



**THE DIRECTOR REMUNERATION POLICY FOR 2016, 2017 AND 2018 THAT IS SUBMITTED FOR APPROVAL BY THE GENERAL SHAREHOLDERS' MEETING AS ITEM 7 ON THE AGENDA FOR PURPOSES OF ARTICLE 529 NOVODECIES OF THE SPANISH LIMITED LIABILITY COMPANIES LAW AND ARTICLE 36 OF THE ARTICLES OF ASSOCIATION**

At its meeting on 15 February 2016, the Board of Directors (hereinafter, the "**Board**") of Enagás, S.A. (hereinafter, "**Enagás**" or the "**Company**") resolved to submit for approval by the General Shareholders' Meeting (hereinafter, the "**Meeting**"), for the purposes envisaged in article 529 novodecies of the Spanish Limited Liability Companies Law, approved by Legislative Royal Decree 1/2010 of 2 July (hereinafter, the "**Spanish Limited Liability Companies Law**"), and article 36 of the Articles of Association (hereinafter, the "**Articles of Association**"), the proposed "Director remuneration policy for 2016, 2017 and 2018" (hereinafter, the "**Policy**") described in this document.

The Policy was proposed to the Board by the Appointments, Remuneration and Corporate Responsibility Committee (hereinafter, the "**Committee**"). The Committee held specific meetings to prepare its proposal on 4 November 2015, 1 December 2015 and 2 February 2016. The Committee approved the proposal at the latter meeting, pursuant to article 529 quindecies of the Spanish Limited Liability Companies Law and article 45 of the Articles of Association.

The Committee hired independent external advisory firm Willis Towers Watson, which analysed the current remuneration positioning of the Company's directors and managers and submitted several options on how to update this positioning. The Committee also hired Garrigues, which provided advice about the legal factors of this policy.

The Committee drafted the specific report referred to in article 529 novodecies of the Spanish Limited Liability Companies Law and was made available to shareholders in the way envisaged therein.

For the purposes envisaged in article 529 septedecies of the Spanish Limited Liability Companies Law, the policy submitted for the Shareholders' Meeting's approval includes the maximum annual remuneration amount to be paid to all the directors in their status as such during the years in which the policy is applied.

Likewise, for the purposes envisaged in article 529 octodecies of the Spanish Limited Liability Companies Law, the policy submitted for the Shareholders' Meeting's approval includes, regarding the directors with executive functions, the amount of the fixed annual remuneration and the variation therein in the period, the different parameters for setting the variable components and the main conditions of directors' contracts and, in particular, the length of their contracts, compensation for early removal or termination of the contractual relationship, and exclusivity, post-contractual non-competition and seniority or loyalty arrangements.

This document describes the regulatory framework, the good governance recommendations and the voting criteria for institutional shareholders and proxy advisors which have established the criteria for the content of this Policy.

The Policy then summarises Enagás' earnings performance since 2008 and its effects on the shareholders as well as the Company's remuneration policy in the same period.

The Policy then establishes the remuneration requirements for directors in their position as such and for the directors who carry out executive functions (the Chairperson and the CEO). The Policy also details the reasons for establishing such requirements.

Lastly, although this is not addressed by it, the Policy makes a brief reference to the principles and criteria applied to the Management Committee members and other Company managers.

## **I. THE REGULATORY FRAMEWORK, THE GOOD GOVERNANCE RECOMMENDATIONS AND THE VOTING CRITERIA FOR INSTITUTIONAL SHAREHOLDERS AND PROXY ADVISORS**

### **A) SPANISH LIMITED LIABILITY COMPANIES LAW**

#### ***"Article 529 sexdecies. Necessity for remuneration***

*Unless otherwise stipulated in the by-laws, the role of director of a listed company shall, by necessity, be remunerated."*

#### ***"Article 529 septdecies. Remuneration of directors for their position as such***

*1. The directors' remuneration policy shall determine the directors' remuneration for their position as such, within the remuneration system foreseen in the by-laws and must include by necessity, the maximum amount of annual remuneration to satisfy all directors in that condition.*

*2. Remuneration for each director for their position shall be determined by the board of directors, who, for this purpose, shall take into account the duties and responsibilities attributed to each director, their position in board committees and any other objective circumstances considered relevant."*

#### ***"Article 529 octodecies. Remuneration of directors for performing executive duties***

*1. Remuneration of directors for fulfilling the executive duties foreseen in the approved contracts, pursuant to the provisions of article 249, shall be adjusted to the directors' remuneration policy, which, by necessity, must include the sum of fixed annual remuneration and variations thereof, during the period to which the policy refers; the different parameters for fixing variable components and the main terms and conditions of their contracts, paying particular attention to their duration, compensation for early severance or termination of the contractual relationship and exclusivity, post-contractual non-competence, permanence and loyalty pacts.*

*2. The board of directors is responsible for fixing directors' remuneration for performing their executive duties and for the terms and conditions of their contracts with the company, in accordance with the provisions of article 249.3 and the directors' remuneration policy, approved by the general meeting.*

