



**REPORT PREPARED BY THE BOARD OF DIRECTORS OF ENAGÁS, S.A. PURSUANT TO ARTICLE 529 DECIES OF THE CONSOLIDATED TEXT OF THE CORPORATE ENTERPRISES ACT JUSTIFYING THE PROPOSED APPOINTMENTS AND RE-ELECTIONS OF DIRECTORS INCLUDED IN ITEM 4 ON THE AGENDA OF THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 30 AND 31 MARCH 2017, AT FIRST AND SECOND CALL RESPECTIVELY.**

**1. Introduction**

Pursuant to article 518 e) of the Consolidated Text of the Corporate Enterprises Act, when convening the General Shareholders' Meeting and when appointing, ratifying or re-electing Directors, companies shall include the identity, CV and position of each Director, in addition to the proposed resolution and reports mentioned in article 529 decies.

Pursuant to article 529 decies of the Consolidated Text of the Corporate Enterprises Act, the Appointments and Remuneration Committee shall be responsible for proposing all appointments and re-elections of members of the Board of Directors in the case of Independent Directors, while the Board itself shall be responsible for proposing all other appointments and re-elections. The proposal shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board. All proposed appointments or re-elections of non-Independent Directors shall also be subject to a report from the Appointments and Remuneration Committee.

Pursuant to article 529 quidecies, the Appointments and Remuneration Committee shall, *inter alia*, formulate proposals for the Board of Directors for appointing Independent Directors in order for them to be designated by the method of co-optation or to be subject to the decisions of the General Shareholders' Meeting, along with proposals for the re-election or removal of those Directors by the General Shareholders' Meeting. The Committee shall also report on the proposed appointments, re-elections or removal of the remaining Directors.

The Board of Directors has agreed to call a General Shareholders' Meeting for 30 March 2017 at first call and for 31 March 2017 at second call. Item four of the agenda shall include the following proposed resolution:

4. To appoint or re-elect members of the Board of Directors. The following proposals shall be put to vote separately:

4.1 To appoint Mr Luis García del Río as Director for the four-year period. Mr Luis García del Río will be an Independent Director.

4.2.- To re-elect Ms Rosa Rodríguez Díaz as Director for the four-year period. Ms Rosa Rodríguez Díaz is an Independent Director.

4.3.- To re-elect Mr Martí Parellada Sabata as Director for the four-year period. Mr Martí Parellada Sabata will be another External Director.

4.4.- To re-elect Mr Jesús Máximo Pedrosa Ortega as Director for the four-year period. Mr Jesús Máximo Pedrosa Ortega will be a Proprietary Director at the behest of the Sociedad Estatal de Participaciones Industriales (SEPI).

On its meeting on 9 February 2017, the Appointments, Remuneration and Social Corporate Responsibility Committee proposed that Mr Luis García del Rio be appointed and that Ms Rosa Rodríguez Díaz be re-elected as Independent Directors, and approved the re-election proposals for Mr Martí Parellada Sabata as another External Director and Mr Jesús Máximo Pedrosa as a Proprietary Director. The Committee's report is made available to the shareholders together with this one from the Board.

## **2. Proposals by the Appointments, Remuneration and Corporate Social Responsibility Committee for the appointment and re-election of Independent Directors**

### **2.1 Expiry of the position of Mr Ramón Pérez Simarro, Independent Director**

In the Ordinary General Shareholders' Meeting held on 24 April 2013, it was agreed to re-elect Mr Ramón Pérez Simarro as Independent Director. In accordance with applicable regulations, at the end of his present tenure, Mr Ramón Pérez Simarro would relinquish his position as Independent Director as it would have been a Director of the company continuously for over 12 years.

The Board of Directors and the Appointments, Remuneration and Social Corporate Responsibility Committee consider that Mr Pérez Simarro has made an invaluable contribution to the company during the entire period in which he has been a Director and a member of the Appointments, Remuneration and Social Corporate Responsibility Committee.

