changes in consolidation scope	-	39,661	-	-	-	-	-	366,931	406,592
- Other changes	-	874	-	-	-	-	-	-	874
BALANCE AT 30 JUNE 2017	**358,101**	**1,863,527**	**3,215**	**(8,219)**	**269,074**	**-**	**(12,994)**	**387,801**	**2,860,505**
BALANCE AT DECEMBER 2017	**358,101**	**1,879,996**	**4,165**	**(8,219)**	**490,837**	**(139,241)**	**(13,327)**	**368,972**	**2,941,284**
- Adjustments due to initial application of new accounting standards **(Note 1.9)**	**-**	**2,176**	**-**	**-**	**-**	**-**	**-**	**(10,340)**	**(8,164)**
BALANCE AT BEGINNING OF 2018	**358,101**	**1,882,172**	**4,165**	**(8,219)**	**490,837**	**(139,241)**	**(13,327)**	**358,632**	**2,933,120**
Total recognised income and expense	**-**	**-**	**-**	**-**	**219,842**	**-**	**21,394**	**23,182**	**264,418**
Transactions with shareholders	**-**	**-**	**-**	**-**	**(208,862)**	**-**	**-**	**(3,943)**	**(212,805)**
- Distribution of dividends	**-**	-	-	-	(208,862)	-	-	(3,943)	(212,805)
Other changes in equity	**-**	**141,997**	**1,006**	**-**	**(281,975)**	**139,241**	**-**	**26**	**295**
- Payments based on equity instruments	**-**	-	1,006	-	-	-	-	-	1,006
- Transfers between equity accounts	**-**	142,734	-	-	(281,975)	139,241	-	-	-
- Differences due to changes in consolidation scope	**-**	-	-	-	-	-	-	-	-
- Other changes	-	(737)	-	-	-	-	-	26	(711)
BALANCE AT 30 JUNE 2018	**358,101**	**2,024,169**	**5,171**	**(8,219)**	**219,842**	**-**	**8,067**	**377,897**	**2,985,028**

Notes 1 to 4.5 to the Interim Condensed Consolidated Financial Statements Constitute an integral part of the Consolidated Statement of Total Changes in Equity at 30 June 2018

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS AT 30 JUNE 2018
(Thousands of euros)

	Notes	06.30.2018	06.30.2017
PROFIT BEFORE TAX		**294,217**	**344,055**
Adjustments to consolidated profit		**187,275**	**157,818**
Amortisation/depreciation of fixed assets	2.4 and 2.5	154,716	161,679
Other adjustments to profit		32,559	(3,861)
Change in operating working capital		**139,730**	**123,721**
Inventories		(816)	(514)
Trade and other receivables		210,709	135,319
Other current assets and liabilities		(64,203)	(15,140)
Other non-current assets and liabilities		(5,836)	4,356
Trade and other payables		(124)	(300)
Other cash flows from operating activities		**(107,692)**	**(103,673)**
Interest paid		(93,510)	(97,843)
Interest received		16,983	15,666
Income tax receipts (payments)		(30,170)	(31,483)
Other cash inflows/(outflows)		(995)	9,987
NET CASH FLOWS FROM OPERATING ACTIVITIES		**513,530**	**521,921**
Payments for investments		**(103,263)**	**(343,995)**
Subsidiaries and associates	1.5	(88,346)	(94,044)
Fixed assets and real estate investments	2.4 and 2.5	(14,917)	(23,053)
Other financial assets		-	(226,898)
Proceeds from disposals		**1,190**	**141,966**
Subsidiaries and associates		1,190	141,966
Other cash flows from investing activities		**42,785**	**82,963**
Other receipts (payments) from investing activities	1.5	42,785	82,963
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(59,288)**	**(119,066)**
Receivables (and payments) for financial liabilities		**(113,346)**	**(309,194)**
Issues		3,399,416	4,590,718
Repayment and redemption		(3,512,762)	(4,899,912)
Dividends paid		**(3,306)**	**(2,455)**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(116,652)**	**(311,649)**
EFFECT OF CHANGES IN CONSOLIDATION METHOD		**-**	**243,092**
Net foreign translation difference		6,752	(34,413)
TOTAL NET CASH FLOWS		**344,342**	**299,885**
Cash and cash equivalents at beginning of period		627,864	785,454
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3.6**	**972,206**	**1,085,339**

Notes 1 to 4.5 to the Interim Condensed Consolidated Financial Statements constitute an integral part of the Consolidated Cash Flow Statements at 30 June 2018

1. Group activities and presentation bases

Relevant aspects

Results

- The net profit attributed to the parent company fell by 18.3% compared to the net profit attributed to the parent company at 30 June 2017, amounting to 219,842 thousands of euros **(Note 1.6)**. This was due to the fact that the effect of the GNL Quintero business combination achieved in stages, to the amount of 52.4 million euros, was reported in the 2017 accounts.
- The net profit per share has decreased to 0.92 euros per share compared to 1.13 euros per share at 30 June 2017 **(Note 1.6)**.
- The distribution of the complementary dividend in the gross amount of 0.876 euros per share, approved by the General Shareholders' Meeting held on 22 March 2018, was carried out on 5 July 2018 **(Notes 1.7 and 4.4)**.
- The "Result of investments accounted for by the equity method" at 30 June 2018 was 38,906 thousands of euros, 50.1% higher than at 30 June 2017.

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

- Regarding the situation of the investment in GSP, as a result of the termination of the concession contract of 24 January 2017, there is currently a dispute between the State of Peru and Enagás for the application of the investment recovery mechanism established by the GSP Concession contract. Once the required six months' direct negotiations between Enagás and the State of Peru elapsed, without reaching an amicable settlement on said controversy, on 2 July 2018, a request for the initiation of arbitration against the State of Peru in respect of its investment in GSP was submitted to the International Centre for Settlement of Investment Disputes (hereinafter ICSID) under the terms of the Agreement for the Promotion and Reciprocal Protection of Investments signed by the Republic of Peru and the Kingdom of Spain ("APPRI Peru-Spain"), as detailed in **Note 1.5**.
- The total amount to be recovered by the Enagás Group at 30 June 2018 is 404,623 thousands of euros corresponding to the financial investment in that company, the guarantees enforced as a result of the termination of the concession contract and the recovery of accounts receivable for professional services rendered in the amount of 215,607 thousands of euros **(Note 1.5)**, 182,117 thousands of euros **(Note 3.3)** and 6,899 thousands of euros, respectively.

Working capital

- At 30 June 2018, the Consolidated Balance Sheet records a positive working capital of 490,130 thousands of euros.

Other information

- Among the main investment transactions carried out by the Enagás Group during the first six months of the 2018 financial year, the following were of note:
  - Granting of credits to Trans Adriatic Pipeline (hereinafter TAP) amounting to 84,800 thousands of euros.
  - Incorporation, on 22 February 2018 of the company Hydrogen to Gas, S.L. amounting to 3 thousands of euros **(Note 1.4).**
  - Incorporation, on 22 February 2018 of the company Senfluga Energy Infrastructure amounting to 5 thousands of euros **(Note 1.4).**
  - Incorporation, on 3 April 2018 of the company Enagás Services Solutions, S.L. amounting to 1,245 thousands of euros. **(Note 1.4).**
  - Incorporation, on 24 April 2018 of the company Axent Infraestructuras de Telecomunicaciones, S.A. amounting to 1,225 thousands of euros **(Note 1.4).**
  - Incorporation, on 7 May 2018 of the company Sercomgas Gas Solutions, S.L. amounting to 147 thousands of euros. **(Note 1.4).**
  - Investments were made in regasification, transmission and storage facilities, with the aim of expanding and improving them to adapt to future demand forecasts amounting to 14,917 thousands of euros.

1.1 Group activity

Enagás, S.A. (hereinafter the Company or the Parent Company), a company incorporated in Spain on 13 July 1972 in accordance with the Spanish Corporate Enterprises Act, is the head of a group of companies **(Annexes I and II of the Consolidated Financial Statements at 31 December 2017)** that form the Enagás Group (hereinafter the Group or the Enagás Group) and which are engaged in the transmission, storage and regasification of natural gas, as well as the development of all functions related to the technical management of the gas system.

a) Corporate purpose

i. Regasification, basic and secondary transmission as well as storage of natural gas, via the corresponding gas infrastructure or installations, of its own or of third parties, and also the performance of auxiliary activities or others related to the aforementioned activities.

ii. Design, construction, start up, exploitation, operation, and maintenance of all types of complementary gas infrastructure and facilities, including telecommunications networks, remote control and control of any nature, and electricity networks, whether its own or of third parties.

iii. Development of all functions relating to technical management of the gas system.

iv. Transmission and storage activities for carbon dioxide, hydrogen, biogas, and other energy-related fluids, via the corresponding facilities, of its own or of third parties, as well as the design, construction, start up, exploitation, operation, and maintenance of all types of complementary infrastructure and installations necessary for said activities.

v. Activities for making use of heat, cold, and energies associated with its main activities or arising from them.

vi. Rendering of services of a diverse nature, amongst them, engineering, construction, advisory, and consultancy services in connection with the activities relating to its corporate purpose as well as participation in natural gas markets management activities to the extent they are compatible with the activities permitted for the Company by law.

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

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

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

b) Other information

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

1.2 Basis of presentation

The Enagás Group 2017 Consolidated Financial Statements were prepared by the Company's directors in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, applying the consolidation, accounting and measurement principles, policies and bases set forth in **Note 1.4** to those Consolidated Financial Statements, so that they present fairly the Group's consolidated equity and financial position at 31 December 2017 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The Group's Consolidated Financial Statements for 2017 were approved at the General Shareholders' Meeting held on 22 March 2018.

The accompanying Interim Condensed Consolidated Financial Statements are presented in accordance with IAS 34 Interim Financial Reporting and were authorised for issue by the Group's Board of Directors on 16 July 2018, in accordance with article 12 of Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is solely intended to provide an update on the Group's latest set of Consolidated Annual Financial Statements, focusing on new activities, events, and circumstances that occurred in the first half of the year, and does not duplicate information previously reported in the 2017 Consolidated Financial Statements. Therefore, for a proper understanding of the information included in these Interim Condensed Consolidated Financial Statements, they should be read in conjunction with the Group's Annual Financial Statements at 31 December 2017.

The accounting policies and methods used in the preparation of the accompanying Interim Condensed Consolidated Financial Statements are the same as those applied for the Consolidated Financial Statements for the year ended 31 December 2017, except for the standards and interpretations which became effective in 2018 (described in **Note 1.9**), and which, if applicable, were applied by the Group in the preparation of the accompanying Interim Condensed Consolidated Financial Statements.

In the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018 the inclusion of error corrections was not necessary. Also, given the activities of the companies of the Enagás Group, their transactions are not of a cyclical or seasonal nature, so specific breakdowns are not included in this respect.

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

a) Criterion of relative importance

In determining the information to be disclosed in the accompanying Interim Condensed Consolidated Financial Statements regarding the various line items included in them, or other matters, the Group, in accordance with IAS 34, has taken their relative importance into account in relation to the

Interim Condensed Consolidated Financial Statements for the first six months of the year.

b) Comparative information

The comparison of the Interim Condensed Consolidated Financial Statements is referenced to the six-month periods ended 30 June 2018 and 2017, except for the Consolidated Balance Sheet, which compares 30 June 2018 to 31 December 2017.

c) Consolidation principles

The Interim Condensed Consolidated Financial Statements include the interim financial statements of the Parent, Enagás, S.A. and its subsidiaries, associates, joint ventures, and joint operations at 30 June 2018.

The principles of consolidation applied in the preparation of the Interim Condensed Consolidated Financial Statements at 30 June 2018 agree with those applied in the preparation of the Annual Consolidated Financial Statements for 2017, and are described in Note 1.3 to said Consolidated Financial Statements.

The exchange rates with respect to the euro of the main currencies used by the Group during 2018 and 2017 were as follows:

Currency	Average exchange rate applicable to the headings of the income statement	Exchange rate at the end of June applicable to the balance sheet headings (1)
2018		
US dollar	1.2108	1.1562
Peruvian Nuevo Sol	3.9249	3.7746
Swedish krona	10.1509	10.3725
2017		
US dollar	1.0826	1.1439
Peruvian Nuevo Sol	3.6606	3.7260
Swedish krona	9.5980	9.6773

(1) Equity excluded.

In addition, the exchange rates of the main currencies used by the Group with respect to the euro at 31 December 2017 were as follows:

Currency	Exchange rate applicable to the balance sheet headings (1)
12.31.2017	
US dollar	1.19395
Peruvian Nuevo Sol	3.9000
Swedish krona	9.8422

(1) Equity excluded.