**"Article 529 novodecies. Approval of the directors' remuneration policy**

1. *The directors' remuneration policy shall be adjusted in accordance with the remuneration system established in the by-laws and shall be approved by the shareholders' general meeting at least every three years as a separate item on the agenda.*

2. *The grounds for the proposed remuneration policy of the Board of Directors shall be stated and the proposal must be accompanied by a specific report from the Appointments and Remuneration and Committee. Both documents shall be placed at the disposal of the shareholders through the company website, from the time of the call to convene the general meeting. Shareholders may also request that it be delivered or sent, free of charge. The announcement of the call to general meeting shall mention this right.*

3. *The approved directors' remuneration policy shall remain valid for the three financial years following that in which it was approved by the general meeting. Any amendment or substitution of the same during the aforementioned term, shall require the prior approval by the shareholders' general meeting, in accordance with the procedures established for approval.*

4. *In the event that the annual report on directors' remuneration is rejected by consultive vote in the ordinary general meeting, the remuneration policy applicable to the following year must be submitted for the approval of the general meeting prior to application, even if the aforementioned three year term has not elapsed. Cases where the remuneration policy has been approved in the same ordinary general meeting are exempt from this point.*

5. *Any remuneration received by directors for the exercise or termination of their role or for the fulfilment of their executive duties, shall be in accordance with the directors' remuneration policy valid at that time, excepting remunerations explicitly approved by the shareholders' general meeting.*

**"Article 217. Remuneration of directors**

(...)

4. *In all cases, directors' remuneration must remain proportionate to the significance of the company, the economic situation at that moment and the market standards of comparable companies. The established remuneration system must be designed to promote the long term profitability and sustainability of the company and incorporate the necessary precautions to avoid excessive risk-taking or rewarding unfavourable results."*

**"Article 219. Remuneration linked to company shares**

1. *In joint stock companies, when the remuneration system for directors includes the awarding of shares, share options or remuneration linked to the value of shares, said system must be explicitly mentioned in the company by-laws and application of such provisions shall require an agreement by the shareholders' general meeting.*

2. The agreement by the shareholders' general meeting must include the maximum number of shares to be assigned during each financial year as part of this remuneration system, the strike price and the system used to calculate the strike price of share options, the value of the shares taken as a reference, when appropriate, and the term of the remuneration plan."

**"Article 511 bis. Additional competencies**

1. In listed companies, the following are considered matters reserved for the jurisdiction of the general meeting, in addition to those recognised in article 160:

... c) The directors' remuneration policy under the terms established in accordance with this law."

**B) ARTICLES OF ASSOCIATION**

**"ARTICLE 18. – GENERAL MEETING**

The shareholders, when constituted as a duly summoned General Meeting, shall by the majority of votes provided for in Spanish law decide upon the matters that fall within the powers of the General Meeting.

The General Meeting is responsible for addressing and agreeing upon the following issues:

... l) Policy on directors' remuneration."

**"ARTICLE 36.– REMUNERATION OF THE BOARD OF DIRECTORS**

The position of Director shall be remunerated.

The General Meeting shall determine the total maximum remuneration to be paid to Members of the Board of Directors in their capacity as such. Said remuneration shall comprise a cash sum payable on an annual basis or in respect of such period as the General Meeting may determine, a fee for each Board of Directors meeting a Director actually attends, a fee for sitting on the Committees of the Board of Directors, and another for acting as Chairman of same, and in the case of the Lead Independent Coordinator, a supplementary amount in remuneration of said function. The allocation of remuneration among the various remuneration components and to each Director shall be determined by resolution of the Board of Directors, in consideration of the functions and responsibilities attributed to each Director.

Directors may receive additional remuneration in the form of company shares, share options or other securities that enable the holder to obtain shares, or through other remuneration systems based on the price of the shares quoted on a public exchange. The implementation of said systems shall be presented to the General Meeting for approval, and the Meeting shall determine the maximum number of shares that may be allocated to this remuneration system in each financial year, or the system for calculating the price for the exercise of option rights, the reference value of the shares applied, if applicable, and the term of duration of the scheme.

*Directors who perform executive functions for the Company, regardless of the nature of their legal relationship with same shall be entitled to additionally receive remuneration for performing said functions, which must be established in a contract between the Director and the Company and which remuneration shall consist of: (i) a fixed remuneration, in cash and in kind, commensurate with the services rendered and responsibilities assumed; if applicable (ii) a variable remuneration short-term and long-term and the general system of incentives established for the Company's Senior Management, which might comprise the delivery of shares, or the entitlement to options on same, or remuneration based on the value of the shares, subject to the requirements set forth in the prevailing legislation at any given time; (iii) a benefits component to include appropriate pension and insurance schemes and social security benefits; as well as, if applicable (iv) a consideration for a post-contractual covenant not to compete. In the event of termination on grounds other than non-compliance with their functions, they shall be entitled to compensation.*

*Directors shall be entitled to the payment or reimbursement of expenses incurred as a result of attendance at meetings and other tasks directly related to the performance of their duties, such as travel, accommodation, meals and any other which may arise.*

*The Company may contract civil liability insurance for Directors and senior management.*