However, the Committee takes the view that if Mr Pérez Simarro were re-elected and he subsequently lost his position as an Independent Director, and bearing in mind the other appointments and re-elections proposed to the General Shareholders' Meeting, it would be detrimental to the structure of the Board because according to the Regulation on the Organisation and Functioning of the Board, Independent Directors must account for at least half of total Directors. Hence, in the next General Shareholders' Meeting the Board will not propose that Mr Ramón Pérez Simarro be re-elected as a Director.

Given that this year the Ordinary General Shareholders' Meeting will be held a few days before the four-year period since he was appointed elapses, in order to provide the utmost legal certainty for the appointment of new directors in the next Shareholders' Meeting, in the Board meeting on 13 February 2017 Mr Pérez Simarro stepped down from his duties with effect from the day of the forthcoming Ordinary General Shareholders' Meeting, on 30 March 2017, at the first call on 30 March 2017 or at the second call on 31 March 2017.

The Board and the Appointments, Remuneration and Social Corporate Responsibility Committee wish to thank Mr Ramón Pérez Simarro for his dedication and efforts made in his duties.

### **2.2 Proposal to appoint Mr Luis García del Rio as an Independent Director**

In order to cover the vacancy left by Mr Ramón Pérez Simarro, the Appointments, Remuneration and Social Corporate Responsibility Committee proposes that a new Independent Director be proposed for the period of four years.

When selecting this proposed candidate, the Committee has adopted the guidelines set out in the *Director Selection Policy*, approved by the Board of Directors at the behest of the Committee on 21 November 2016. As provided for under this Policy, at least the following criteria have been taken into account in the selection procedure for the new Director:

- Suitable professional knowledge and experience: the persons appointed must have the necessary prestige and have the appropriate professional knowledge and experience to carry out their duties.
- Requirements demanded by the Hydrocarbons regulation: candidates must be able to satisfy the independence requirements demanded in light of Enagás' position as an independent gas transmission network manager.
- Requirements for independent Directors: in addition to the criteria indicated above, which will be applicable to all Directors no matter what their category, persons who are selected to be classified as Independent Directors will have to fulfil the independence requirements provided for under the laws in force at any given time, and also the additional independence conditions which, if applicable, are set out in the company's internal regulations.
- Commitment to comply with Directors' duties and obligations: in proposals for the re-election of current members of the Board of Directors, consideration will be given to the commitment shown by the Director in exercising his/her position in compliance with the duties of diligence and of loyalty, as well as all the rules which in their position as such, and, if applicable, as shareholders or senior managers of the company, imposed in the Internal Code of Conduct in the field of the Securities Market, the Code of Ethics of the Enagás Group, the Code of Conduct of the Technical Manager of Spain's Gas System, and other regulations or procedures which might be implemented. Consideration will also be given to whether their actions in exercising their positions have been in good faith or in the company's best interests (this criteria has obviously not been taken into account for this new appointment but has been in the following re-elections).

Although the Committee considers that its proposal is the most suited to the company's interests, the Committee has also taken into account the fact that Director appointment or re-election proposals need to encourage diversity in the Board, and thus it should be focused preferably on recruiting women to the Board, as well as persons who have an international professional profile due to their nationality and experience, in keeping with the company's strategy. The Director appointment or re-election proposals should pursue the goal of having at least 30% of total Board places occupied by women directors by the year 2020.

In addition to the above requirements, other conditions which, if applicable, may be determined by the Appointments, Remuneration and Social Corporate Responsibility Committee of the company and applicable laws at any given time have been taken into account in the Independent Director selection process.

As a result of the foregoing, and as provided for under article 529 decies.4 and 529 quidecies. 3 c) of the Consolidated Text of the Corporate Enterprises Act, the Committee proposes that Mr Luis García del Río be proposed as an Independent

Director of the company. The Board has adopted the Committee's proposal as its own.

Born in 1966, Mr Luis García del Río is a Public Prosecutor on leave. After holding several positions in the Public Administration, he joined the Repsol Group in 2001. At Repsol his positions included Director of the Legal Advisory Department of Repsol Butano, S.A. and Secretary of its Board (2003-2005) as well as Director of Legal Affairs for the Deputy Chairman's Departments of Exploration and Production and Liquefied Natural Gas of the Repsol Group (2005-2008).