1.3 Estimates and accounting judgements used

In the Group's Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018, estimates and judgements were made by the senior management of the Group and of the consolidated companies, and later ratified by their Directors, in order to quantify certain assets, liabilities, income, expenses, and commitments reported therein. These estimates basically relate to:

- The service lives of assets and PP&E items.
- Provisions for dismantling and abandonment costs.
- The measurement of non-financial assets to determine the possible existence of impairment losses.
- Recognition of investments accounted for by the equity method.
- The fair value of financial instruments and financial assets.
- The recognition of provisions and contingent liabilities.
- Corporate income tax expense which, in accordance with IAS 34, is recognised in interim periods based on the best estimate of the weighted average annual income tax rate the Group expects for the full financial year.
- The fair value of equity instruments granted under the "Long-Term Incentive Plan (LTI)".
- Estimates applied to IFRS 15 and IFRS 9 explained in **Note 1.9.**

Although these estimates were made on the basis of the best information available at 30 June 2018, future events may require these estimates to be modified prospectively in the coming years (upwards or downwards). In accordance with IAS 8 the effects of any change of estimate in the would be recognised in the Consolidated Income Statement.

During the six-month period ended 30 June 2018, there were no significant changes to the estimates made at 2017 year end.

1.4 Changes in the consolidation scope

The following changes in the consolidation scope of the Enagás Group occurred during the six-month period ended 30 June 2018:

	Amount (thousands)		Stake percentage		
Entity	In local currency	In euros	Previous	At 06.30.2018	Description / Type of control
Hydrogen to Gas, S.L.	3	3	-	100%	Consolidation in accordance with the full consolidation method with the Group keeping control of it.
Senfluga Energy Infraestructure	5	5	-	20%	Based on shareholder agreements there is a situation of significant influence resulting in consolidation by the equity method.
Enagás Services Solutions, S.L.	1,245	1,245	-	100%	Consolidation in accordance with the full consolidation method with the Group keeping control of it.
Axent Infraestructuras de Telecomunicaciones, S.A.	1,225	1,225	-	49%	Based on shareholder agreements there is a situation of significant influence resulting in consolidation by the equity method.
Sercomgas Gas Solutions, S.L.	147	147	-	84%	Consolidation in accordance with the full consolidation method with the Group keeping control of it.

Hydrogen to Gas, S.L.

On 22 February 2018, Hydrogen to Gas, S.L. was incorporated for 3 thousands of euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through a 100% stake and is therefore fully consolidated.

Senfluga Energy Infraestructure

In February 2018, Senfluga Energy Infraestructure was incorporated at a cost of 24 thousands of euros. Enagás Internacional, S.L.U. has a 20% stake in this company, domiciled in Greece, and has significant influence in it, and it is therefore fully consolidated using the equity method.

Enagás Services Solutions, S.L.

On 3 April 2018, Enagás Services Solutions, S.L. was incorporated for 1,245 thousands of euros of which 374 thousands of euros were contributed as shares and 871 thousands of euros as a premium on said shares.

This company, domiciled in Spain, is directly controlled by Enagás S.A. through a 100% stake and is therefore fully consolidated.

Axent Infraestructuras de Telecomunicaciones, S.A.

On 24 April 2018, Axent Infraestructuras de Telecomunicaciones, S.A. was incorporated for 2,500 thousands of euros. This company, domiciled in Spain, is jointly controlled by Enagás Services, S.L., and has significant influence in it, through a 49% stake and is therefore consolidated by the equity method.

Sercomgas Gas Solutions, S.L.

On 7 May 2018, Sercomgas Gas Solutions, S.L. was incorporated for 175 thousands of euros. This company, domiciled in Spain, is directly controlled by Enagás Emprende, S.L.U. through an 84% stake. Thus, it is also fully consolidated together with recognition of the 16% stake corresponding to external partners under "Minority interest" in equity.

1.5 Investments accounted for by the equity method

2018

Opening balance at 12.31.2017	New acquisitions / Increases (1)	Change in consolidation method	Dividends	Profit for the year	Translation differences	Hedging transactions	Other adjustments	Closing balance at 06.30.2018
1,022,058	3,659	-	(44,172)	38,906	16,205	1,314	-	**1,037,970**

2017

Opening balance at 31.12.2016	New acquisitions / Increases	Change in consolidation method (2)	Dividends	Profit for the year	Translation differences	Hedging transactions	Other adjustments	Closing balance at 12.31.2017
1,870,973	60,382	(755,999)	(112,867)	72,859	(111,580)	3,286	(4,996)	**1,022,058**

(1) "New acquisitions / Increases" includes, for 2018, the capital contribution and share premium to Estación de Compresión Soto de la Marina SAPI de C.V. in the amount of 2,429 thousands of euros, the contribution for the incorporation of Senfluga in the amount of 5 thousands of euros and the contribution for the incorporation of Axent Telecomunicaciones S.A. in the amount of 1,225 thousands of euros.

(2) "Change in consolidation method" at 31 December 2017 includes the effect of the derecognition of the "Investment recognised using the equity method" of GNL Quintero, amounting to 540,696 thousands of euros, as it has been consolidated by the full consolidation method. Furthermore, the effect of the derecognition of the "Investment recognised by the equity method" of GSP in the amount of 215,303 thousands of euros is taken into account, due to the loss, during the year 2017, of the significant influence exerted on the company.

The dividends collected during the first six months of financial year 2018 and at 31 December 2017 were as follows:

	2018	2017
TgP	23,981	74,926
Grupo Altamira	3,972	3,248
Swedegas	6,339	7,540
BBG	3,750	4,000
Saggas	-	19,575
Other entities	6,130	3,578
Total	**44,172**	**112,867**

Gasoducto Sur Peruano ("GSP")

In relation to the investment in Gasoducto Sur Peruano, S.A. (hereinafter 'GSP'), as indicated in Note 1.6 of the Enagás Group 2017 Consolidated Financial Statements, dated 24 January 2017, the Directorate General of Hydrocarbons of the Peruvian Government's Ministry of Energy and Mines (hereinafter the 'State of Peru') sent an official letter to GSP stating 'the termination of the concession agreement owing to causes attributable to the concession holder', in accordance with the terms of Clause 6.7 of the 'Improvements to the Energy Security of the Country and the Development of the Southern Peruvian Pipeline' concession agreement (hereinafter 'The Project'), because the financial close had not been evidenced within the period established in the agreement (23 January 2017), and proceeded to the immediate enforcement of the totality of the performance bond given by GSP (262.5 million dollars), which, in the case of Enagás, led to the payment of 65.6 million dollars. Also in January 2017, they paid bank financing sureties to Enagás amounting to 162 million dollars.

In December 2017, the process of taking over the GSP Concession Assets was substantially completed, with the State of Peru taking charge of them.
After the termination of the Concession Contract, the State of Peru was under the obligation to initiate proceedings under Clause 20 of the agreement, which basically consisted of the designation of a consultancy firm or renowned international prestige to calculate the Net Carrying Amount (NCA) of the Concession Assets, and the subsequent convening of three auctions, the base amount of the first of which being equal to 72.25% of the NCA. With the amount that GSP would have received for the NCA of the concession assets, it would have proceeded to settle its obligations with third parties and, where applicable, return the capital contributions to its shareholders, as explained in the Enagás Group 2016 Consolidated Financial Statements.

In accordance with the opinion of external and internal legal advisers, the State of Peru was obliged to apply Clause 20 of the Concession Agreement, calculating the NCA of the Concession Assets and convening three auctions to award the concession contract, and to pay the NCA to GSP. As a result of inaction by the State of Peru in relation to the aforementioned procedure, Enagás notified the State of Peru on 19 December 2017 of the existence of a dispute regarding its investment in GSP in order to reach an amicable arrangement in this respect, under the terms of Article 9.1 of the Agreement for the Reciprocal Promotion and Protection of Investments (ARPPI) between the Republic of Peru and the Kingdom of Spain. This notification marked the commencement of the calculated six (6) months' duration of the direct dealings prior to the start of international arbitration referred to by the ARPPI as the mechanism for the recovery of the investment made by Enagás in GSP. After the period of direct dealings had lapsed without reaching an amicable arrangement, Enagás presented to the International Centre for Settlement of Investment Disputes (hereinafter ICSID) on 2 July 2018 a request for the commencement of arbitration proceedings. Enagás, through these arbitration proceedings, requires the State of Peru to compensate them for their investment in GSP.

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

In relation to the value of the NCA, on 25 May 2018, Consorcio Constructor Ductos del Sur (hereinafter CCDS), responsible for the construction of the GSP project, initiated a procedure for dealing directly with GSP in order to determine the resolution of the Turnkey-EPC contract with a lump sum for the engineering, procurement and construction of the transport system of the Project signed by both parties. In this regard, and after delivering the termination of the Project, a reduced invoice amount for the aforementioned contract was agreed on the basis of the degree of progress initially forecast, which in turn supposes a reduction in the NCA. In light of this adjustment, and considering the value of the assets that could not be delivered on time to the State of Peru, a new valuation was made in June 2018 by a firm of independent specialists contracted by Enagás, determining an updated NCA of 2,016 million dollars.

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

Additionally, the application of these subordination rights and credit agreements is being questioned by one of the Enagás partners in GSP, following the arbitration process brought by Odebrecht against Enagás and Graña y Montero, who were notified on 3 January 2018.

In the opinion of the external and internal legal advisers working for the Enagás Group, the possibility that the Odebrecht action will succeed is remote, and therefore considers these agreements to be fully valid and applicable.

As regards the arbitration proceedings against the State of Peru, based on the conclusions determined by the external and internal legal advisers, the recoverability of the totality of the Enagás investment in GSP, consisting of receivables in relation to the aforementioned enforced guarantees to the total of 227.6 million dollars, various invoices for professional services provided to the amount of 8.8 million dollars and the share capital contributed to GSP for the amount of 275.3 million dollars, is considered likely.

With regard to the recovery period, considering the time it takes to resolve a dispute of this complexity in international arbitration proceedings, the estimated date for the recovery of the investment made by Enagás in GSP is thought to be 31 December 2021 from the lodging of the request to the commencement of arbitration proceedings. Based on this, the amounts outlined in the preceding paragraph are recorded at their updated value in the Consolidated Balance Sheet dated 30 June 2018 for a total amount of 404.6 million euros.

Other related matters

Law No. 30737 'Ensuring immediate payment of civil compensation for the benefit of the State of Peru in case of corruption and related crimes' was enacted on 12 March 2018. In addition, Supreme Decree 096-2018-EF, approving the regulation of Law No. 30737, was enacted on 9 May 2018.

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

Even without evidence of a criminal conviction or a confession of the commission of crimes, as required under Article 9 of Law No. 30737, on 28 June 2018, the State of Peru classified Enagás Internacional on the 'List of Contracts and Subjects of Category 2 indicating the legal person or legal entity included under Section II of Law No.30737' in relation to the concession contract awarded to GSP.

The inclusion on this list assumes that specific measures will be undertaken by Enagás, such as specific duties of reporting and the setting up of an escrow account or the presentation of a Bond Letter for annual renewal to contribute to the payment of civil compensation. Just as the likelihood of a criminal conviction affecting GSP is remote, as indicated above, the likelihood of this execution of the trust or Bond Letter is also remote, according to the conclusions of our legal advisers on Peruvian law.

The total amount of the Trust, estimated at 50% of the total average net equity, corresponding to its participation in GSP, will be communicated by the Ministry of Justice, given that the amount is estimated to be less than 65 million dollars.

Moreover, Law No. 30737 also imposes a ban on companies included on the list from making transfers to outside of Peru, which, based on of the conclusions of the external and internal legal advisers, would only be application to investment in GSP, notwithstanding a restriction on dividends to pay for the COGA and TGP societies, also considering that investment in the latter is protected by the Legal Stability Agreement in Peru.

In light of the above, the Enagás Group believes that these regulation do not have a negative effect on the recovery of accounts receivable through the arbitration process indicated above.

With regard to the actions of the Public Prosecutor of the Nation of Peru, in relation to the investigation into the activities of Odebrecht in Peru and other investigations conducted by the different branches of the Peruvian Public Prosecutor for alleged crimes that could in some way bear relation with the awarding of the 'Improvements to the Energy Security of the Country and the Development of the Southern Peruvian Pipeline' project, the situation described in **Note 1.6 of the Enagás Group 2017 Consolidated Financial Statements** is maintained, for which the existence of two investigations are recorded as being in course. The first of these is assigned Case Number 321-2014, relating to aggravated collusion between a former Odebrecht employee and a civil servant, whose instruction proceedings were invalidated until the Supreme Court rules on the petition for judicial review filed by the Ad Hoc Prosecutor's Office of Peru has been resolved, in order to include one of the Odebrecht subsidiaries as a civilian third party. This stage is expected to bring a decision on whether to bring the case to trial. According to the legal opinion of the external legal advisers in criminal law, the likelihood of a conviction for the former Odebrecht employee is considered remote. In this same case, the preparatory investigation court has declared the incorporation of GSP as a liable third party to be inadmissible. The second investigation open is currently in its preliminary stage with the Public Prosecutor under File No. 12-2017, with an Enagás employee among those being investigated, although based on the opinion of the Company's external legal advisers on Peruvian criminal law, there is no indication that leads to the consideration that the investigations may negatively affect Enagás.

Based on all of the above, the directors of Enagás, in line with the opinion of their external and internal legal advisers, and of an independent expert and independent expert accountant, consider these facts to have no bearing on the estimation for recovery of the investment in the stake in GSP and the previously mentioned receivables to the amount of 404.6 million euros **(Note 3.3.a)**.