*The policy for Directors' remuneration shall be in keeping with the remuneration system provided for herein, and shall be approved by the General Shareholders' Meeting at least every three years as a separate item on the Agenda.*

*Board Member remuneration shall be reported in the terms legally provided for in the Report, the Annual Corporate Governance Report and the Annual Directors' Remuneration Report. The latter report shall be submitted to an advisory vote as a specific item on the Agenda of the Ordinary General Meeting.*

*In the event that the Annual Report on Directors' Remuneration be rejected by the advisory vote of the Ordinary General Meeting, then the remunerations policy to be applied to the following financial year must be submitted to the General Meeting for approval prior to its application, even if the aforementioned three-year period has not elapsed. An exception to the foregoing shall be made if the remuneration policy has been approved at that same Ordinary General Meeting."*

### **C) RULES AND REGULATIONS OF THE GENERAL MEETING AND REGULATIONS OF THE BOARD OF DIRECTORS**

Both the Rules and Regulations of the General Meeting and the Regulations of the Board of Directors of Enagás include provisions correlative to the transcribed legal and bylaw ones in relation to the remuneration of the Company's directors and managers and the functions of the General Meeting and Board regarding such issues.

The Regulations of the Board of Directors state the following regarding the directors' remuneration:

#### **"ARTICLE 16.- DIRECTOR REMUNERATION**

- 1.- The office of Director of Enagás, S.A. shall be remunerated in the manner stipulated in the Articles of Association, having regard to the report issued by the Appointments, Remuneration and Corporate Responsibility Committee pursuant to article 25 of these Rules and Regulations.*

*Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.*

*The director remuneration policy will determine the remuneration of the Directors in this capacity, within the remuneration system provided for in the Articles of Association and will include the maximum amount of the annual remuneration to be paid to all the Directors in that capacity.*

*The remuneration of Directors for performing the executive functions provided for in contracts approved in accordance with the provisions of article 19.bis of these Regulations conform to the director remuneration policy, which must necessarily set forth the amount of the fixed annual payment and the variation therein in the period covered by the policy, the different parameters for setting the variable components and the main conditions of directors' contracts, and, in particular, the length of their contracts, compensation for early removal or termination of the contractual relationship, and exclusivity, post-contractual non-competition and seniority or loyalty arrangements.*

*The Board of Directors is responsible for setting Directors' remuneration for performing executive functions and the terms and conditions of their contracts with the Company in accordance with article 19.bis of these Regulations and with the Director remuneration policy approved by the General Meeting.*

*The Appointments, Remuneration and Social Corporate Responsibility Committee shall establish remuneration criteria for Company Directors, within the scope of the Company's Articles of Association and in accordance with resolutions of the General Meeting, while the Board of Directors is responsible for final distribution of the overall sum within the limits established by Articles of Association for this purpose and in accordance with the Director remuneration policy approved by the General Meeting, given the functions and responsibilities attributed to each Director.*

*The Directors' remuneration policy shall be in keeping with the corresponding remuneration system provided for in the Articles of Association, and shall be approved by the General Shareholders' Meeting at least every three years as a separate item on the Agenda.*

*The grounds for the proposed remuneration policy of the Board of Directors shall be stated and the proposal must be accompanied by a specific report from the Appointments, Retribution and Social Corporate Responsibility Committee. Both documents will be made available to the shareholders on the Company's website after notice of the General Meeting has been given, and shareholders may also request that these documents be delivered or sent free of charge. The announcement of the notice of the General Meeting will mention this right.*

*The Directors' remuneration policy, approved as set forth above, will remain valid for three fiscal years after being approved by the General Meeting. Any amendment to or replacement of this policy during said period will require the prior approval of the General Shareholders' Meeting, in accordance with the procedure established for its approval.*

2.- Director remuneration shall be transparent. To this end:

- *The Notes to the financial statements, as an integral part of the financial statements, shall include accurate, detailed information on the remuneration received by each Director, and on the remuneration received by Executive Directors for performing senior management functions.*
- *The Appointments, Remuneration and Social Corporate Responsibility Committee must submit to the Board of Directors the proposed Annual Report on Director Remuneration, which will contain full, clear and understandable information on the Company's remuneration policy approved by the Board for the current year, as well as, where appropriate, the expected policy for future years. It shall also include a global summary of how the remuneration policy was applied over the year, as well as a list of the individual remuneration accrued by each of the Directors. The Annual Report on Director Remuneration, once approved by the Board, shall be distributed and submitted to an advisory vote, as a separate item on the agenda, of the Annual General Meeting of Shareholders. Should the Annual Report on Director Remuneration be rejected by the advisory vote of the Ordinary General Meeting, the remunerations policy to be applied in the next fiscal year must be submitted to the General Meeting for approval before being applied, even if the three-year validity period has not expired. An exception to the foregoing shall be made if the remuneration policy has been approved at that same Ordinary General Meeting.*

*Any remuneration paid to Directors for holding or being removed from their positions and for performing executive functions must be set forth in the corresponding contract, in accordance with the terms set forth in article 19.bis, and will be consistent with the Director remuneration policy in effect at any given time, except for any remuneration expressly approved by the General Shareholders' Meeting."*

#### **D) RECOMMENDATIONS OF THE CODE OF GOOD GOVERNANCE APPROVED BY THE CNMV**

The Code of Good Governance approved by the National Securities Market Commission (hereinafter, the "**CNMV**") in February 2015 includes a number of recommendations that should be "met or explained" in relation to directors' remuneration.