Between 2012 and 2014 he was a Director of YPF, S.A. (Independent Director), having been put forward for the position by the private shareholders following the Argentinian government's expropriation of the company.

He is currently an Arbitrator and practising Lawyer (Managing Partner of BMA-DRL Abogados).

Mr García del Río has a great deal of experience in energy regulation and sectors, including liquefaction and regasification projects, LNG shipping, oil and natural gas exploration and production), refining and marketing of oil, LPG and natural gas and the working of the gas system. He is also experienced in the control of legal risk in energy investment deals and in national and international energy arbitration.

The Committee has attached special importance to Mr García del Río's knowledge and experience in international projects connected with the energy sector in natural gas and LNG. In particular, it believes that his experience in projects in Latin America and in managing critical factors which have impacted these projects will be very useful for the Board of Directors of Enagás in engaging in the international activities which are part of its strategy.

### **2.3 Proposal to re-elect Ms Rosa Rodríguez Díaz as Independent Director**

In the Ordinary General Shareholders' Meeting held on 24 April 2013, a motion was passed to appoint Ms Rosa Rodríguez Díaz as Independent Director. Rosa Rodríguez Díaz. The Appointments, Remuneration and Social Corporate Responsibility Committee proposes the re-election of Ms Rosa Rodríguez Díaz, whose tenure is about to expire, as an Independent Director for a further four-year period.

The Committee has applied the criteria set out in the *Director Selection Policy* approved by the Board of Directors and described above. The Committee attached particular importance to Ms Rodríguez's contribution to the Board and the Audit and Compliance Committee. It also values Ms Rodríguez's dedication to the positions she has held. Ms Rosa Rodríguez Díaz has personally attended all meetings of the Board of Directors and of the Audit and Compliance Committee which have been held during her previous four-year tenure. Ms Rodríguez's presence enhances diversity in the Board's structure.

Ms Rosa Rodríguez Díaz holds a PhD in Economics and Business Studies and is a Lecturer at the University of Las Palmas de Gran Canaria's Economics and Business Administration Faculty. She has formerly held the positions of Vice-Secretary of Tax Administration and Government Planning of the Autonomous Government of the Canary Islands and Deputy Chairman of the Island Government of Gran Canaria.

Taking into account the foregoing and for the purposes of article 529 decies.4 and 529 quidecies.3 c) of the Consolidated Text of the Corporate Enterprises Act, the Appointments, Remuneration and Social Corporate Responsibility Committee has

proposed the re-election of Rosa Rodríguez Díaz as Independent Director of the company. The Board of Directors has adopted the Committee's proposal as its own. Ms Rodríguez has refrained from taking part in the deliberations of the Board of Directors and from voting on the resolutions adopted by it referring to her proposed re-election.

### **3. Proposals of the Board of Directors to re-elect other Directors, once approved by the Appointments, Remuneration and Social Corporate Responsibility Committee**

#### **3.1. Proposal to re-elect Mr Martí Parellada Sabata as another External Director**

In the Ordinary General Shareholders' Meeting held on 24 April 2013, it was agreed to re-elect Mr Martí Parellada Sabata as Independent Director. In accordance with applicable regulations, at the end of his present tenure, Mr Martí Parellada Sabata would relinquish his position as Independent Director as he would have been a Director of the company continuously for over 12 years.

The Board of Directors has adopted the practice of not proposing the re-election of Independent Directors who have continuously been directors for over 12 years and who would thus lose their status as Independent Directors if re-elected in accordance with article 529 duodecies. 4 i) of the Consolidated Text of the Corporate Enterprises Act. Nevertheless, according to applicable laws, the Articles of Association and the Rules of the Organisation and Functioning of the Board of Directors of Enagás, S.A., there is nothing to stop an Independent Director from being re-elected even if he or she has been a Director continuously for over 12 years, if there are sufficient grounds to justify that course of action and the overall structure of the Board continues to fulfil the company's good governance policy whereby most of the members of the Board of Directors have to be Independent Directors. In that case, as provided for under article 529 duodecis of the Consolidated Text of the Corporate Enterprises Act and article 9 of the Rules of the Organisation and Functioning of the Board of Directors of Enagás, the Director cannot be classified as Independent and will instead be included within the category of "other External Directors" pursuant to article 3.2.b3 of the Rules of the Organisation and Functioning of the Board of Directors.