1.6 Earnings per share

	06.30.2018	06.30.2017	Change
Net result of the financial year attributed to the parent company (thousands of euros)	219,842	269,074	(18.3%)
Weighted average number of outstanding shares (thousands of shares)	238,426	238,426	-
Basic and diluted earnings per share (euros)	0.9221	1.1285	(18.3%)

As there are no potential ordinary shares at 30 June 2018 and 30 June 2017, the basic earnings and the diluted earnings per share are the same.

1.7 Dividends paid by the Company

The distribution of the complementary dividend in the gross amount of 0.876 euros per share, approved by the General Shareholders' Meeting held on 22 March 2018, was carried out on 5 July 2018 **(Note 4.4)**.

The total amount of the dividend paid amounted to 208,862 thousands of euros.

1.8 Commitments assumed and guarantees granted

Commitments assumed and guarantees granted	Group employees, companies or entities (Note 4.1)	Other related parties (Note 4.1)	Third parties	Total
06.30.2018				
Guarantees for related party debts	22,897	-	-	**22,897**
Guarantees and sureties granted - other	8,649	118,728	294,695	**422,072**
Investment commitments	190,600	-	30,559	**221,159**
12.31.2017				
Guarantees for related party debts	24,131	-	-	**24,131**
Guarantees and sureties granted - other	8,376	130,212	319,571	**458,159**
Investment commitments	68,800	-	30,559	**99,359**

a) Guarantees for related party debts

"Guarantees for related party debts" includes 22,897 thousands of euros at 30 June 2018 (24,131 thousands of euros at 31 December 2017), corresponding to the obligation acquired in the financing contract relating to Knubbsäl Topholding AB, by virtue of which the Enagás Group commits to granting a corporate guarantee in favour of the financing entities if said contract has not been cancelled or refinanced six months before it matures in July 2022. The maximum commitment relating to this possible guarantee amounts to 22,897 thousands of euros (237,500 thousands of SEK), and in accordance with the above, said corporate guarantee will not be granted before the month of January in 2022.

If the corporate guarantee ultimately has to be granted, it would only be enforceable by the financial institutions in the event of non-payment by Knubbsäl Topholding AB at the expiration date of the Financing Agreement.

b) Guarantees and sureties granted - other

The following items are included:

Group employees, companies or entities

- Performance bonds for group entities relating to obligations in concessions and counter-guaranteed by Enagás, S.A., amounting to 8,649 thousands of euros at 30 June 2018 (8,376 thousands of euros at 31 December 2017).

Other related parties

- Financial guarantees granted by the related party Banco Santander as a guarantee for loans granted by the European Investment Band to Enagás, S.A. in the amount of 96,000 thousands of euros (108,000 thousands of euros during 2017).
- Technical guarantees granted by the related party Banco Santander to third parties in the amount of 6,411 thousands of euros (6,411 thousands of euros in 2017) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- Guarantees granted before the Federal Electricity Commission ("FEC") in connection with the service contracts relating to the Gasoducto de Morelos and Estación de Compresión Soto La Marina projects in the amount of 8,649 thousands of euros and 7,667 thousands of euros, respectively (8,376 y 7,425 thousands of euros respectively at 31 December 2017).

Third parties

The following items, mainly, are included:

- Financial guarantees granted by financial entities to cover the loans granted by the European Investment Bank to Enagás, S.A. in the amount of 227,333 thousands of euros (258,667 thousands of euros in 2017).
- Technical guarantees granted by financial entities to third parties in the amount of 60,778 thousands of euros (56,954 thousands of euros in 2017) to cover certain responsibilities which may arise during execution of the contracts constituting the activity of the Enagás Group.
- Guarantee agreed by Enagás S.A. regarding the obligations of Enagás Internacional, S.L.U. towards Hellenic Republic Asset Development Fund S.A. for its participation in the sale of 66% of DESFA, for the amount of 6,000 thousands of euros on 30 June 2018
- Guarantee granted by Enagás Internacional S.L.U covering its obligations in the contract with Sound Energy Morocco for the development of a project in Morocco, amounting to 584 thousands of euros at 30 June 2018.
- At 30 June 2018 no guarantees had been granted to cover litigation processes.

c) Investment commitments

The following items are included:

- The Enagás Group has investment commitments amounting to 145,600 thousands of euros relating to the TAP project and corresponding to the capital contributions to be disbursed as shareholder up to the financial closure. At 31 December 2017, the Enagás Group had investment commitments in the amount of 68,800 thousands of euros, relating to the TAP project. Accordingly, the shareholders fulfil their obligation to continue financing the project until bank finance is obtained, which is currently being negotiated. In the context of said negotiations, it is expected that the financial entities will demand guarantees from the shareholders.

  Once said financing has been arranged, and taking into account the repayment of funds to the shareholders by the banks in order to balance the debt to equity ratio, the investment made by Enagás will amount to approximately 277,000 thousands of euros, and it is expected that guarantees will be granted in the amount of approximately 586,060 thousands of euros in connection with the banking debt to the extent the subsidiary draws down the available facilities.
- The Enagás Group has firm investment commitments for investments in Economic Interest Groupings (EIG) amounting to 30,559 thousands of euros, to be disbursed during the 2018 and 2019 financial years (30,559 thousands of euros at 31 December 2017).
- Having been selected as the preferred investor for the acquisition of 66% of Desfa, in consortium with Snam and Fluxys, the Enagás Group maintains investment commitments amounting to 107 million euros.

  The consortium is working to obtain non-recourse financing for the shareholders and to yield results from negotiations with banks, the investment from Enagás is estimated to be in the region of 45 million euros.

  The close of the transaction is pending regulatory approvals and the corporate restructuring expected by the seller.

The Directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognised in the accompanying Consolidated Balance Sheet.

1.9 New accounting standards

a) Standards in force for the current financial year

The accounting policies used in the preparation of these Interim Condensed Consolidated Financial Statements, other than those applied in the Consolidated Financial Statements for the year ended 31 December 2017, as they came into force on 1 January 2018 are the following:

Approved for use in the European Union		
Standards	**Content**	**Mandatory application for periods beginning on or after:**
IFRS 15	Revenue from Contracts with Customers	Annual periods beginning on 1 January 2018.
IFRS 9	Financial instruments	Annual periods beginning on 1 January 2018.

IFRS 15: Revenue from contracts with customers

Said Standard was approved by the European Union via the corresponding publication in the Official Journal of the European Union on 29 October 2016, stipulating its mandatory application for annual periods starting from 1 January 2018.

IFRS 15 regulates recognition of revenue from customers, substituting IAS 18 *Revenue,* IAS 11 *Construction contracts,* as well as all related interpretations (IFRIC 13 *Customer Loyalty Programs,* IFRIC 15 *Agreements for the construction of real estate,* IFRIC 18 *Transfers of* assets *from customers, and* SIC 31 Revenue – *Barter transactions involving advertising services*).

The new model for ordinary revenue is applicable to all contracts with customers, except those that are within the scope of other IFRS, such as leases, insurance agreements, and financial instruments. Transfers of assets that do not correspond to the ordinary activities of the entity (such as the sale of PP&E items, real estate, or intangible assets) are also subject to some of the recognition and measurement requirements of the new model established by IFRS 15. However, the recognition of interest and revenue from dividends is beyond the scope of this Standard.

With respect to the specific risks relating to revenue for the Enagás Group, an analysis was performed to determine the impacts which may arise from implementation of said Standard and the following was identified:

- Regarding revenues from regulated activity, which are the biggest proportion in the Group, and whose regulatory development and recognition and valuation criteria are described in **Annex III to the Consolidated Financial Statements at 31 December 2017**, no significant differences resulting from the implementation of IFRS 15, instead of the standards that it replaces, have been identified, as there is no significant impacts on the recognition of income from this type of activity.
- On the other hand, GNL Quintero's revenues come almost entirely from its Terminal Use Agreement ("TUA") with GNL Chile. Once this contract was analysed, it was concluded that said income is intrinsically linked to the act of leasing of the regasification terminal as a whole, and does not involve changes in the income recognition criterion under IFRS 15.
- With regard to revenues from unregulated activities included under Net Turnover in the Consolidated Income Statement, these are the amounts received for the implementation of connections between the infrastructure of the basic network of Enagás Transporte, S.A.U. and Enagás Transporte del Norte, S.L. and the networks of distribution companies, secondary transmission companies, gas shippers and qualified customers, initially recognised as deferred income and then applied to profit based on the service life of the assigned facilities.

  Based on the types of contractual agreements supporting this type of income, it has been determined that there is an implicit financing component which, under the new regulatory requirements, must be recognised as a liability in the Consolidated Balance Sheet
- Additionally, "Other Operating Income" in the Consolidated Income Statement mainly includes deferred income corresponding to the "gas transmission right" contracts signed with the subsidiaries Gasoducto de Extremadura, S.A. y Gasoducto Al-Andalus, S.A., which are consolidated proportionally by applying the percentage stake held by Enagás Transporte, S.A.U. in those companies. This deferred income is charged to the Consolidated Income Statement following a linear accrual method until 2020 in which the above-mentioned transmission contract expires.

  As in the case of the implementation of the connections in the basic network infrastructure, an implicit financing component has been determined in this type of contract, which under the new regulatory requirements must be recognised as a liability in the Consolidated Balance Sheet.
- Lastly, as regards the companies accounted for using the equity method, and for the purposes of consistency, the company has carried out an analysis of potential impacts for each of the affiliates, with no adjustment derived from its implementation being identified.

Regarding the selected transition method, a modified retrospective adoption has been chosen, thus showing the cumulative effect of the initial application. In this way, the Standard will be applied retrospectively only to the most recent period presented in the financial statements.

In light of the foregoing, at 1 January 2018, the accumulated effect of the initial adoption of IFRS 15 will be recognised as a negative initial reserve, which will amount to approximately 28.2 million euros (net of tax effect), the balancing entry being a liability increase of approximately 37.6 million euros, as indicated above and in **(Note 2.8)**. This amount will subsequently be transferred to the Consolidated Income Statement during the term of the corresponding contracts, with its components assigned to higher operating income (transaction price) and higher financial expenses (significant financial component).

The main impact of the application of IFRS 15 during the first six months of financial year 2018 in the Consolidated Income Statement was an increase of 475 thousands of euros in turnover, an increase of 6,808 thousands of euros in operating income, as well as an increase of 2,794 thousands of euros in financial expenses. The Management of the Enagás Group judges that no previous revenues are of doubtful recovery.

The breakdown required for the IRFS 15 application, regarding contracts with clients corresponding to the current year, is as follows:

				Business segments			
	Nature	Country	Counterparty	Technical Management of the System	Infrastructures	Non-regulated	TOTAL
Net turnover from customer contracts							
Connections	Provision of services	Spain	Third parties	-	1,086	-	**1,086**
Billing intercompany	Provision of services	America	Group	-	-	1,531	**1,531**
Billing intercompany	Provision of services	America	Third parties	-	-	387	**387**
Billing intercompany	Provision of services	Spain	Group	-	42	333	**375**
Gas transmission services	Provision of services	Rest of Europe	Third parties	-	15,190	-	**15,190**
TUA (Terminal Use Agreement)	Provision of services	America	Third parties	-	-	85,340	**85,340**
Other operating income from customer contracts							
Technical support	Provision of services	America	Third parties	-	-	377	**377**
Technical support	Provision of services	Spain	Group	1	-	-	**1**
Gas transmission right	Usage rights income	Spain	Group	-	8,361	-	**8,361**
Income from miscellaneous services	Provision of services	America	Third parties	-	-	146	**146**
Income from miscellaneous services	Provision of services	Spain	Group	-	3,181	36	**3,217**
Income from miscellaneous services	Provision of services	Spain	Third parties	-	1,424	-	**1,424**

IFRS 9: Financial instruments

As in the previous case, this Standard was approved by the European Union during 2016, via publication in its Official Journal on 29 November 2016, stipulating that its application would be obligatory for yearly periods starting from 1 January 2018.

This Standard will substitute the current IAS 39 "Financial Instruments: Recognition and Measurement." The conceptual changes are important in all sections of the Standard, changing the classification and measurement model for financial assets, adapted to the entity's business model and refocusing the accounting model for hedges to align it with the economic management of risk, as well as modifying the current model used for impairment based on losses incurred to a model based on expected losses.

Classification and measurement

The new Standard requires that financial assets be classified when they are initially recorded as valued at amortised cost or at fair value.

The classification depends on the business model of the entity and the existence or not of certain contractual cash flows.

- If the objective of the business model is to maintain a financial asset for the purpose of collecting contractual cash flows, which are exclusively payments of the capital plus interest on that capital, the financial asset will be valued at amortised cost.
- If the objective of the business model is both to obtain contractual cash flows and their sale, the financial assets shall be measured at fair value with changes in other comprehensive income (equity).

Meanwhile, when a financial asset is first recorded, an entity may choose to measure it at fair value with changes in profit and loss if this means that an accounting mismatch can be eliminated or reduced.

All other financial assets are measured at fair value, recording the profits and losses resulting from the subsequent valuation in the Consolidated Income Statement.