##### **"Recommendation 56**

*Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors."*

##### **"Recommendation 57**

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

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

### **"Recommendation 58**

*In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.*

*In particular, variable remuneration items should meet the following conditions:*

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.*
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.*
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events."*

### **"Recommendation 59**

*A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met."*

### **"Recommendation 60**

*Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount."*

### **"Recommendation 61**

*A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price."*

### **"Recommendation 62**

*Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition."*

### **"Recommendation 63**

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

### **"Recommendation 64**

*Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria."*



## **E) VOTING CRITERIA FOR INSTITUTIONAL INVESTORS AND PROXY ADVISORS**

International institutional investors which, in the case of Enagás, account for a very large percentage of shareholders, and the proxy advisors tend to link their favourable vote to the remuneration proposals at the General Meetings to the fact that the issuer's remuneration policy must meet certain requirements, namely:

- Full transparency regarding the remuneration received and to be received in the future in terms of the amount and how the procedures are determined; and how this remuneration policy is submitted for the shareholders' approval.
- The remuneration structure which includes the fixed and variable items. There is a great deal of insistence in that the remuneration items must include multi-year or long-term remuneration incentives, in addition to the annual sums.
- Such long-term remuneration incentives must be linked to multi-year targets for at least three years and be paid in company shares, and the executive has the obligation to retain them for at least two years before selling them. This is aimed at aligning the interests of the Company managers with those of the shareholders and establishing management retention mechanisms in the Company's interests.
- Such long-term incentives must be subject to clawback clauses in the event that, subsequently, it is accredited that the stated targets have not been met.

## **II. ENAGÁS PERFORMANCE IN 2008-2015**

Between 2008 and 2015, Enagás clearly performed positively, despite the difficulties and uncertainties of the general economic context. The progression of the Company's earnings, share price and shareholder dividend show that the managers' actions were in line (what is of interest here) with the shareholders' interests, having created shareholder value.

This positive performance was due mainly to the reorientation of the Company's strategy, extending the activities in Spain to projects abroad. As a result of the Company's international expansion strategy, the total assets managed by the Company soared 86.7%. For the same reason, the Company's asset portfolio diversified considerably: its international assets increased from 0% in 2008 to 17.5% in 2015.

The following table shows the Company's superb economic and share performance between 1 January 2007 and 31 December 2015. In the same period, the Company's market capitalisation increased from 4.207 billion euros to 6.207 billion euros and the share price rose from 17.72 euros to 26 euros. This represents an increase of more than 48%. The dividend distributed in the period amounted to 8.51 euros per share, i.e. a 48% increase in shareholder profitability. Therefore, total shareholder profitability grew by more than 96% since 1 January 2007.

The graphic also shows that the Company's share price (+48%) performed much better than that of the Ibex-35 companies (-33%) in the same period.

### 2007-2015 Economic and Share Information

	31-Dec-06	31-Dec-15	Return
Share price (€/share)	17.62	26.00	+48%
Market Cap(€Mn)	4,206.5	6,207.10	
Distributed dividends 2007-2015	8.51€/share		+48%

**Total return for shareholders since January 2007** +96%

Note: For the calculation of the return of the dividends received we have used the share price at 31/12/2006

**Enagas vs. IBEX35 since 2007: Enagas (+48%) IBEX35 (-33%)**



### III. ENAGÁS' REMUNERATION POLICY IN 2008-2015

Despite the Company's positive performance, its remuneration policy for the Board of Directors, executive directors and management team was extremely prudent between 2008 and 2015.

Even though the Company managed to mainly stay out of the negative general economic context in the period, the remuneration policy in the period clearly took it into account and was characterised by extreme prudence.

Therefore, the Company's projects outside Spain, which required new organisational capacities and significantly greater efforts, did not have the effects which should have had on the Company's remuneration policy in the period, which was especially conditional upon factors external to its performance.

In this sense, the policy in relation to the introduction of long-term variable remuneration items in Enagás' remuneration structure was particularly significant.

Without prejudice to the annual approval of the directors' remuneration in their position as such by the General Meeting, the Board, in accordance with the successive amendments to the Spanish Limited Liability Companies Law, submitted to the General Meeting in 2012, 2013 and 2014, the "Annual report on company policy on directors' remuneration" (hereinafter, the "**Remuneration Report**") for an advisory vote and as a separate item on the Agenda. These reports described the Company's remuneration policy in the previous years and for the year in question. Although these reports received broad support from the shareholders when they were put to an advisory vote, the institutional investors and the proxy advisors expressed their concern right from the start that the remuneration policy submitted by the Board did not include long-term remuneration that would enable them to assess the performance of the executive directors and senior managers in line with the Company's long-term growth and, in particular, to link them to the Company's earnings and shareholder value creation.

