



## **REPORT OF ENAGÁS, S.A.'S BOARD OF DIRECTORS JUSTIFYING THE PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION INCLUDED IN ITEM 6 ON THE AGENDA**

### **1. INTRODUCTION AND PURPOSE OF THE REPORT**

After the latest reform of the Articles of Association resolved by the Company's Ordinary Shareholders' Meeting on 27 March 2015, several amendments were made to the Spanish Limited Liability Companies Law by virtue of Law 9/2015 of 25 May on Emergency Insolvency Measures and by Audit Law 22/2015 of 20 July, of which some provisions will enter into force on 17 June 2016, and by Law 15/2015 of 2 July on Voluntary Jurisdiction. Therefore, it is necessary to adapt the wording of certain articles of the Articles of Association of Enagás, S.A. (hereinafter, "**Enagás**" or the "**Company**") to the mandatory provisions introduced by the Law.

Likewise, the Company took advantage of this bylaw reform to include the possibility of complying with Recommendation 48 of the Code of Good Governance of listed companies approved by the National Securities Market Commission Board on 18 February 2015 (hereinafter, "**Code of Good Governance**"), regarding the separation of the Appointments, Remuneration and Corporate Responsibility Committee into a Remuneration Committee and an Appointments and Corporate Responsibility Committee.

In this sense, this report was drafted by Enagás' Board of Directors, in compliance with the provisions of article 286 of the Spanish Limited Liability Companies Law, which requires drafting a written report justifying the reasons for the proposed amendment to the Articles of Association that is submitted for approval by the Company's General Shareholders' Meeting on 17 March 2016 at first call and on 18 March at second call, as item 6 on the Agenda.

This report was drafted by the Board of Directors with the aim of explaining the **amendments** to articles 3 ("*registered office, branches and electronic site*"), 23 ("*exceptional convening*"), 44 ("*Audit and Compliance Committee*"), 45 ("*Appointments, Remuneration and Corporate Responsibility Committee*") and 50 ("*appointment of auditors*").

### **2. JUSTIFICATION AND PROPOSED AMENDMENTS**

#### **2.1 AMENDMENTS DUE TO THE REFORM OF THE SPANISH LIMITED LIABILITY COMPANIES LAW**

As a result of the aforementioned regulatory changes, the following amendments to the articles of the Articles of Association are proposed to the General Shareholders' Meeting: 3 ("*registered office, branches and electronic site*"), 23 ("*exceptional convening*"), 44 ("*Audit and Compliance Committee*"), 45 ("*Appointments, Remuneration and Corporate Responsibility Committee*") and 50 ("*appointment of auditors*").

- With respect to the **registered office**:
  - Article 3 is amended so that, pursuant to article 285.2 of the Spanish Limited Liability Companies Law, given by Law 9/2015 of 25 May on Emergency Insolvency Measures, the Board of Directors is empowered to change the registered office to another place in **Spain**. This power was previously limited to the same **municipality**.
- With respect to the **formal and procedural features of the General Shareholders' Meeting**:
  - Regarding the **exceptional convening of the General Meeting**, article 23 introduces the power of the Court Secretary or Companies Registrar of the registered office to convene the General Meeting at the request of any shareholder (article 169 of the Spanish Limited Liability Companies Law in its wording given by Law 15/2015 of 2 July on Voluntary Jurisdiction).
- With respect to the **composition and powers of the Audit and Compliance Committee**, the following features are proposed to be included in article 44:
  - The requirement that the Committee members as a whole must have "*the pertinent technical knowledge in relation to the industry to which the audited company belongs*" (article 529 quaterdecies.1 of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016).
  - The requirement that the Committee must have a majority of independent members (article 529 quaterdecies.1 of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016).
  - Likewise, the Committee's functions and powers are proposed to be amended, in particular, regarding: i) the report to the General Shareholders' Meeting concerning the audit results, explaining how they have contributed to the integrity of the financial reporting and the function performed by the Committee during the process (article 529 quaterdecies.4 of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016); ii) the submission of recommendations or proposals to the Board of Directors referring to the supervision of the efficacy of the Company's internal control, internal audit and risk management systems (article 529 quaterdecies.4 b) of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016); iii) the integrity of the mandatory financial reporting (article 529 quaterdecies.4 c) of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016); and iv) the responsibility for the external selection process of the Company's auditor and its independence (article 529 quaterdecies.4 d) of the Spanish Limited Liability Companies Law, which will enter into force on 17 June 2016).