As a result of the analyses carried out, with the exception of derivatives, whose category would correspond to fair value with changes in the Consolidated Income Statement (or application, if applicable, of hedge accounting criteria), almost all of the Group's financial assets are covered by the amortised cost category. This new category does not present significant differences in terms of measurement from the categories adopted under IAS 39.(Note 3.3a).

Expected losses

A new impairment model is introduced based on expected loss, unlike the current model under IAS 39 that is based on incurred loss.

To calculate this expected loss, the Enagás Group has developed its own financial model, based both on internal information (such as existing balances, guarantees received and contractual commitments) and on external amounts (such as credit assessments of clients and agencies).

Following the analysis, the amount of expected loss based on the information available at 30 June 2018, would be less than 1 million euros.

Hedge accounting

The new model tries to align accounting criteria with risk management. The three existing types of hedge accounting are maintained (cash flow, fair value and net investment hedges). In view of the Enagás Group's current portfolio of derivatives, the fundamental effect comes from the evaluation of the effectiveness, since the current rules are removed and evaluation criteria are established so that they are aligned with risk management through the principle of "economic relationship", thus eliminating the requirement for retrospective evaluation.

Refinancing of financial liabilities

In application of the IASB's 2017 interpretation on the treatment of the refinancing of financial liabilities under IFRS 9, contractual flows of refinanced debt must be discounted at the original effective interest rate, revised with the associated commissions, in place of the new rate resulting from the refinancing operation.

The difference obtained will have an impact on the Consolidated Income Statement as an expense or income at the date of the refinancing, although, given the retroactive nature of this interpretation, for those transactions carried out prior to 1 January 2018, the existing difference will be recorded against Reserves.

The Enagás Group has three operations subject to the above mentioned Interpretation, two carried out by the subsidiary Enagás Financiaciones, S.A.U. in financial year 2015, and another by GNL Quintero, S.A. in financial year 2014.

The impact on the Enagás Group of this Interpretation involves an initial reserve of approximately 20 million euros (net of tax effect), 10.4 million euros of which affects the external partners, as well as a reduction in the amount of debt to approximately 24 million euros. This lower debt amount will be reclassified to the Consolidated Income Statement as a higher financial cost in order to record the debt at the original effective interest rate during future periods.

The main impact of the application of IFRS 9, during the first six months of financial year 2018, in the Consolidated Income Statement, was a higher financial expense amounting to 1,844 thousands of euros.

b) Standards not effective for the current financial year

The Group intends to adopt the standards, interpretations and amendments to the standards issued by the IASB, which are not mandatory in the European Union at the date of preparation of these Consolidated Financial Statements when they come into force, if they are applicable. Based on the analyses carried out to date, the Group estimates that their initial application will not have a significant impact on its Consolidated Financial Statements, except for the following Standard:

Approved for use in the European Union		
Standards	**Content**	**Mandatory application for periods beginning on or after:**
IFRS 16	New standard for leases substituting IAS 17. The main novelty of the new standard involves a single lessee accounting model, which includes all leases (with certain exceptions) in the balance sheet with a similar effect to finance leases (there will be amortisation of assets for right-of-use and a finance expense for the amortised cost of the liability).	Annual periods beginning on 1 January 2019.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes the principles for the recognition, valuation, presentation and disclosure of leases and requires lessees to account for all leases under a single balance sheet model similar to the current accounting for financial leases in accordance with IAS 17. The Standard includes two exemptions to the recognition of leases by lessees, low-value asset leases (e.g. personal computers) and short-term leases (i.e. 12 months or less).

On the start date of a lease, the lessee will recognise a liability for lease payments to be made (i.e. the liability for the lease) and an asset that represents the right to use the underlying asset during the lease term (i.e. the asset for the right of use). Lessees must recognise the interest expense arising from the lease liability and the right of use amortisation expense separately.

Lessees will also be required to revalue the lease liability when certain events occur (for example, a change in lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the lease liability amount revaluation as an adjustment to the asset for the right of use.

The lessor's accounting under IFRS 16 is not substantially changed compared to the current accounting standards, so it will continue to classify leases using the same classification principles: operating and financial leases.

IFRS 16 is effective for financial years beginning on or after 1 January 2019, with earlier application permitted. A lessee may choose to apply the Standard completely retroactively or through a modified retroactive transition.

The Enagás Group mainly has operating leases in which it is a lessee, and is currently evaluating the potential impact of this new Standard on the Consolidated Financial Statements through the following tasks:

- Analysis of the lease contracts entered into by the Group in order to determine if these are subject to the scope of IFRS 16 "Leases".
- Analysis of the lease contracts that may qualify for exemptions as short-term leases (maturity less than or equal to 12 months) or leases in which the underlying asset is of low value (less than 5 thousands of dollars).
- Production of an inventory of leases entered into by the Group and in force at 30 June 2018 and estimated to remain in force at 1 January 2019.
- Estimation of the non-cancellable terms of the leases, i.e. consideration of the committed years plus extensions that will probably be agreed.

- Identification of the current and future lease instalment commitments, separating, where possible, contract elements that do not constitute a lease and instalments paid in the past for the same items.
- Identification and estimation of the discount rates to be applied to each of the leases.
- Analysis of the impact of the Standard on the financial ratios and "covenants" of the Group.
- Review of processes, systems and internal control, in order to determine the most appropriate tool for future management of the implementation of the new Standard.
- Analysis of the breakdowns required in the Group's Consolidated Financial Statements once the Standard is applied.

The Enagás Group has chosen not to apply IFRS 16 "Leases" in advance and is currently assessing which transition method is the best fit for the available information and characteristics of the existing contracts: the modified retroactive transition method, the simplified modified retroactive transition method or a mixed model.

However, at 30 June 2018, the Enagás Group was still conducting the corresponding analyses and had not yet arrived at a definitive quantification of the impact of the first application of this new Standard, although with the current lease agreements and those estimated to be effective at 1 January 2019, the impact on the financial liability is expected to be around 300 million euros.

2. Operational performance of the group

Relevant aspects

Operating profit

- Operating profit at 30 June 2018 decreased by 0.5% compared to 30 June 2017, amounting to 360 million euros.

Trade receivables

- "Current receivables" includes the balance pending settlement corresponding to the remuneration of regulated regasification, transmission and underground storage activities for 183,542 thousands of euros corresponding to financial year 2017 (367,856 thousands of euros at 31 December 2017), as well as the outstanding balance corresponding to the remuneration of the Technical Manager for 3,191 thousands of euros (6,650 thousands of euros at 31 December 2017) **(Note 2.2).**

Intangible assets - Goodwill

- During financial year 2018, there were no significant changes with respect to 2017, other than the depreciation allowance for the period and the variation due to exchange rate differences.

Property, plant, and equipment

- This caption involves, at 30 June 2018, 55% of total assets (57% of total assets at 31 December 2017).
- At 30 June 2018, the amount decreased by 154 million euros compared to closure 2017.
- The variation is mainly due to the provision for amortisation for the period, in the amount of 136 million euros (**Note 2.4**) and to the reclassification of assets classified as property, plant and work in progress in the "Property, plant and equipment" caption of the Consolidated Balance Sheet at 31 December 2017 to the "Non-Current Assets Held for Sale" caption, amounting to 26 million euros.
- On 20 March 2018, a contract was signed for the purchase and sale of certain existing pipework in the various Enagás Group warehouses, classified as assets under the heading "Property, plant and equipment" in the Consolidated Balance Sheet at 31 December 2017. The operation is subject to compliance with certain normal conditions in this type of transaction, which are expected to be fulfilled in the second half of 2018.

  As a result of the above, and in application of the criteria established in IFRS 5, as there is a specific sale plan with commitment at the appropriate level of decision-making in the Enagás Group and it is probable that it will materialise in under one year, the assets were reclassified for an amount of 26,068 thousands of euros under the heading "Non-Current Assets Held for Sale" in the Consolidated Balance Sheet at 30 June 2018 **(Notes 2.4 and 2.6).**

2.1 Operating profit

a) Revenue

The distribution of the net amount of turnover based on the Group Companies from which it comes is as follows:

Revenue	06.30.2018	06.30.2017
Regulated activities:	**547,471**	**565,960**
Enagás Transporte, S.A.U.	521,494	540,087
Enagás Transporte del Norte, S.L.	14,092	13,988
Enagás GTS, S.A.U.	11,885	11,885
Non-regulated activities	**104,409**	**110,164**
GNL Quintero	85,340	91,924
Enagás Transporte, S.A.U.	16,095	16,159
Enagás Internacional, S.L.U.	542	771
Enagás México	120	309
Enagás Transporte del Norte, S.L.	224	142
Enagás Perú	361	837
Enagás, S.A.	1,727	22
Total	**651,880**	**676,124**

b) Personnel expenses

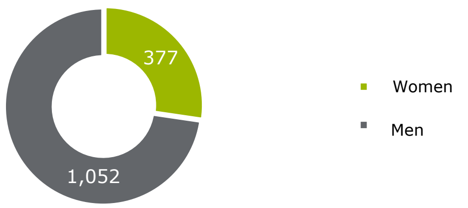
Personnel expenses	06.30.2018	06.30.2017
Wages and salaries	50,020	49,150
Termination benefits	963	1,906
Social Security	9,205	9,428
Other personnel expenses	4,663	4,776
Contributions to external pension funds (defined contribution plan)	1,274	1,241
Works for intangible assets	(1,991)	(2,154)
Total	**64,134**	**64,347**

The Enagás Group contributes, in accordance with the Pension Plan signed and adapted to the Law on Pension Plans and Funds, to an "Enagás Pension Fund" defined contribution plan, managed by Gestión de Previsión y Pensiones, S.A. with Banco Bilbao Vizcaya Argentaria, S.A. as custodian, which covers the Group's commitments to the workforce in question. This plan recognises consolidated rights for past service and commits to the monthly contribution of a percentage of the computable salary. It is a mixed-type plan designed to cover both retirement benefits and the risks of disability and death of the beneficiaries. The total number of plan members at 30 June 2018 is 1,186 beneficiaries (1,190 beneficiaries at 31 December 2017). The contributions made by the Group under this heading each year are recorded in the "Personnel expenses" heading of the "Consolidated Income Statements"

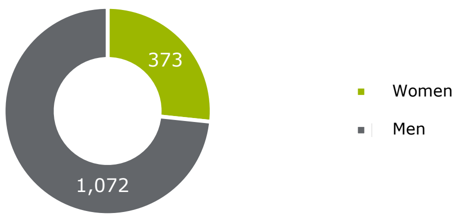
In addition, the Group has outsourced its pension obligations with its Directors by means of a mixed group insurance policy. In addition to pension obligations, the cover provides benefits in the cases of life expectancy, death or disability.

The average number of employees by gender at 30 June 2018 and 2017 is as follows:

06/30/2018: 1,429



06/30/2017: 1,445



c) Other operating expenses

Other operating expenses	06.30.2018	06.30.2017
External services:		
R+D expenses	159	495
Leases and fees	23,225	21,799
Repairs and conservation	21,432	19,292
Freelance professional services	14,079	13,309
Transport	16,500	17,443
Insurance premiums	4,519	5,309
Banking and similar services	165	347
Advertising, publicity and public relations	2,289	2,421
Supplies	10,723	9,671
Other services	10,480	14,232
External services	**103,571**	**104,318**
Taxes	**11,309**	**14,064**
Other current management costs	**309**	**10**
Other external expenses	**8,526**	**7,555**
Change in traffic provisions	**461**	**76**
Total	**124,176**	**126,023**

2.2. Trade and other non-current and current receivables

	06.30.2018	12.31.2017
Customer receivables for sales and services rendered	44,631	63,725
Group companies	6,219	9,090
Other receivables	196,867	390,364
Sub-total	**247,717**	**463,179**
Value added tax	53,456	15,708
Trade and other current receivables	**301,173**	**478,887**
Trade and other non-current receivables (Note 3.3.a)	**135,408**	**117,947**

"Trade and other non-current receivables" mainly includes, in accordance with Royal Decree-Law 8/2014 of 4 July and Law 18/2014 of 15 October, the cumulative long-term deficit of regulated activities, as well as facilities pending long-term recognition, in a total amount at 30 June 2018 of 85,875 thousands of euros (90,485 thousands of euros at 31 December 2017).

"Current receivables" includes the balance pending settlement corresponding to the remuneration for regulated regasification, transmission, and underground storage facility activities in the amount of 183,542 thousands of euros (367,856 thousands of euros at 31 December 2017), as well as the balance pending settlement corresponding to the remuneration of Technical Management activities in the amount of 3,191 thousands of euros (6,650 thousands of euros at 31 December 2017). The trade receivables related to regulated activities follow the settlement system established in Order ECO/2692/2002, of 28 October, which regulates the settlement procedures for remuneration of regulated natural gas activities and fees for specific purposes **(Annex I).**

This heading also includes the debit balance due to the Group's VAT (53,456 thousands of euros), as the VAT paid is higher than the VAT accrued, mainly due to the operations of Enagás Transporte, S.A.U. as a tax warehouse.