As a result of the Ordinary General Meeting in 2015, the Board applied the transitional provision of Law 31/2014 of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and submitted the Remuneration Report to advisory vote, which included a remuneration policy that was automatically considered as the remuneration policy approved for the 2015-2018 period. Nevertheless, the Board expressly limited the efficacy of this new policy to 2015 and notified the General Meeting of its formal commitment to submit, for the General Meeting's approval in 2016, a new policy for 2016-2018 that would include a Long-term Remuneration Incentive (hereinafter, the "**Plan**" or "**Incentive**"). For such purpose, as part of the documentation for the Shareholders' Meeting, the Board made the following report available to shareholders: "*Report from the Board of Directors of Enagás, S.A. to the shareholders explaining why its remuneration policy for 2015 does not include long-term variable remuneration and stating its commitment to include such remuneration starting in 2016*". In that report, the Board detailed the reasons why it proposed to maintain the same prudent remuneration policy since 2008 in 2015 and undertook to submit a new policy for 2016 in the following way:

*"Thus, as of 2016, the Board of Directors undertakes to update the policy of remuneration for its directors in respect of their membership of the Board and also in respect of the structure of the remuneration of executive directors, which shall include long-term variable remuneration in keeping with the recommendations of the New Good Governance Code for Listed Companies, due to come into force on 1 January 2016, and generally accepted practices with regard to long-term remuneration. The items of long-term variable remuneration shall be defined in 2016, and the first long-term remuneration programme shall be implemented for the period 2016-2018. The items of long-term variable remuneration shall also apply to senior management at the Company and to any other management personnel designated.*

*At the Ordinary General Shareholders' Meeting in 2016, the Board shall present a directors' remuneration policy in accordance with the commitments stated above*

*and with the specific commitment to establish long-term variable remuneration. The foregoing is subject to the provisions of Article 529 of the amended Spanish Limited Liability Companies Law."*

#### **IV. ENAGÁS' DIRECTOR REMUNERATION POLICY FOR 2016, 2017 AND 2018**

The essential purpose of this document is to submit the "Director remuneration policy for 2016, 2017 and 2018" to the General Meeting for approval for the purposes envisaged in article 529 novodecies of the Spanish Limited Liability Companies Law.

Based on the foregoing, the first premise is that the Policy is the commitment acquired by the Board vis-à-vis the shareholders on occasion of the Ordinary Shareholders' Meeting held in 2015 to introduce an Incentive in the executive directors' remuneration structure, which will also be applicable to the Company's management team, and which meets recommendations 56 to 64 of the Code of Good Governance approved by the CNMV, and with the most generally accepted criteria regarding this type of remuneration item.

The second premise is that the Policy is an obligation that must be maintained by the Appointments, Remuneration and Corporate Social Responsibility Committee and by the Board to have an appropriate remuneration policy in terms of structure and amount aimed at meeting the Company's Strategic Plan, fostering shareholder value creation, compensating abilities and efforts in a proportional way and retaining the talent that the Company requires. All of this while taking into account the general market conditions with respect to comparables and the Company's performance at any given time.

To do this, the positioning of the directors' remuneration was analysed with respect to the median for the comparables. Other Spanish power companies listed on the Ibex-35 index (**Acciona, Endesa, Gamesa, Gas Natural Fenosa, Iberdrola, REE and Repsol**) were chosen as the comparables. For such purposes, the latest known published data, referring to **2014**, were used. The analysis was made of the directors' remuneration in their position as such, the remuneration of the executive directors and the remuneration of the Management Committee members and other managers of the Company. The Committee had advice from the Company Management and hired independent external advisory firm Willis Towers Watson, which analysed the current remuneration positioning of the Company's directors and managers and submitted several options on how to update this positioning. The Committee also hired Garrigues, which provided advice about the legal factors of this policy.

## **A) INCLUSION OF A LONG-TERM INCENTIVE AS PART OF THE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS IN 2016-2018**

The Committee and the Board believe that an Incentive should be applied as part of the remuneration policy for executive directors in 2016-2018, which will also be applicable to the Management Committee members and other Company managers. The Committee and the Board want the Incentives to remain part of the Company's remuneration structure and will propose their inclusion in the successive remuneration policies that are submitted for the General Meeting's approval.

The 2016-2018 policy includes a first Incentive Plan, whose general terms and conditions are as follows:

### **Objectives:**

- Incentivise sustainable achievement of the targets established in the Company's Strategic Plan.
- Give an opportunity to share value creation with the participants.
- Foster a sense of belonging to the Company and of a shared purpose.
- Be competitive.
- Be aligned with the requirements of the institutional investors and proxy advisors and with the best good corporate governance practices, particularly those based on the recommendations of the Code of Good Governance approved by the CNMV.

### **Eligibility:**

- The executive directors (Chairperson and Chief Executive Officer).
- The eight members of the Management Committee.
- The other management staff.
- In total, 43 beneficiaries (hereinafter, the "**Beneficiaries**"), without prejudice to the new recruits and removals that take place under the terms envisaged in the Plan's regulations (hereinafter, the "**Regulations**").