In the specific case of the Director Mr Martí Parellada Sabata, the Board, with the approval of the Committee, considers that on the whole there are sufficient grounds, in the company's interests, for him to remain in the Board of Directors of Enagás. His occupation as a Professor of Applied Economics provides the Board of Directors with an overview of the general background in which the company operates, thereby completing the general skills map of the Board of Directors in areas which for the time being are not covered by other Board members. On top of his professional experience, he has an in-depth knowledge of the company's business and activities. He also applies very high standards in exercising his position as Director and equally so in his function as Chairman of the Audit and Compliance Committee, a role which the Board of Directors has entrusted to him on two occasions during his tenure. The Board and the Committee also attach great importance to Mr Parellada's dedication to the company. Mr Parellada has attended all meetings of the Board of Directors and of the Audit and Compliance Committee which have been held during his previous four-year tenure, as he did in his previous tenures. Taking the foregoing into account, the Board proposes to the General Shareholders' Meeting that Mr Martí Parellada Sabata be re-elected as Director.

Once he is re-elected, Mr Parellada will be redefined as "another External Director". However, this will not have a significant impact on the structure of the Board of Directors given that it will still have a majority of Independent Directors after the appointments and re-elections proposed to the General Shareholders' Meeting.

Once he is re-elected, Mr Parellada will no longer chair the Audit and Compliance Committee and the Board of Directors will appoint an Independent Director to replace him.

Hence, as provided for under article 529 decies.4 of the Consolidated Text of the Corporate Enterprises Act, the Board, with the approval of the Appointments, Remuneration and Social Corporate Responsibility Committee, proposes that Mr Martí Parellada Sabata be re-elected as Director, and to be included within the "other External Directors" category. Mr Parellada has refrained from taking part in the deliberations of the Board of Directors and from voting on the resolutions adopted by it referring to his proposed re-election.

Mr Martí Parellada Sabata is a Professor at the University of Barcelona; a Member of the Board of Trustees and of the Standing Committee of Hospital Clinic de Barcelona; Vice President and Director of the Barcelona Economic Institute Foundation, and Trustee of the Energy and Environmental Sustainability Foundation. He has worked in a number of different fields, and carried out research activities in the fields of Training and human resources; University and growth and regional income distribution.

### **3.2 Re-election of Mr Jesús Máximo Pedrosa Ortega under the category of Proprietary Director at the behest of the Sociedad Estatal de Participaciones Industriales (SEPI)**

In the General Shareholders' Meeting held on 24 April 2013, the motion was passed for Mr Jesús Máximo Pedrosa Ortega to be re-elected as a Proprietary Director at the behest of the Sociedad Estatal de Participaciones Industriales (SEPI).

The Sociedad Estatal de Participaciones Industriales (SEPI), as the shareholder of Enagás, S.A., has proposed that Jesús Máximo Pedrosa Ortega be re-elected as a proprietary Director.

The Board and the Appointments, Remuneration and Social Corporate Responsibility Committee consider that having two Proprietary Directors proposed by the Sociedad Estatal de Participaciones Industriales (SEPI) - the SEPI itself, a legal entity represented by its Vice-chairman Mr Federico Ferrer Delso, and Mr Pedrosa - on the Board does not breach Recommendation 16 of the Code of Good Governance of the National Securities Market Committee given that:

*"The percentage of proprietary directors out of all Non-Executive Directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital. This criterion can be relaxed:*

*a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.*

*b) In companies with a plurality of shareholders represented on the Board but not otherwise related.*

Sociedad Estatal de Participaciones Industriales (SEPI) is a public entity governed by Law 5/1996 of 10 January and implementing regulations, with a 5% stake in the

share capital of Enagás, S.A., but the voting rights of which are not subject to the limitations determined by additional provision thirty-one of Hydrocarbons Law 34/1998 of 7 October. There are currently very few significant shareholdings in the company's capital. The largest (5%) belongs to the Sociedad Estatal de Participaciones Industriales (SEPI), and it is the only one owned by an international mutual fund. In Enagás' case, this justifies relaxing the proportionality criterion set forth in recommendation 16, as outlined above, as the situation described in its section a) is applicable to the company.