2.3 Trade and other payables

Trade and other payables	06.30.2018	12.31.2017
Debts with related companies	2,497	3,876
Other providers	127,434	156,287
Other creditors	4,787	11,681
Sub-total	**134,718**	**171,844**
Value added tax	2,530	2,397
State Treasury creditor for withholdings and other	6,718	32,663
Total	**143,966**	**206,904**

2.4 Property, plant, and equipment

The composition and movements of the Property, Plants and Equipment heading during the first six months of 2018 and financial year 2017, and the corresponding amortisation and depreciation, were as follows:

2018	Opening balance at 12.31.2017	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions (1)	Translation differences	Closing balance at 06.30.2018
Land and buildings	247,883	646	2,196	(6,023)	2,519	247,221
Plant and machinery	9,710,631	797	(74,333)	-	29,069	9,666,164
Other installations, tools, and furniture	93,295	455	76,049	-	170	169,969
Prepayments and work in progress	567,789	7,828	(3,912)	(52,041)	196	519,860
Capital grants	(600,387)	(476)	-	-	-	(600,863)
Total cost	**10,019,211**	**9,250**	**-**	**(58,064)**	**31,954**	**10,002,351**
Land and buildings	(91,101)	(3,330)	-	-	(726)	(95,157)
Plant and machinery	(4,707,095)	(135,672)	(809)	-	(7,000)	(4,850,576)
Other installations, tools, and furniture	(67,798)	(2,470)	809	-	(654)	(70,113)
Capital grants	408,060	5,580	-	-	-	413,640
Total amortisation	**(4,457,934)**	**(135,892)**	**-**	**-**	**(8,380)**	**(4,602,206)**
Plant and machinery	(13,719)	-	-	-	-	(13,719)
Prepayments and work in progress(1)	(46,207)	(18,979)	-	25,756	-	(39,430)
Total impairment	**(59,926)**	**(18,979)**	**-**	**25,756**	**-**	**(53,149)**
Land and buildings	156,782	(2,684)	2,196	(6,023)	1,793	152,064
Plant and machinery	4,989,817	(134,875)	(75,142)	-	22,069	4,801,869
Other installations, tools, and furniture	25,497	(1,992)	76,858	-	(507)	99,856
Prepayments and work in progress(1)	521,582	(11,151)	(3,912)	(26,285)	196	480,430
Capital grants	(192,327)	5,104	-	-	-	(187,223)
Net carrying amount of property, plant, and equipment	**5,501,351**	**(145,598)**	**-**	**(32,308)**	**23,551**	**5,346,996**

(1) "Decreases, disposals or reductions", at 30 June 2018, includes, under the heading "Non-current Assets Held for Sale", the reclassification, as a result of the signing of the contract for the sale of existing pipework described above. In accordance with IFRS 5, the amounts reclassified under the heading "Non-current Assets Held for Sale" must be valued at the lower of the carrying amount or fair value. On this basis, the group recorded an impairment amounting to 18,979 thousands of euros in the Consolidated Income Statement at 30 June 2018 **(Note 2.6)**.

2017	Opening balance at 31.12.2016	Increases due to changes in consolidation scope (2)	Inputs or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance at 12.31.2017
Land and buildings	165,309	87,258	2,370	4,375	(993)	(10,436)	247,883
Plant and machinery	8,801,625	1,009,932	6,931	14,670	(2,064)	(120,463)	9,710,631
Other installations, tools, and furniture	87,107	4,753	2,162	242	(377)	(592)	93,295
Prepayments and work in progress	559,003	6,657	28,323	(19,287)	(5,993)	(914)	567,789
Capital grants	(600,387)	-	-	-	-	-	(600,387)
Total cost	**9,012,657**	**1,108,600**	**39,786**	**-**	**(9,427)**	**(132,405)**	**10,019,211**
Land and buildings	(67,494)	(20,297)	(6,737)	-	856	2,571	(91,101)
Plant and machinery	(4,244,269)	(210,915)	(278,386)	(809)	542	26,742	(4,707,095)
Other installations, tools, and furniture	(61,045)	(3,374)	(4,920)	809	309	423	(67,798)
Capital grants	394,851	-	13,209	-	-	-	408,060
Total amortisation	**(3,977,957)**	**(234,586)**	**(276,834)**	**-**	**1,707**	**29,736**	**(4,457,934)**
Plant and machinery (3)	(13,677)	-	(42)	-	-	-	(13,719)
Prepayments and work in progress(3)	(18,136)	-	(28,071)	-	-	-	(46,207)
Total impairment	**(31,813)**	**-**	**(28,113)**	**-**	**-**	**-**	**(59,926)**
Land and buildings	97,815	66,961	(4,367)	4,375	(137)	(7,865)	156,782
Plant and machinery	4,543,679	799,017	(271,497)	13,861	(1,522)	(93,721)	4,989,817
Other installations, tools, and furniture	26,062	1,379	(2,758)	1,051	(68)	(169)	25,497
Prepayments and work in progress	540,867	6,657	252	(19,287)	(5,993)	(914)	521,582
Capital grants	(205,536)	-	13,209	-	-	-	(192,327)
Net carrying amount of property, plant, and equipment	**5,002,887**	**874,014**	**(265,161)**	**-**	**(7,720)**	**(102,669)**	**5,501,351**

(2) "Increases due to changes in the consolidation scope" on 31 December 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control over the company on 1 January 2017.

(3) During financial year 2017, the Enagás Group proceeded to carry out an analysis of both projects in progress and inventories of materials stored in the warehouses. Following this analysis, both the materials deemed obsolete and investments in ongoing projects whose probability of execution was remote were depreciated in the amount of 28,113 thousands of euros.

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

It is Group policy to insure its assets so that no significant losses on equity may occur. In addition, the Group has contracted the corresponding insurance policies to cover third party civil liabilities.

a) Grants

The capital grants taken to the Consolidated Income Statement for the first six months of 2018 amount to 5,580 thousands of euros (6,605 thousands of euros during the same period in financial year 2017).

With respect to the current situation of the Granadilla (Tenerife) regasification plant, no changes arose relating to those described in **Note 2.4 to the Consolidated Financial Statements at 31 December 2017.**

Regarding the situation of the Castor underground storage facility, no significant change has occurred in the first six months of 2018, so the situation remains as described in **Note 2.4 of the 2017 Consolidated Financial Statements.**

With the regard to the status of the regasification plant in the port of El Musel, it should be noted that Royal Decree 335/2018 was recently published on 25 May, which re-establishes the processing of the facilities affected by Section 2 of Transitional Provision Three of the Royal Decree-law 13/2012, dated 30 March, among which includes the regasification plant at El Musel, determining the procedure and conditions of it. As a result, as of 30 June 2018, this investment remains "Assets under construction" with a value of 378,890 thousands of euros.

At 30 June 2018 there were no substantial changes in the estimates made at closure 2017, nor were there any indications of loss of value, so no impairment was recorded on property, plant and equipment items other than the effect indicated in **Note 2.6** for the reclassification of certain assets as Non-Current Assets Held for Sale.

2.5 Intangible assets

2018	Opening balance at 12.31.2017	Increases or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance at 06.30.2018
Goodwill (1)	181,704	-	-	-	5,084	186,788
Other intangible assets						
Development	8,125	97	-	-	-	8,222
Concessions	741,506	-	-	-	23,993	765,499
Computer software	212,944	3,245	329	-	114	216,632
Other intangible assets	17,082	-	(329)	-	260	17,013
Total cost	**1,161,361**	**3,342**	**-**	**-**	**29,451**	**1,194,154**
Other intangible assets						
Development	(3,370)	(304)	-	-	-	(3,674)
Concessions	(43,666)	(10,742)	-	-	(1,800)	(56,208)
Computer software	(174,569)	(7,627)	-	-	(96)	(182,292)
Other intangible assets	(9,867)	(151)	-	-	(75)	(10,093)
Total amortisation	**(231,472)**	**(18,824)**	**-**	**-**	**(1,971)**	**(252,267)**
Total goodwill	181,704	-	-	-	5,084	186,788
Total other intangible assets	748,185	(15,482)	-	-	22,396	755,099
Net carrying amount of intangible assets	**929,889**	**(15,482)**	**-**	**-**	**27,480**	**941,887**

(1) It includes the amounts corresponding to the goodwill arising from the acquisition of ETN (17,521 thousands of euros), from the acquisition of control of Gascán (8,291 thousands of euros), and goodwill from the assignment of the purchase price of GNL Quintero (160,976 thousands of euros), as a result of the acquisition of control over the company at 1 January 2017.

2017	Opening balance at 31.12.2016	Increases due to changes in consolidation scope (2)	Increases or provisions	Increases or decreases due to transfers	Decreases, disposals or reductions	Translation differences	Closing balance at 12.31.2017
Goodwill	25,812	184,950	-	-	-	(29,058)	181,704
Other intangible assets			-	-	-	-	-
Development	7,418	-	720	-	(13)	-	8,125
Concessions	5,871	835,441	-	-	-	(99,806)	741,506
Computer software	198,009	3,848	11,905	-	-	(818)	212,944
Other intangible assets	7,837	10,096	-	-	-	(851)	17,082
Total cost	**244,947**	**1,034,335**	**12,625**	**-**	**(13)**	**(130,533)**	**1,161,361**
Other intangible assets							
Development	(2,798)	-	(572)	-	-	-	(3,370)
Concessions	(3,912)	-	(23,024)	(20,405)	-	3,675	(43,666)
Computer software	(154,127)	(2,447)	(18,315)	-	-	320	(174,569)
Other intangible assets	(7,691)	(2,093)	(348)	-	-	265	(9,867)
Total amortisation	**(168,528)**	**(4,540)**	**(42,259)**	**(20,405)**	**-**	**4,260**	**(231,472)**
Total goodwill	25,812	184,950	-	-	-	(29,058)	181,704
Total other intangible assets	50,607	844,845	(29,634)	(20,405)	(13)	(97,215)	748,185
Net carrying amount of intangible assets	**76,419**	**1,029,795**	**(29,634)**	**(20,405)**	**(13)**	**(126,273)**	**929,889**

(2) "Increases due to changes in the consolidation scope" for 2017 reflects the effect of consolidating the interest held in GNL Quintero under the full consolidation method as a consequence of acquiring control.

2.6 Non-current assets held for sale

On 20 March 2018, a contract was signed for the purchase and sale of certain existing pipework in various Enagás Group warehouses, which were classified under the caption "Property, plant and equipment" in the Consolidated Balance Sheet at 31 December 2017.

The Group classifies intangible assets, materials or those included in the heading "Investments accounted for using the equity method" and the groups subject to their sale (groups of assets for disposal together with their directly associated liabilities) as "Non-current assets held for sale". Accordingly, on the closing date of the Consolidated Balance Sheet, active steps have been taken for their sale and it is estimated that it will take within the twelve months following that date.

These assets are valued at the lower of book value or the estimated sale value minus the costs necessary of carrying them out and are no longer amortised from the moment they are classified as such.

This operation is subject to compliance with certain standard conditions in this type of transactions, which were not yet fulfilled at 30 June 2018. Under IFRS 5, amounts reclassified under the heading "Non-current Assets Held for Sale" must be valued at the lower of the carrying amount and fair value. On this basis, the group recorded a loss of value in the Consolidated Income Statement at 30 June 2018, in the amount of 18,979 thousands of euros. In this way, the reclassified amount amounted to 26,068 thousands of euros.

2.7 Provisions and contingent liabilities

The Directors of the Enagás Group consider that the provisions recognised in the accompanying Consolidated Balance Sheet at 30 June 2018 for litigation and arbitration risk as well as other risks described in this note are adequate, and they do not expect any additional liabilities to arise in this respect other than those already recorded. Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments, if any.

a) Non-current provisions

The movement in the balance of the heading "Non-current provisions" during the first six months of financial year 2018 was as follows:

Non-current provisions	Opening balance	Provisions	Updates Re-estimation	Reclassification	Amounts used	Closing balance
Personnel remuneration	5,930	1,446	7	(7,383)	-	-
Other responsibilities	1,252	-	6	-	(534)	724
Dismantling	171,222	-	2,362	-	-	173,584
Total non-current provisions	**178,404**	**1,446**	**2,375**	**(7,383)**	**(534)**	**174,308**

The provisions for dismantling correspond to the underground storage facilities of Gaviota, Yela and Serrablo, and the Barcelona, Cartagena, Huelva and Gijón regasification plants under the current regulatory framework (**see Note 2.8.a of the Consolidated Financial Statements at 31 December 2017**).

The movement for the financial year 2018 corresponds to the financial update of said provision, an effect that is recorded in "Financial and Similar Expenses" in the Consolidated Income Statement.

The "Personnel remuneration" summary includes a total of 2,062 thousands of euros (1,677 thousands of euros at 31 December 2017) corresponding to the accrued portion of the Long Term Incentive Plan ("ILP") for executive directors and members of the management team payable in cash **(Note 4.2)**, as well as the three-year bonus scheme for contribution to profits for the rest of the Group's workforce. On 30 June 2018, the Group proceeded to reclassify the amount reported under this heading as current provisions for personnel remuneration given that it is to be liquidated in the first half of 2019.