### **Type of plan:**

- A single plan for 2016-2018 with a sequential vocation, with a three-year target period (the new plans must be included in the future remuneration policies that are submitted for the General Meeting's approval).
- The Plan envisages delivering shares and cash linked to the Strategic Plan's objectives.
- A share settlement reference is established for each segment (100% for executive directors; 75% for the Management Committee; and 50% for directors).
- The executive directors are obligated to retain the shares received, net of taxes, when the Plan is settled (mid-2019), for two more years (the directors cannot sell the shares until 2021).

**Duration:**

The period in which the targets are measured, where the obligation is to stay 3 years.

**Terms and conditions for receiving the Incentive:**

The Incentive will be received based on the degree of compliance with the four objectives aligned with Enagás' Strategic Plan and with the expectations stated by the institutional investors and proxy advisors.

- Objective 1. Funds from operations (hereinafter, "**FFO**"). This shows the financial soundness and net profit growth, which are the cornerstones of the Strategic Plan. It considers both the EBITDA of the regulated business as well as the dividend received from the subsidiaries that Enagás does not control. It is a benchmark indicator for investors. By meeting this objective, the Company's projections for the Group's dividend pay-out, investment and debt redemption are met. It accounts for 40% of the total objectives.
- Objective 2. Accumulated cash flow received from investees (hereinafter, the "**Dividend**"). This shows the focus on international growth and a realistic and profitable investment plan as the cornerstones of the Strategic Plan. It measures the profitability of the international business compared with the annual remuneration objective which measures the year's international investment volume. It accounts for 30% of the total objectives.
- Objective 3. The relative total shareholder return (hereinafter, "**TSR**"). This shows whether a sufficient and competitive shareholder pay-out is ensured. It takes into account share performance and the dividend policy. It is measured with respect to a group of comparables formed by fifteen companies (REE, SNAM, TERNA, NATIONAL GRID, REN, IBERDROLA, GAS NATURAL FENOSA, ENEL, RWE, E.ON, ENGIE, CÉNTRICA, UNITED UTILITIES, SEVERN TRENT and PENNON GROUP). It accounts for 20% of the total objectives.
- Objective 4. The Sustainability Plan (hereinafter, the "**Sustainability Plan**"). This shows sustainability as the framework for developing Enagás' business. The Committee proposes assessing the following factors of the Company's Sustainability Plan: carbon footprint, equality (non-discrimination) and other matters (commitments to employees, client satisfaction, volunteering, sponsorships, etc.). It accounts for 10% of the total objectives.

Insofar as Hydrocarbons Law 34/1998 gives Enagás the activities of transportation and technical management of the gas system, which must be performed independently through its subsidiaries Enagás Transporte S.A.U. y Enagás GTS, S.A.U., under the principles of independence with respect to the Company's other activities, for the Plan's Beneficiaries who have such positions related to the technical management of the gas system and infrastructure, three objectives (70% FFO, 20% relative TSR and 10% Sustainability Plan) are proposed since they do not have any influence on the dividend objective for the international activity.

At the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, the Board of Directors reserves the power to change the parameters in the event of certain exceptional circumstances, with the aim of improving their adaptation to the new business circumstances, making sure that the impact on the Plan is neutral.

Likewise, the Incentive is conditional upon the Beneficiary staying on at the Enagás Group until the Plan's settlement date (hereinafter, the "**Settlement Date**"), except under the special circumstances stated in its Regulations.

#### **Achievement scales:**

An achievement scale is established for each objective with:

- A minimum achievement level, under which the Incentive is not paid.
- A 100% achievement level, for which 100% of the initial target Incentive is paid.
- A maximum total Incentive which cannot exceed 125% of the initial target Incentive.
- The intermediate levels will be calculated using linear interpolation.

For the indicator envisaged in the Sustainability Plan, the Board of Directors will decide on the level of achievement (hereinafter, "**Level of Achievement**") for 2016-2018.

#### **Incentive level:**

It is proposed that the Incentive be expressed as a percentage of the fixed remuneration or the number of times of the fixed remuneration, so that it can be segmented by managerial level. The annualised Incentive where the level of achievement is 100% is as follows:

- Executive directors: 50% of the annual fixed remuneration for 2016.
- Management Committee: 45% of the annual fixed remuneration for 2016.
- Directors: 30% of the annual fixed remuneration for 2016.

#### **Clawback clauses**

In the event that certain circumstances take place which, even subsequently, highlight the fact that the objectives were not met, the Board, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, can claim part or all of the Incentive that was paid. Such clauses will be applied to all the Beneficiaries and have a two-year implementation period.

Specifically, and among other circumstances, the Board can demand that the Incentive delivered be repaid in the following cases:

- Restatement of the Company's financial statements not due to amendments to the applicable accounting standards.
- Penalty to the Beneficiary for a serious breach of the code of conduct and other applicable internal regulations.
- When the Incentive has been partially or fully settled and paid based on information that subsequently proves to be manifestly and seriously false or inaccurate.
- Other circumstances not envisaged or assumed by the Company which have a negative material effect on the financial statements of any of the years during the clawback period.