The Board and the Appointments, Remuneration and Corporate Responsibility Committee highly value the performance of Mr Pedrosa in exercising his functions in the course of his previous term of office, and, notwithstanding his being a Proprietary Director, consider his contributions to the Board to be exemplary. They have also taken into account Mr Pedrosa's dedication to the company. Mr Jesús Máximo Pedrosa Ortega has attended all meetings of the Board of Directors and of the Appointments, Remuneration and Social Corporate Responsibility Committee which have been held during his previous four-year tenure.

In view of which, and for the purposes of article 529 decies.4 of the Consolidated Text of the Corporate Enterprises Act, the Board of Directors, with the approval of the Appointments, Remuneration and Social Corporate Responsibility Committee, proposes to the General Shareholders' Meeting that Mr Jesús Máximo Pedrosa Ortega be re-elected as a Proprietary Director at the behest of the Sociedad Estatal de Participaciones Industriales (SEPI). Mr Parellada has refrained from taking part in the deliberations of the Board of Directors and the Appointments, Remuneration and Social Corporate Responsibility Committee, on which he sits, and from voting on the resolutions adopted by it referring to his proposed re-election.

Jesús Máximo Pedrosa was born in Palencia in 1946 and is an Industrial Engineer from the Madrid School of Industrial Engineering, specialising in energy techniques. He is also an inspector of the national Tax Authority, currently on leave of absence. He has worked in both the public sector, in the fields of Economics and the Treasury, and in the private sector, where he has held various positions of responsibility in different companies. He has been awarded the Order of Merit for Industrial Service and other distinctions.

#### **4. Board structure**

The Board of Directors considers that thirteen members is an adequate number for the Board of Directors, and thus it proposes that this number be maintained.

After the proposed appointments and re-elections, most of the Board members are Independent Directors. Of its thirteen members, seven are independent, while the number of women on the Board will remain at three, and these women will moreover exercise important functions within the Board: Ms Isabel Tocino Biscalorasaga is Chairwoman of the Appointments, Remuneration and Corporate Responsibility Committee; Ms Ana Palacio Vallelersundi is the Lead Independent Director and Member of the Appointments, Remuneration and Social Corporate Responsibility Committee and Ms Rosa Rodríguez Díaz, who is now be proposed for re-election, is Member of the Audit and Compliance Committee.

Since 2012, the company has separated the posts of Chairman of the Board of Directors and Chief Executive Officer and since 2010 it boasts a Lead Independent Director, the post held by Ms Ana Palacio Vallelersundi, providing an additional guarantee that the Board is functioning properly.

Accordingly,

**The following resolutions are proposed for adoption before the General Meeting, which will be subject to separate votes:**

4.1.- To re-elect Mr Luis García del Río as Director for the four-year period. Mr Luis García del Río will be an Independent Director.

4.2.- To re-elect Ms Rosa Rodríguez Díaz as Director for the four-year period. Ms Rosa Rodríguez Díaz is an Independent Director.

4.3.- To re-elect Mr Martí Parellada Sabata as Director for the four-year period. Mr Martí Parellada Sabata will be another External Director.

4.4.- To re-elect Mr Jesús Máximo Pedrosa Ortega as Director for the four-year period. Mr Jesús Máximo Pedrosa Ortega will be a Proprietary Director at the behest of the Sociedad Estatal de Participaciones Industriales (SEPI).

As before, there are thirteen Directors on the Board after this appointment and the re-elections.

And for all appropriate legal reasons, it is hereby stated that the company's Board of Directors prepares this report at its meeting held on 13 February 2017.

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