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

b) Contingent liabilities

At 30 June 2018, no circumstances had arisen in the Enagás Group that may give rise to contingent liabilities.

2.8 Other non-current liabilities

Other non-current liabilities mainly includes amounts referring to the fees of Gasoductos de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. for balances pending application of the contracts signed with these companies as "gas transportation right", consolidated proportionally by applying the percentage of the investment of Enagás Transporte, S.A.U. in the companies. A criterion of imputation and recording of said income is based on linear accrual thereof until 2020, the year in which the transportation contract expires.

At 1 January 2018, in application of IFRS 15, as explained in **Note 1.9,** the implicit financial component of certain contracts was valued, with a recalculation of the anticipated income pending deferral, with the initial effect involving a higher non-current liability of 37.6 million euros.

3. Capital structure, financing and financial result

Relevant aspects

Financial leverage

- The financial leverage ratio at 30 June 2018 is 63.7% (65.9% at 31 December 2017).

	06.30.2018	12.31.2017
Net financial debt **(Note 3.4)**	4,553,555	5,007,703
Shareholders' equity	2,599,064	2,585,639
Financial leverage	**63.66%**	**65.95%**

Equity

- At 30 June 2018, net equity has increased by 1.3 % compared to the previous year end, to a total of 2,985 million euros.
- The share capital of Enagás at 30 June 2018 was 358 million euros
- No individual or legal entity can invest directly or indirectly in a proportion in excess of 5% of the share capital of Enagás, S.A., nor exercise political rights in this company above 3% (1% for those subjects who, directly or indirectly, perform activities in the gas sector). These restrictions are not applicable to direct or indirect holdings corresponding to the public business sector **(Note 3.1)**.

Net financial debt

- Net financial debt is the main indicator used by Management to measure the Group's level of indebtedness. Net financial debt at 30 June 2018 was 4,554 million euros (5,008 million euros at the end of 2017) **(Note 3.4)**.
- The average annual interest rate until 30 June 2018 for the Group's net financial debt was 2.7% (2.7% at 31 December 2017).
- The percentage of fixed rate net financial debt at 30 June 2018 and 31 December 2017 was more than 80%, with the average debt maturity periods at 30 June 2018 of 6.5 years (6.8 years at 31 December 2017).
- The main financing operations for the year were:
  - On 9 May 2018, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) programme for the amount of 4,000 million euros, registered in the Luxembourg Stock Exchange in 2012, with Enagás, S.A. as guarantor.
  - Additionally, on 10 May 2018, Enagás Financiaciones, S.A.U. renewed the Euro Commercial Paper (ECP) programme for a maximum amount of 1,000 million euros, registered in the Irish Stock Exchange on 4 May 2017.

Available funds

- The Group has available funds at 30 June 2018, of 2,850 million euros (2,484 million euros at 31 December 2017) **(Note 3.6)**.

Financial expenses

- Financial and similar expenses increased from 85 million euros at 30 June 2017 to 78 million euros at 30 June 2018.

Financial income

- Finance revenue exceeded 67 million euros at 30 June 2017, and 20 million euros at 30 June 2018. This variation is principally due to the effects of the staggered business mergers at GNL Quintero, which took place in the 2017 financial year (revaluation of the participation of the former and cancellation of the conversion differences).

Derivative financial instruments

- The Group engages in hedging transactions on cash flows, fair value and net investment. At 30 June 2018, the net fair value of the Group's derivatives, including assets and liabilities derivatives, was 34 million euros of liabilities (24 million euros of liabilities at 31 December 2017) **(Note 3.5)**.

3.1 Total equity

a) Share capital

At 30 June 2018 and at 31 December 2017, the share capital of Enagás S.A. was 358,101 thousands of euros, represented by 238,734,260 shares with par value of 1.5 euros each, all of the same class, fully subscribed and paid.

The total shares of the parent company Enagás, S.A. are admitted for trading on the four Spanish Official Stock Exchanges and are traded on the continuous market.

At 30 June 2018, no company held more than 5% interest in the share capital of Enagás, S.A.

At 30 June 2018 and 31 December 2017, the most significant stake held in the share capital of Enagás, S.A. was broken down as follows (data obtained from the National Securities Market Commission (CNMV) (1) at 30 June 2018):

	Interest in share capital (%)	
Company	**06.30.2018**	**12.31.2017**
Sociedad Estatal de Participaciones Industriales	5.000	5.000
Lazard Asset Management (2)	-	5.074
Bank of America Corporation	3.614	3.614
BlackRock Inc.	3.383	3.383
Fidelity International Limited	1.906	1.906
State Street Corporation	3.008	3.008
Retail Oeics Aggregate	1.010	1.010

(1) Information extracted by the CNMV, obtained at the last notification that each subject obliged to notify sent to the organisation in relation to the provisions of Royal Decree 1362/2007 of 19 October and Circular 2/2007 of 19 December.

(2) According to information published in the CNMV, Lazard Asset Management ceased holding a significant stake at 30 June 2018.

b) Treasury shares

On 25 May 2016, Enagás, S.A. finalised the process for the acquisition of 307,643 treasury shares, 0.13% of the total shares of the Group, for a total amount of 8,219 thousands of euros (including associated costs of 8 thousands of euros). This acquisition falls under the "Temporary Treasury Shares Repurchase Programme", the aim of which is to comply with the obligations to deliver shares to the Enagás Group Executive Directors and to the members of the senior management team as part of the current remuneration system under the terms and conditions established in the Long Term Incentive Plan (ILP) as well as the Remuneration Policy 2016-2018 approved by the General Shareholders Meeting of 18 March 2016. The shares were purchased in fulfilment of the requirements established in Article 5 of EC Regulation 2273/2003 and under the terms authorised by the General Shareholders Meeting of 18 March 2016. The management of the Temporary Treasury Share Repurchase Programme was delegated to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the acquisition, on behalf of Enagás, S.A, independently and without any influence of the latter **(Note 4.2)**.

There was no acquisition or disposal of treasury shares during the first six months of financial year 2018.

3.2 Result and variation in minority interests

	Minority interest holding	Opening balance	Perimeter variations	Dividends distributed	Translation differences	Distribution of results	Other adjustments (1)	Closing balance
2018								
ETN, S.L.	10.0%	14,978	-	(786)	-	577	(64)	14,705
GNL Quintero, S.A.	54.6%	353,808	-	(3,157)	12,826	9,812	(10,276)	363,013
Remaining companies		186	-	-	-	(33)	26	179
Total (2018)		**368,972**	**-**	**(3,943)**	**12,826**	**10,356**	**(10,314)**	**377,897**
2017								
ETN, S.L.	10.0%	14,618	-	(689)	-	1,049	-	14,978
GNL Quintero, S.A.	54.6%	-	396,031	(15,364)	(40,057)	13,198	-	353,808
Remaining companies		78	116	-	-	(8)	-	186
Total (2017)		**14,696**	**396,147**	**(16,053)**	**(40,057)**	**14,239**	**-**	**368,972**

(1) "Other adjustments" mainly includes the amounts recorded in the Reserves of the companies due to the effect of the application of IFRS 9 and IFRS 15 at 1 January 2018."

3.3 Financial assets and liabilities

a) Financial assets

Categories \ Class	Equity instruments (1)		Loans and other (2)		Derivatives (Note 3)		Total	
	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017
Loans	-	-	493,730	402,913	-	-	493,730	402,913
Trade and other receivables **(Note 2.2)**	-	-	135,408	117,947	-	-	135,408	117,947
Derivatives **(Note 3.5)**	-	-	-	-	27,173	22,213	27,173	22,213
Other	3,173	4,573	405,469	388,403	-	-	408,642	392,976
Other non-current financial assets	**3,173**	**4,573**	**1,034,607**	**909,263**	**27,173**	**22,213**	**1,064,953**	**936,049**
Loans	-	-	7,059	6,695	-	-	7,059	6,695
Total current financial assets	**-**	**-**	**7,059**	**6,695**	**-**	**-**	**7,059**	**6,695**
Total financial assets	**3,173**	**4,573**	**1,041,666**	**915,958**	**27,173**	**22,213**	**1,072,012**	**942,744**

(1) Valued at fair value in line with changes in equity.
(2) Valued at amortised cost.
(3) Valued at fair value in line with changes in the Income Statement. In the specific case of those derivatives to which cash flow hedges or net investment are attributed, the accumulated amounts in equity are transferred to the Consolidated Income Statement in the periods when the covered items affect the Consolidated Income Statement **(Note 3.5)**.

The Directors estimate that the fair value of the financial assets at 30 June 2018 does not differ significantly with respect to their book value.

Loans

This mainly includes loans granted to group companies consolidated using the equity method and therefore not eliminated in the consolidation process, the details of which are as follows:

	Interest rate	Maturity	06.30.2018	12.31.2017
Non-current loans to related parties (*)			**494,048**	**402,892**
Trans Adriatic Pipeline AG	ASF + spread	July-2043	382,992	293,921
Estación de Compresión Soto La Marina S.A.P.I. de C.V.	5.90%	December-2032	53,165	52,781
Gasoducto de Morelos, S.A.P.I. de C.V.	7.50%	September-2033	31,104	29,316
Planta de Regasificación de Sagunto, S.A.	EUR 6M + Spread	June-2025	26,787	26,874
Current loans to related parties			**5,606**	**6,695**
Trans Adriatic Pipeline AG	ASF + Spread	July-2043	2,949	4,188
Estación de Compresión Soto La Marina S.A.P.I. de C.V.	5.90%	December-2032	2,645	2,495
Planta de Regasificación de Sagunto, S.A.	EUR 6M + Spread	June-2025	12	12
Total			**499,654**	**409,587**

(*) Unaffected by the expected loss.

During financial year 2018, interest charges amounting to 1,553 thousands of euros were received, mainly from the Soto La Marina S.A.P.I. de CV Compression Station, amounting to 1,392 thousands of euros.

Other

Other non-current financial assets include an amount of 3,075 thousands of euros (4,478 thousands of euros at 31 December 2017) corresponding to the investment made by the Group in Economic Interest Groups (EIG) whose activity is the leasing of assets managed by another entity unrelated to the Group and which retains both the majority of profits as well as the risks related to the activities, with the Group only availing itself of the regulated tax incentives in Spanish legislation. The Company attributes the tax loss carryforwards generated by these EIGs against shares and by difference with the debt registered with the tax authorities, the corresponding finance income.

This caption also includes accounts receivable for guarantees enforced for the Enagás Group as a result of the termination of the GSP concession contract, both for the corporate guarantee granted on the financial debt of GSP and the performance bond of the concession contract. **(See note in 1.5)**

Both guarantees are estimated to be recoverable through the Net Carrying Amount procedure. The amount of the account receivable for both items, financially discounted at the date of recovery as indicated in **Note 1.5** amounts to 182,117 thousands of euros at 30 June 2018 (173,258 thousands of euros at 31 December 2017).

Lastly, as mentioned in **Note 1.5**, this heading includes the account receivable that the Enagás Group holds with GSP for the recovery of the amount of the financial investment in that company, financially discounted, the estimated date of recovery being 31 December 2021, in a total amount of 215,607 thousands of euros.

Value corrections

During financial year 2018, the group recorded, in accordance with the provisions of IFRS 9, the impact resulting from analysis of the expected loss due to loans granted to group companies consolidated using the equity method and that are not, therefore, eliminated in the consolidation process. At 30 June 2018 this amount was 389 thousands of euros.

Furthermore, and except for the recording of the expected loss, as per IFRS 9, during the first six months of 2018, there were no additional movements with respect to the provisions which cover impairment losses of assets held by the Group.

b) Financial liabilities

Class / Categories	Debts with credit institutions		Bonds and other marketable securities		Derivatives and others		Total	
	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017
Financial debts **(Note 3.4)**	1,126,969	1,429,236	4,018,365	4,000,662	5,861	5,994	5,151,195	5,435,892
Derivatives **(Note 3.5)**	-	-	-	-	47,468	32,845	47,468	32,845
Trade creditors	-	-	-	-	82	73	82	73
Total non-current financial assets	**1,126,969**	**1,429,236**	**4,018,365**	**4,000,662**	**53,411**	**38,912**	**5,198,745**	**5,468,810**
Financial debts **(Note 3.4)**	351,650	152,883	31,646	49,864	221,338	14,262	604,634	217,009
Derivatives **(Note 3.5)**	-	-	-	-	13,745	12,994	13,745	12,994
Trade creditors **(*) (Note 2.3)**	-	-	-	-	134,718	171,844	134,718	171,844
Total current financial liabilities	**351,650**	**152,883**	**31,646**	**49,864**	**369,801**	**199,100**	**753,097**	**401,847**
Total financial liabilities	**1,478,619**	**1,582,119**	**4,050,011**	**4,050,526**	**423,212**	**238,012**	**5,951,842**	**5,870,657**

(*) The detail of "Trade creditors" does not include the Amounts Payable to Public Administrations

3.4 Financial debts

	06.30.2018	12.31.2017
Bonds and other marketable securities	4,050,011	4,050,526
Debts with credit institutions	1,478,619	1,582,119
Other receivables	227,199	20,256
Total financial debts	**5,755,829**	**5,652,901**
Non-current financial debts (Note 3.3)	**5,151,195**	**5,435,892**
Current financial debts (Note 3.3)	**604,634**	**217,009**

The Directors estimate that the fair value of the debts with credit institutions and bonds and other marketable securities at 30 June 2018 does not differ significantly with respect to their book value.

a) Debts with credit institutions

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

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

- Additionally, on 10 May 2018, Enagás Financiaciones, S.A.U. renewed the Euro Commercial Paper (ECP) programme for a maximum amount of 1,000,000 thousands of euros, registered in the Irish Stock Exchange on 4 May 2017.