Although, as stated above, the amendment to article 529 quaterdecies of the Spanish Limited Liability Companies Law will enter into force on 17 June 2016, this does not mean that its provisions cannot be included in the Articles of Association, which will be fully valid once they are approved; therefore, a subsequent General Meeting will not be required to amend this article.

- Regarding the **appointment of auditors**, the wording of article 50 is proposed to be adapted to include an express reference to the new power of the Court Secretary or Companies Registrar regarding the appointment and revocation of auditors (articles 265 and 266 of the Spanish Limited Liability Companies Law after their amendment by virtue of Law 15/2015 of 2 July on Voluntary Jurisdiction).

## 2.2. AMENDMENTS DUE TO THE CODE OF GOOD GOVERNANCE

Based on the Code of Good Governance, the proposal is to introduce its Recommendation 48 in Enagás' Articles of Association, by including in article 45 the **possibility of separating the Appointments, Remuneration and Corporate Responsibility Committee into two committees**: a Remuneration Committee, and an Appointments and Corporate Responsibility Committee.

And for all appropriate legal reasons, the Company's Board of Directors prepares this report at its meeting held on 15 February 2016.

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

## 3. APPENDICES

The text comparing the current Articles of Association with the new wording is attached as an Appendix to this report.

### APPENDIX I

#### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF ENAGÁS, S.A.

CURRENT TEXT	PROPOSED AMENDMENT
<p><b>ARTICLE 3</b></p> <p>The Company's registered office is situated at Madrid, Paseo de los Olmos, 19. The Board of Directors has the power to change it within the <del>same municipality</del>.</p>	<p><b>ARTICLE 3</b></p> <p>The Company's registered office is situated at Madrid, Paseo de los Olmos, 19. The Board of Directors has the power to change it within <u>Spain</u>.</p>
<p><b>ARTICLE 23</b></p> <p>If the ordinary General Meeting is not summoned within the statutory time limit, it may be convened on the motion of shareholders, a hearing having been granted to the Board of Directors, by the <del>commercial</del> court with jurisdiction at</p>	<p><b>ARTICLE 23</b></p> <p>If the ordinary General Meeting is not summoned within the statutory time limit, it may be convened on the motion of <u>any</u> shareholders, a hearing having been granted to the Board of Directors, by the court <u>secretary or companies registrar</u> with jurisdiction at the place of</p>

the place of the Company's registered office, ~~which court~~ shall appoint the ~~Chairman~~ of the General Meeting so convened.

#### ARTICLE 44

~~At least one~~ member of the Committee members shall be independent and be appointed in view of their knowledge and track record in matters of accountancy, auditing, or both. The Committee Chairperson shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

To oversee the proper operation of the Company's internal control, its internal audit function and risk management, ~~including taxation risks~~, as well as discussing systems, and discuss with the auditors any significant weaknesses in the internal control system detected in the course of the audit

- To submit proposals to the Board of Directors for selecting, appointing, re-electing and replacing the ~~external~~ auditors, along with the terms of their contract, regularly evaluate information on the auditing plan and its implementation, in addition to preserving their independence in the exercise of their functions.
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To liaise with the external auditor to obtain information on any issues that could compromise the latter's independence for review by the Committee or any other subjects related to the auditing process, and on any other disclosure obligations established in ~~legislation on~~ the annual audit process and in auditing standards.

the Company's registered office, who shall appoint the Chairperson of the General Meeting so convened.