## Share retention

As stated, it is proposed that the shares received by the executive directors, net of taxes, be retained for 2 years from the delivery date.

## Accounting cost

The maximum capital consumption for the scenario in which the Plan is fully achieved has been estimated. The arithmetic mean rounded off to three decimal digits of the closing share price of Enagás on 31 December 2015 and of the 20 sessions before and after that date has been taken into account. It is estimated that the maximum number of shares to be delivered as a result of the Plan to all the Beneficiaries is 307,643.

The Plan's annualised maximum capital consumption is 0.04%. The annualised maximum capital consumption of the Ibex-35 companies is 0.26%. The maximum consumption recommended by investors and proxy advisors is 0.5%.

## The Plan's Regulations:

The Plan's Regulations, approved by the Board, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, will regulate the details for applying and executing the Incentive.

## Authorisation to deliver shares

Regardless of the preceding description of the Incentive, the Board submits to the General Shareholders' Meeting, as item 8 on the Agenda and in accordance with article 219 of the Spanish Limited Liability Companies Law, an express resolution to approve the Incentive since it includes the delivery of shares. This resolution includes the maximum number of shares to be assigned during each financial year as part of this remuneration system, the value of the shares taken as a reference, when appropriate, and the duration of the Plan.

The main factors of the aforementioned resolution are as follows:

### (1) **Description and purpose of the Plan**

The Plan will enable the Beneficiaries to receive, after a certain period of time, an incentive payable in Enagás shares and in cash, provided that the Company's strategic objectives established in the Plan are met.

The Plan is aimed at motivating the Beneficiaries and making them loyal as much as possible, and giving them an incentive so that the Company can obtain good results, aligning the Beneficiaries' interests with those of the shareholders' long-term value.

The Plan will grant each Beneficiary, without consideration (i) a certain number of performance shares (hereinafter, "**Performance Shares**") and (ii) a target cash incentive (hereinafter, "**Target Cash Incentive**") which, based on the level of achievement of certain targets (hereinafter, "**Level of Achievement**") and if the Plan's requirements are met, will be the basis for establishing the number of Enagás shares to be delivered and the gross cash amount to be paid, where applicable, to each Beneficiary.



Until the Company shares are not delivered, the Plan does not grant the Beneficiaries the status of Company shareholders. In any case, the Performance Shares do not grant economic or political rights over the Company shares or any other types of shareholder rights.

The Beneficiaries will become Company shareholders only when the Plan is settled and, where applicable, the corresponding shares are delivered.

**(2) Beneficiaries**

The members of the Management Committee and the other management team of Enagás and of its group of companies expressly invited by the Enagás Board of Directors, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, as well as the members of the Board of Directors with executive functions (hereinafter, "**Executive Directors**", "Management Committee members" and "**Managers**") designated by the General Shareholders' Meeting (hereinafter, "**General Shareholders' Meeting**" of Enagás shall be considered as the Plan's Beneficiaries. The Company will send an invitation letter (hereinafter, "**invitation letter**") to take part in the Plan.

It is estimated that the Plan will have 43 Beneficiaries, without prejudice to further additions.

For such purposes, Enagás' General Shareholders' Meeting designated the following Executive Directors as the Plan's Beneficiaries:

Mr Antonio Llardén Carratalá, Chairman of the Board of Directors.

Mr Marcelino Oreja Arburúa, CEO the Board of Directors.

It is expressly stated that the Company's Board of Directors, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, can resolve to include new Beneficiaries in the Plan in the event that they are managers or key employees for Enagás' future and the Company wants to make sure that they stay.

**(3) Duration and settlement of the Plan**

The Plan's duration (hereinafter, "**Duration**") will start on 1 January 2016 (hereinafter, "**Start Date**") and end on 31 December 2018 (hereinafter, "**End Date**"), without prejudice to the Plan's effective settlement.

Notwithstanding the foregoing, the Plan will formally start, where applicable, once it is approved by the General Shareholders' Meeting, which will be held on 18 March 2016 (hereinafter, "**Plan Approval Date**"). Another initial date after 1 January 2016 can be established in the Invitation Letter for the Beneficiaries that join the Plan after that date.

The Plan's Settlement Date is scheduled for after the 2018 financial statements are approved by the Company's General Shareholders' Meeting; in any case, the Plan will be settled before 31 July 2019.

**(4) Number of Performance Shares and Target Cash Incentive to be allocated to each Beneficiary**

The Company will establish the Initial Incentive (hereinafter, "**Initial Incentive**") granted to each Beneficiary in the Invitation Letter. This Initial Incentive will be the sum of a specific number of Performance Shares and of a Target Cash Incentive

The Initial Incentive allocated to the Beneficiaries under this Plan will be determined, therefore, in accordance with the following formula:

$$I_i = Nps + ITm$$

Where:

- **I<sub>i</sub>** = Initial Incentive to be allocated to each Beneficiary based on his/her professional level.
- **Nps** = Number of Performance Shares to be allocated to each Beneficiary, rounding it up to the nearest whole number by default.
- **ITm** = Target Cash Incentive to be allocated to each Beneficiary based on his/her professional level.