At 30 June 2018, the Group had access to credit lines in the amount of 2,275,680 thousands of euros (2,260,656 thousands of euros at 31 December 2017), of which 1,878,249 thousands of euros had not been drawn down (1,856,393 thousands of euros in 2017).**(Note 3.6)**

In the opinion of the Company's directors, this situation offers sufficient hedging of possible short-term liquidity needs, in accordance with the commitments existing to date.

Finally, as indicated in **Note 1.9**, the initial application at 1 January 2018 had the effect of a reduction of approximately 24 million euros in lower financial debt in order to record the valuation according to the interpretation for refinancing operations that do not involve discontinuation of the previous debt.

b) Other receivables

At 30 June 2018, "Other debts" mainly includes the additional dividend of the parent company Enagás, S.A. from the profit for the year 2017. The amount, paid on 5 July 2018, was 208,862 thousands of euros.

c) Net financial debt

Net financial indebtedness, or Net Financial Debt is the primary indicator used by management to measure the Group's level of indebtedness. It comprises gross debt minus cash

	06.30.2018	12.31.2017
Debts with credit institutions	1,478,619	1,582,119
Bonds and other marketable securities	4,050,011	4,050,526
- Adjust for amortised cost of Bonds**(*)**	(7,372)	(1,587)
Loans from the General Industry Secretariat, General Secretariat of Industry and Oman Oil.	4,503	4,509
Gross financial debt	**5,525,761**	**5,635,567**
Cash and cash equivalents **(Note 3.6)**	(972,206)	(627,864)
Net financial debt	**4,553,555**	**5,007,703**

(*) Includes the adjusted figure for the amortised cost of the bond in yen of the Enagás Group as well as the GNL Quintero bond.

3.5 Derivative financial instruments

The Enagás Group contracts derivatives to hedge its exposure to financial risks due to interest rate and / or exchange rate variations, but does not use derivatives for speculative purposes. All derivatives are valued, both initially and subsequently, at fair value. Differences in fair value are recognised in the Consolidated Income Statement, except for specific treatment under hedge accounting.

The detail of the accounting hedging policies and the risk management policies used by the Enagás Group are described in **Notes 3.6 and 3.7 of 2017 Consolidated financial statements**.

Name	Type	Maturity	Notional contracted	Fair value 06.30.2018	Fair value 12.31.2017
Cash flow hedges					
Interest rate swap	Floating to fixed	Dec-19	150,000	(1,043)	(1,250)
Interest rate swap	Floating to fixed	Jan-20	150,000	(613)	(767)
Interest rate swap	Floating to fixed	Mar-20	65,000	(630)	(722)
Fair value hedging					
Cross Currency Swap	Fixed to floating	Sep-39	147,514	7,896	2,173
Net investment coverage					
Cross Currency Swap	Fixed to fixed	Apr-22	400,291	(54,849)	(39,201)
Cross Currency Swap	Fixed to fixed	May-28	237,499	15,199	16,141
Total			**1,150,304**	**(34,040)**	**(23,626)**

3.6 Cash and other cash equivalents

a) Cash and cash equivalents

	06.30.2018	12.31.2017
Treasury	972,206	627,864
Other liquid assets	-	-
Total	**972,206**	**627,864**

The heading "Other liquid assets", is used to record deposits with a short-term maturity. In general, bank cash accrues interest at rates similar to the market rate for daily deposits. Short-term deposits are highly cash-convertible and earn market interest rates for these types of deposit. There are no restrictions for significant amounts on cash availability.

b) Available funds

The Enagás Group has loans and credit lines that are not made available to guarantee liquidity. In this sense, the financial availabilities that the Enagás Group has available are the following:

Available funds	06.30.2018	12.31.2017
Cash and cash equivalents	972,206	627,864
Other available funds **(Note 3.4)**	1,878,249	1,856,393
Total available funds	**2,850,455**	**2,484,257**

4. Other information

Relevant aspects

Compensation of the members of the Board of Directors and Senior Management

- Remuneration to the Board of Directors, without taking into account the insurance premium, amounted to 3,008 thousands of euros at 30 June 2018 (3,005 thousands of euros at 30 June 2017) **(Note 4.2)**.
- The Remuneration Policy for Directors for 2016, 2017 and 2018 was approved in detail by the General Shareholders' Meeting on 18 March 2016.
- Remuneration to the Senior Executives Management, without taking account of insurance premiums, amounted to 2,897 thousands of euros (2,844 thousands of euros at 30 June 2017) **(Note 4.2).**

4.1 Related party transactions and balances

Income and expenses	Directors and executives	Group employees, companies or entities	Other related parties	Total (1)
06.30.2018				
Expenses:				
Financial expenses	-	-	5,269	**5,269**
Services received	-	26,698	589	**27,287**
Other expenses	1,118	-	-	**1,118**
Total Expenses	**1,118**	**26,698**	**5,858**	**33,674**
Income:				
Financial income	-	5,389	20	**5,409**
Provision of services	-	5,648	-	**5,648**
Gains on the sale or derecognition of assets	-	7	-	**7**
Other income	-	1,553	-	**1,553**
Total income	**-**	**12,597**	**20**	**12,617**
06.30.2017				
Expenses:				
Financial expenses	-	-	4,186	**4,186**
Services received	-	25,996	86	**26,082**
Other expenses	998	-	-	**998**
Total Expenses	**998**	**25,996**	**4,272**	**31,266**
Income:				
Financial income	-	4,698	-	**4,698**
Provision of services	-	3,908	-	**3,908**
Other income	-	1,553	-	**1,553**
Total income	**-**	**10,159**	**-**	**10,159**

(1) During 2018 and 2017 there were no transactions with significant shareholders as well as those described in the table below.

Other transactions	Significant shareholders	Group employees, companies or entities	Other related parties	Total
06.30.2018				
Guarantees for related party debts **(Note 1.8)**	-	22,897	-	**22,897**
Guarantees granted - other **(Note 1.8)**	-	8,649	118,728	**127,377**
Investment commitments **(Note 1.8)**	-	190,600	-	**190,600**
Dividends and other earnings distributed	37,479	-	-	**37,479**
12.31.2017				
Guarantees for related party debts **(Note 1.8)**	-	24,131	-	**24,131**
Guarantees granted - other **(Note 1.8)**	-	8,376	130,212	**138,588**
Investment commitments **(Note 1.8)**	-	68,800	-	**68,800**
Dividends and other earnings distributed	58,624	-	-	**58,624**

During the first six months of 2018 and during 2017, the Banco Santander group fulfilled the criteria for consideration as a related party.

Of the transactions disclosed in the above table, 5,269 thousands of euros of finance expenses correspond to this entity for the first six months of 2018 (4,186 thousands of euros during 2017), including finance expenses arising out of the interest rate hedging contracts, and 118,728 thousands of euros in guarantees granted at 30 June 2018 (130,212 thousands of euros at 31 December 2017).

In addition, this banking entity carried out the following transactions with the Enagás Group:

- The Enagás Group maintains a multi-currency club deal for financing purposes, in which the related party represents 9.63% of all banks participating in this financing source.
- During financial year 2017, Enagás S.A. and Enagás Internacional, S.L.U. took out credit lines for a total amount of 550,000 thousands of dollars.
- The Directors consider that no additional significant liabilities will arise in connection with the transactions disclosed in this note other than those already recognised in the accompanying Consolidated Balance Sheet.

4.2 Compensation of the members of the Board of Directors and Senior Management

	06.30.2018	06.30.2017
Members of the Board of Directors:	**3,008**	**3,005**
Fixed remuneration	750	730
Variable remuneration	865	755
Remuneration for Board membership	1,118	998
Other	275	522
Executives	**2,897**	**2,844**
Remuneration received	2,897	2,844

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

The two executive Directors are beneficiaries of the 2016-2018 Long-term Incentive approved by the General Meeting on 18 March 2016 as item 8 of its Agenda. The meeting assigned a total of 97,455 shares rights to them. These rights do not yet mean the acquisition of shares until the end of the programme and the final incentive shall depend on the degree of fulfilment of the programme's objectives.

The members of the Senior Management (members of the Management Committee) are also beneficiaries of the Long-term Incentive 2016-2018. In the terms approved by the Meeting, the Board of Directors assigned them a total of 99,433 shares rights and a cash objective incentive amounting to 903 thousands of euros. These rights do not yet involve the acquisition of shares or the receipt of any amount until the end of the programme and the final incentive will depend on the extent to which the programme's objectives are met.

The Executive Directors and Senior Management are part of the group insured by the collective mixed insurance that implements the pension commitments.

Share-based payments

As indicated in **Note 4.4 to the Consolidated Financial Statements for 2017**, on 18 March 2016, the Enagás, S.A. General Shareholders' Meeting approved a long-term incentive plan aimed at executive directors and senior management of the Company and its Group, with a view to maximising motivation and loyalty as well as promoting the good results achieved by the Enagás Group, aligning its interests with the long term value of shareholders.

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

Regarding the part to be paid in shares, the maximum total number to be delivered will be 307,643 shares. Regarding the cash incentive, the Plan provides for an estimated maximum payment of approximately 2.5 million euros for 100% maximum compliance with the objectives.

The part payable in shares in Enagás, S.A. accrued in 2018 is included in the Consolidated Income Statement, under the heading "Personnel Expenses", in the amount of 1,006 thousands of euros (1,256 thousands of euros at 30 June 2017), with a credit to "Other Net Equity instruments" in the Consolidated Net Equity at 30 June 2018.

Likewise, for the cash incentive part, the Enagás Group recorded provision of services corresponding to this incentive as a personnel expense in the amount of 385 thousands of euros (552 thousands of euros at 30 June 2017) with credit to "Provisions" in non-current liabilities of the consolidated balance sheet at 30 June 2018.

At 30 June 2018, the estimate is made assuming that all the objectives relating to the plan have been fully achieved.

4.3 Information by segments

a) Primary business segments

Regulated activities - Infrastructure Activity

Gas transmission: represents the main activity, consisting in the delivery of gas via its transmission network, comprised of primary transmission pipelines (with maximum design pressure equal to or greater than 60 bars) and secondary transmission pipelines (with maximum design pressure ranging from 16 to 60 bars) up to the distribution points, as owner of most of the gas transmission network in Spain.

Regasification: The gas is transported from the producing countries in methane tankers at 160ºC below zero in its liquid state (LNG) and is unloaded at the regasification plants where it is stored in cryogenic tanks. At these facilities, via a physical process which normally uses vaporisers with sea water, the temperature of the liquefied gas is increased until it is transformed into its gaseous state. The natural gas is injected into the gas pipelines for transmission to the whole peninsula.

Storage: the Enagás Group operates three underground storage facilities: Serrablo, located between Jaca and Sabiñánigo (Huesca), Yela (Guadalajara), and Gaviota (off-shore storage), located near Bermeo (Vizcaya).

Regulated activities - Technical Manager of the System Activity

The Enagás Group continued carrying out its functions as Technical Manager of the System in 2017 in compliance with Royal Decree 6/2000 of 23 June and Royal Decree 949/2001 of 3 August with a view to guaranteeing continuity and security of supply, as well as the correct coordination amongst the access, storage, transmission, and distribution points.

Non-regulated activities

All non-regulated activities, as well as transactions related to investments in associates and joint ventures, except those corresponding to BBG, Saggas, MIBGAS and Iniciativas del Gas, S.L.

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

The structure of this information is designed as if each business line were an autonomous business and had independent own resources distributed based on the assets assigned to each line in accordance with an internal cost distribution system by percentages.