#### ARTICLE 44

Most of the Committee members shall be independent and be appointed in view of their knowledge and track record in matters of accountancy, auditing, or both. The Committee Chairperson shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

To oversee the proper operation of the Company's internal control, its internal audit function and risk management, as well as discussing systems, and discuss with the auditors any significant weaknesses in the internal control system detected in the course of the audit, all of this without undermining its independence.

- To submit proposals to the Board of Directors for selecting, appointing, re-electing and replacing the auditor, being responsible for the selection process, in accordance with the applicable regulations, along with the terms of their contract, regularly evaluate information on the auditing plan and its implementation, in addition to preserving their independence in the exercise of their functions.

- To liaise with the external auditor to obtain information on any issues that could compromise the latter's independence for review by the Committee or any other subjects related to the audit process and, where applicable, the authorisation of the services other than those forbidden, under the terms envisaged in the applicable regulations, and any other disclosures envisaged in the audit

In all cases, on an annual basis, the Audit Committee shall receive from the auditors written confirmation of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them in conformity with ~~the provisions~~ of auditing legislation.

To issue annually, prior to the issue of the audit report, a report giving an opinion on the independence ~~of the auditors~~. This report shall in all cases include an assessment of the additional services provided, as referred to in the previous section, considered separately and in their totality, that consists of services other than statutory audits and how they relate to the requirement of independence or to the audit regulations.

The meetings of this Committee shall be convened by its Chairperson and held at least four times a year. The company's external auditor may attend Committee meetings and the Finance Director, head of the Enagás Internal Audit Unit, or any other senior manager of the company or group that the Committee deems appropriate, may also be asked to give account at meetings.

**ARTICLE 45.- APPOINTMENTS, REMUNERATION AND CSR COMMITTEE.**

The Board of Directors shall appoint from among its members an Appointments, Remuneration and Corporate Social Responsibility Committee that shall be comprised of a

regulations and audit standards.

In all cases, on an annual basis, the Audit Committee shall receive from the auditors written confirmation of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them in conformity with the audit regulations.

- To issue annually, prior to the issue of the audit report, a report giving an opinion on the independence of the auditors or audit firms. This report shall in all cases include an reasoned assessment of all the additional services provided, as referred to in the previous section, considered separately and in their totality, that consists of services other than statutory audits and how they relate to the requirement of independence or to the audit regulationsstandards.

The meetings of this Committee shall be convened by its Chairperson and held at least four times a year. The eCompany's external auditor may attend Committee meetings and the Finance Director, head of the Enagás Internal Audit Unit, or any other senior manager of the company or group that the Committee deems appropriate, may also be asked to give account at meetings.

**ARTICLE 45.- APPOINTMENTS, REMUNERATION AND CSR COMMITTEE.**

The Board of Directors shall appoint from among its members an Appointments, Remuneration and Corporate Social Responsibility

minimum of three and a maximum of six Directors. A majority of Committee members must be Independent Directors and no Executive Directors may be included among its number. The Committee Chairperson shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

The Committee shall possess functions and competences in the following areas, in addition to those that may be attributed to it in the Articles of Association or the Rules and Regulations of the Board of Directors:

- a) To evaluate the competencies, knowledge and experience required on the Board of Directors. To this end, it shall determine the functions and capacities required of the candidates to fill each vacancy, and evaluate the precise amount of time and degree of dedication necessary for them to effectively perform their duties.
- b) To establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- c) To forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Meeting of Shareholders, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- d) To report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Meeting of Shareholders, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- e) To report on proposed appointments and removals of

Committee that shall be comprised of a minimum of three and a maximum of six Directors. A majority of Committee members must be Independent Directors and no Executive Directors may be included among its number. The Committee Chairperson shall be selected from among the Independent Directors by the Board of Directors, and shall not have the casting vote.