	Infrastructures		Technical Management of the System		Non-regulated activities		Adjustments (1)		Total Group	
INCOME STATEMENT	06.30.2018	06.30.2017	06.30.2018	06.30.2017	06.30.2018	06.30.2017	06.30.2018	06.30.2017	06.30.2018	06.30.2017
Operating income	580,580	578,381	12,879	13,000	121,608	131,583	(31,859)	(34,930)	**683,208**	**688,034**
Third parties	576,039	574,010	11,889	11,901	88,079	96,662	-	-	**676,007**	**682,573**
Group	4,541	4,371	990	1,099	33,529	34,921	(31,859)	(34,930)	**7,201**	**5,461**
Provisions for depreciation of fixed assets	(121,333)	(123,394)	(3,620)	(4,609)	(29,877)	(33,744)	114	68	**(154,716)**	**(161,679)**
Operating profit	303,419	320,495	343	(1,212)	56,001	42,762	224	(186)	**359,987**	**361,859**
Financial income	80	6,510	-	-	83,037	88,007	(62,671)	(27,165)	**20,446**	**67,352**
Financial expenses	(18,398)	(27,778)	(93)	(146)	(72,199)	(84,391)	12,671	27,166	**(78,019)**	**(85,149)**
Income tax	(68,854)	(73,756)	(63)	340	4,951	7,327	(53)	45	**(64,019)**	**(66,044)**
After tax profit	215,687	225,059	187	(1,019)	53,797	45,173	(49,829)	(139)	**219,842**	**269,074**

BALANCE SHEET	Infrastructures		Technical Management of the System		Non-regulated activities		Adjustments (1)		Total Group	
	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017	06.30.2018	12.31.2017
Total assets	5,651,339	5,821,771	69,244	71,174	8,507,562	8,419,727	(4,460,202)	(4,740,036)	**9,767,943**	**9,572,636**
Acquisition of assets	6,234	34,347	1,182	5,755	5,177	12,729	(1)	(420)	**12,592**	**52,411**
Non-current liabilities (2)	452,884	437,016	(1,689)	(1,239)	286,084	268,916	(478)	1,206	**736,801**	**705,899**
- Deferred tax liabilities	205,372	221,036	(1,689)	(1,725)	285,597	264,639	(478)	1,206	488,802	485,156
- Provisions	173,821	173,641	-	486	487	4,277	-	-	174,308	178,404
- Other non-current liabilities	73,691	42,339	-	-	-	-	-	-	73,691	42,339
- Current liabilities (2)	366,827	668,295	43,814	43,279	30,802	60,502	(297,477)	(565,172)	**143,966**	**206,904**
-Trade and other payables	366,827	668,295	43,814	43,279	30,802	60,502	(297,477)	(565,172)	**143,966**	**206,904**

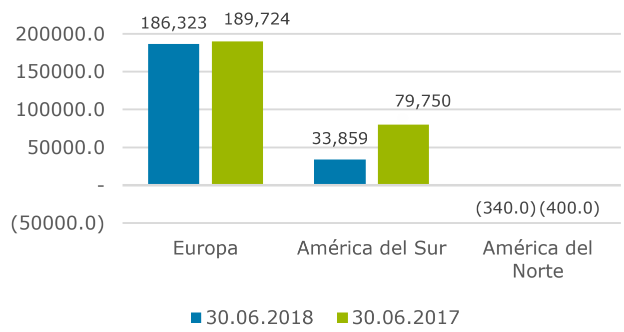
(1) "Adjustments" includes the eliminations of inter-company transactions (rendering of services and credit granted) as well as the elimination of Investments Own Funds.

(2) This does not include financial liabilities nor does it include current tax liabilities.

b) Segments by geographical information

Most Enagás Group companies operating outside Europe were consolidated under the equity method, with the corresponding expenses and income thus recognised under "Result of investments accounted for by the equity method" in the Consolidated Income Statement. In view of this, the information relating to geographical markets is based on the net result.

The distribution of profit at 30 June 2018 and 30 June 2017, broken down by geographical markets, is as follows:



4.4 Subsequent events

On 5 July 2018, Enagás S.A. paid a gross dividend per share of 0.876 euros, in addition to the dividend of 0.584 euros gross per share already paid in December 2017, also charged to the results of 2017. In this way, the total gross dividend for 2017 amounted to 1.46 euros per share.

4.5 Explanation added for translation to English

There abridged financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain **(Note 1.2)**. Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Annex I. Regulatory framework

Annex III to the Group's Consolidated Financial Statements for the year ended 31 December 2017 establishes the prevailing regulatory framework at that date. The most significant changes made to standards during the first half of 2018 were the following:

1. Spanish Regulation

Resolution of 28 June 2018 of the Directorate General of Energy Policy and Mines, publishing the natural gas tariff of last resort.

Royal Decree 595/2018, of 22 June, establishing the basic organisational structure of the ministerial departments.

Royal Decree 355/2018, of 6 June, restructuring the ministerial departments.

Royal Decree 357/2018, of 6 June, by which Government Ministers are appointed.

Resolution of 6 June 2018 of the Directorate General of Energy Policy and Mines, amending the resolution of 25 July 2006, regulating the conditions of allocation and the procedure for application of interruptibility in the gas system.

Royal Decree 335/2018, of 25 May, amending different Royal Decrees that regulate the natural gas sector. The key aspects in this Royal Decree are the following:

- The suspension of the MUSEL authorisation process has been lifted. To implement it, a favourable resolution on the technical and economic conditions must be implemented.
- The structure of service tolls in LNG plants is being developed to promote activities such as bunkering or ship loading. These services can be provided in combination in one or several installations. Likewise, other network services are envisaged, such as entering the VBP from the distribution network (the purpose being to facilitate the entry of biogas from those networks).
- The deregistering, for payment purposes, of end-of-life facilities is authorised, provided they are not necessary to guarantee the security of the energy supply.
- The procedure for the closure, transfer and dismantling of facilities is being developed. The owner of the facilities will not gain any compensation rights.
- The same authorisation procedure as for natural gas is established for transportation networks related to the geological storage of carbon dioxide, as well as for the facilities necessary for the supply of other alternative fuels, such as hydrogen.
- The process for the disqualification of traders is being developed, as well as for the transfer of customers from disqualified traders.

Royal Decree 235/2018, of 27 April, establishing the calculation methods and information requirements in relation to the intensity of greenhouse gas emissions from fuels and energy in transportation; it amends Royal Decree 1597/2011, of 4 November, regulating the sustainability criteria of biofuels and bioliquids, the National System of Verification of Sustainability and the double-value of some biofuels for the purpose of their calculation; and establishes an indicative sale or consumption target for advanced biofuels.

Resolution of 23 April 2018, of the General Directorate of Energy Policy and Mines, which establishes the valuation and settlement of the balances of measurement differences in natural gas distribution networks from 1 June 2012 to 31 December 2013.

Resolution of 22 March 2018 of the Directorate General of Energy Policy and Mines, publishing the natural gas tariff of last resort.

Resolution of 30 January 2018, of the General Directorate of Energy Policy and Mines, publishing the assigned and available capacity in basic underground natural gas storage facilities for the period 1 April 2018 to 31 March 2019

Resolution of 18 January 2018, of the National Markets and Competition Commission, approving the framework contract for access to the transport and distribution system of Enagás Transporte, S.A.U., through international pipeline connections to Europe

2. Supranational Regulation

Delegated Regulation (EU) 2018/540 of the Commission of 23 November 2017 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council with regard to the Union’s list of projects of common interest

Commission Decision of 30 January 2018, establishing the Strategic Forum for Important Projects of Common European Interest

Recommendation (EU) 2018/177 of the Commission, of 2 February 2018 on the elements to be included in the technical, legal and financial arrangements between Member States with a view to implementing the solidarity mechanism provided for in Article 13 of Regulation (EU) 2017/1938 of the European Parliament and of the Council on measures to ensure security of gas supply

Regulation (EU) 2018/208 of the Commission, of 12 February, 2018, amending Regulation (EU) No. 389/2013 establishing the Union Registry

Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018, amending Directive 2003/87 / EC to intensify reductions in emissions efficiently in relation to costs and facilitate investments in hypo-carbon technologies, as well as Decision (EU) 2015/1814

Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual reductions in greenhouse gas emissions by the Member States between 2021 and 2030 contributing to action on climate change, in order to meet the commitments of the Paris Agreement, and amending Regulation (EU) No 525/2013

Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018, amending Directive 2010/31 / EU on the energy performance of buildings and Directive 2012/27 / EU on energy efficiency.

ENAGÁS GROUP MANAGEMENT REPORT

Evolution of the Group in the first half of 2018

Net profit at the close of the first half of 2018 was situated at 219,842 thousands of euros, which is a decline of 18.3% on the previous year. There was a 1.5% increase in net profit, without taking into account the effect of the change in consolidation method for GNL Quintero, S.A., in 2017.

Total Group revenues at 30 June 2018 were 683,208 thousands of euros, with a net turnover of 651,880 thousands of euros.

Enagás investments in the first half of 2018 rose to 103,263 thousands of euros, of which 18,448 thousands of euros were destined towards investments in Spain. The remaining 82% of investments, 84,805 thousands of euros, were made internationally and essentially as additional contributions to Trans Adriatic Pipeline AG for the amount of 84,800 thousands of euros.

Enagás S.A. share capital rose to 358,101 thousands of euros, represented by 238,734,260 shares at a nominal value of 1.50 euros each, all of the same category, fully subscribed and paid up, admitted for trading on the Spanish Official Stock Exchange and traded on the continuous market.

On 22 December 2017, Order ETU/1283/2017 was published in the Spanish Official State Gazette (BOE), setting out the tolls and fees associated with third-party access to gas system facilities and remuneration for regulated transmission, regasification, storage and distribution activities, and parameters for calculating variable remuneration.

Continued expansion and improvement to regasification, transmission and storage facilities took place in the first half of 2018 to adapt them to the needs of future demand forecasts.

Enagás gas assets

At 30 June 2018, the Enagás Group gas assets comprising the natural gas network were as follows:

Spain:

- About 11,000 km of gas pipelines throughout Spain.
- Three underground storage facilities: Serrablo, (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya).
- Four regasification plants: Cartagena, Huelva, Barcelona and Gijón.
- The company also owns a 50% stake in the BBG Regasification Plant (Bilbao) and a 72,5% stake in the Sagunto (Valencia) plant.

Chile:

- After different agreements reached between the shareholders of GNL Quintero during the course of 2017, Enagás now holds a 45.4% indirect stake in the company, maintaining control and fully consolidating its stake. For Enagás, Chile is a key country in its strategy, and GNL Quintero is an asset to which it has a long-term commitment.

Mexico:

- Enagás owns a 50% stake in Estación de Compresión Soto La Marina, a 50% stake in Gasoducto de Morelos and a 40% stake in the Planta de Altamira.

Greece, Albania and Italy:

- Enagás has a 16% holding in the company that is developing the Trans Adriatic Pipeline (TAP) project, which consists of the construction of a pipeline to connect Turkey with Italy via Greece and Albania, and which is considered a Project of Common Interest (PCI) by the European Union.
- During the first half of 2018, the consortium comprising Snam (60%), Enagás (20%) and Fluxys (20%) won the contract put to tender by the Greek Privatisation Agency (TAIPED) for acquisition of a 66% stake in DESFA, the Greek natural gas transmission operator.

Peru:

- Enagás possesses a 51% stake in the Compañía de Gas de Amazonas, S.A.C. (COGA), which is responsible for the operation and maintenance of Transportadora de Gas del Perú infrastructure.
- Additionally, the Group holds a 28.94% stake in the company Transportadora de Gas del Perú (TgP), whose assets comprise Sistema de Transporte de Gas Natural, with pipelines running from Camisea to Lurín, and Transporte de Líquidos de Gas Natural, whose pipelines run from Camisea to the coast.

Sweden:

- Enagás Group holds a 50% stake in Knubbsal Topholding AB, indirect owner of 100% of Swedegas AB, the company that owns the entire high-pressure gas network in Sweden and the only operator in Sweden with European Transmission System Operator (TSO) certification.

Significant aspects of the six months ending on 30 June 2018

Operating highlights

Spanish demand for gas reached 179.0 TWh, 5.9% higher than in the first half of 2017, essentially the consequence of strength in domestic/industrial demand (+7.8%), which accounts for more than half of total consumption in Spain. This was due to the incorporation of new customers, growth in the Spanish economy and colder temperatures than in the first half of 2017.

Main investments

The following investments made during the first half of 2018 are highlighted:

- Credits were granted to Trans Adriatic Pipeline amounting to 84,800 thousands of euros.
- Investments were made in regasification, transmission and storage facilities, with the aim of expanding and improving them to adapt to future demand forecasts amounting to 14,917 thousands of euros.

General Shareholders’ Meeting

The Enagás General Shareholders’ Meeting was held on 22 March 2018, during which the 2017 Financial Statements and Management Report of both Enagás S.A and the consolidated group were approved, in addition to the distribution of Enagás S.A. profits from 2017, including the payment of a complementary gross dividend of 0.876 euros per share.

Long-Term Incentive Plan

On 25 May 2016, Enagás, S.A. finalised the treasury share acquisition process for an amount of 8,219 thousands of euros. Said acquisition falls within the "Temporary program for the repurchase of treasury shares," the exclusive objective of which is to comply with the share delivery obligations with respect to Enagás Group executive directors and senior management in connection with the remuneration system in place and based on the terms and conditions established in both the Long-Term Incentive Plan as well as the Remuneration Policy for the period 2016–2018 approved by the General Shareholders’ Meeting. The share purchase was in compliance with the requirements established in article 5 of CE 2273/2003 and was subject to the terms authorised by the General Shareholders' Meeting on 18 March 2016. Management of the Temporary Treasury Share Repurchase Programme was delegated to Banco Bilbao Vizcaya Argentaria (BBVA), which carried out the acquisition on account of Enagás, S.A. independently and without any influence of the latter.

Treasury shares

No purchases or disposal of treasury shares took place during the six months ending 30 June 2018.