The Committee shall possess functions and competences in the following areas, in addition to those that may be attributed to it in the Articles of Association or the Rules and Regulations of the Board of Directors:

- a) To evaluate the competencies, knowledge and experience required on the Board of Directors. To this end, it shall determine the functions and capacities required of the candidates to fill each vacancy, and evaluate the precise amount of time and degree of dedication necessary for them to effectively perform their duties.
- b) To establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- c) To forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Meeting of Shareholders, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- d) To report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Meeting of Shareholders, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- e) To report on proposed

<p>senior management and the basic terms of their contracts.</p> <p>f) To examine and organise the succession of the Company's President of the Board of Directors and CEO and, if appropriate, to make proposals to the Board to ensure the succession is smooth and well-planned.</p> <p>g) To propose to the Board of Directors a policy of remuneration of Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to executive committees or Executive Directors, along with individual remuneration and other terms of Executive Directors' contracts, ensure that said policy is abided by.</p> <p>h) To report to the Board on general policy concerning Corporate Social Responsibility and Corporate Governance, ensuring the adoption and effective application of best practices – both those which are compulsory and those that are in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the Company releases to shareholders annually regarding these issues.</p> <p>The Committee shall meet at least four times a year, with meetings being called by the Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel of the Company and its Group, as deemed necessary in the execution of its duties.</p>	<p>appointments and removals of senior management and the basic terms of their contracts.</p> <p>f) To examine and organise the succession of the Company's President of the Board of Directors and CEO and, if appropriate, to make proposals to the Board to ensure the succession is smooth and well-planned.</p> <p>g) To propose to the Board of Directors a policy of remuneration of Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to executive committees or Executive Directors, along with individual remuneration and other terms of Executive Directors' contracts, ensure that said policy is abided by.</p> <p>h) To report to the Board on general policy concerning Corporate Social Responsibility and Corporate Governance, ensuring the adoption and effective application of best practices – both those which are compulsory and those that are in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the Company releases to shareholders annually regarding these issues.</p> <p>The Committee shall meet at least four times a year, with meetings being called by the Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel of the Company and its Group, as deemed necessary in the execution of its duties.</p> <p><u><a href="#">The Board of Directors can resolve to separate the Appointments, Remuneration and Corporate Social Responsibility Committee into a Remuneration Committee and an</a></u></p>
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## ARTICLE 50

If the General Meeting fails to abide by the provisions of this article where such provisions are mandatory, or if the appointees do not accept office or are unable to perform their functions, the Board of Directors, the trustee [comisario] acting for the syndicate of bondholders, or any shareholder may apply to the registrar of companies with jurisdiction at the registered office to appoint one or more persons to conduct the audit, ~~in pursuance of the Reglamento del Registro Mercantil [registrar of companies regulations]~~.

The Directors of the Company and persons having standing to seek the appointment of an auditor may, on reasonable grounds, apply to ~~the court~~ to revoke the appointment of the auditor appointed by the General Meeting ~~or by the registrar of companies~~ and appoint another.

Appointments and Corporate Social Responsibility Committee, sharing out their functions and powers envisaged in this article 45 depending on the subjects and governed by the rules of composition, organisation and functioning established in the Board of Directors Regulation in accordance with these Articles of Association and the applicable regulations.

## ARTICLE 50

If the General Meeting fails to abide by the provisions of this article where such provisions are mandatory, or if the appointees do not accept office or are unable to perform their functions, the Board of Directors, the trustee [comisario] acting for the syndicate of bondholders, or any shareholder may apply to the court secretary or companies registrar with jurisdiction at the registered office to appoint one or more persons to conduct the audit, in accordance with the provisions of the applicable regulations.

The Directors of the Company and persons having standing to seek the appointment of an auditor may, on reasonable grounds, apply to the court secretary or companies registrar to revoke the appointment of the auditor appointed by them or that designated by the General Meeting and appoint another.