The number of Performance Shares will be obtained by applying the following formula:

$$Nps = ITps / PMA$$

Where:

- **ITps** = Target Incentive to be allocated to each Beneficiary by the Company to determine the number of Performance Shares.
- **PMA** = Arithmetic mean rounded off to two decimal digits of the closing share price of Enagás on 31 December 2015 and of the 20 sessions before and after that date (26.36 euros per share).

The Company's Board of Directors, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, can allocate new Performance Shares and another Target Cash Incentive by increasing the number of Beneficiaries or increasing the number of Performance Shares and Target Cash Incentive initially allocated to the Beneficiaries, except in the case of the Executive Directors, whose allocation will require a resolution from the General Shareholders' Meeting.

The Initial Incentive for the Executive Directors is established at 1,470,000 euros for Mr Antonio Llardén Carratalá and 585,000 euros for Mr Marcelino Oreja Arburúa.

**(5) Number of shares and gross cash amount to be delivered when the Plan is settled**

The Initial Incentive's allocation must comply with the following rules:

- Regarding the Executive Directors, 100% of the Initial Incentive will be instrumented by granting Performance Shares.
- Regarding the Management Committee members, 75% of the Initial Incentive will be instrumented by granting Performance Shares and 25% through the Target Cash Incentive.
- Regarding the Managers, 50% of the Initial Incentive will be instrumented by granting Performance Shares and 50% through the Target Cash Incentive.

The total number of shares and gross cash amount to be delivered to each Beneficiary on the Settlement Date will be determined in accordance with the following formula:

$$I_F = (Nps \times GCI) + (ITm \times GCI)$$

Where:

- **I<sub>F</sub>** = Final Incentive, corresponding to the number of Company shares to be delivered, rounded up to the nearest whole number by default, and the gross cash amount to be paid to each Beneficiary on the Plan's Settlement Date.
- **Nps** = Number of Performance Shares allocated to the Beneficiary.
- **GCI** = Level of Achievement of the Incentive, based on the degree of compliance with the Plan's targets and which will be determined in accordance with that established in section 8 below.
- **ITm** = Target Cash Incentive allocated to each Beneficiary.

In any case, the Company will take away, from the shares to be delivered to the Beneficiaries (from the Performance Shares), the number of necessary shares so that, with the result of the sale, the Beneficiaries can settle the corresponding personal income tax payments on account as a result of receiving the shares.

The maximum amount of shares authorised by the General Shareholders' Meeting also takes into account the necessary shares so that new Performance Shares can be granted to new Beneficiaries or to the existing Beneficiaries (hereinafter, "**Performance Share Reserve**"). In this case, this must be resolved by the Company's Board of Directors after a favourable report from the Appointments, Remuneration and Corporate Social Responsibility Committee, except in the case of the Executive Directors, whose allocation will require a resolution from the General Shareholders' Meeting.

#### **(6) Maximum number of shares to be delivered**

In accordance with the preceding sections, the maximum number of shares to be delivered as a result of the initial allocation of the Performance Shares to all the Beneficiaries will be 279,675, of which 69,711 correspond to Mr Antonio Llardén Carratalá and 27,744 to Mr Marcelino Oreja Arburúa.

This number of shares includes the possible number of shares to be delivered, without discounting the shares which, where applicable, are used to pay the corresponding personal income tax on account, in the event that the maximum coefficients regarding the target achievements are applied.

Additionally, the Plan envisages that 27,968 shares can be delivered to the Beneficiaries as a result of granting the new Performance Shares (Performance Share Reserve).

Therefore, the Plan's total maximum amount of shares is 307,643.

Among other measures, the Company can use the shares in its portfolio or use the financial instruments advisable in any given situation to cover the Plan.

#### **(7) Share price used as the reference**

The share price used as the reference for the Plan will be the arithmetic mean rounded off to two decimal digits of the closing share price of Enagás on 31 December 2015 and of the 20 sessions before and after that date (26.36 euros per share).

**(8) Metrics**

The Level of Achievement of the Incentive will depend on the degree of compliance with the Plan's targets.

The specific number of Enagás shares and the gross cash amount to be delivered to each Beneficiary on the Settlement Date, if the conditions established for this take place, will be established in accordance with the Level of Achievement of the following targets in the 2016-2018 period: (i) the accumulated results corresponding to the Funds From Operations (FFO), (ii) the accumulated cash flow received from the investees (Dividend), (iii) the Total Shareholder Return (TSR) compared with 15 other reference companies (16 companies in total, including Enagás) and (iv) compliance with the Sustainability Plan (Sustainability Plan).

In each case and based on the Beneficiaries' level, the Board of Directors will determine the weighting of the aforementioned metrics to establish the Incentive to be paid.

For the FFO and Dividend, a Level of Achievement of the target will be established between 0% and 125% based on the previously established target scale. The level of achievement arising from the target will be calculated through linear interpolation.

For the TSR, a Level of Achievement will be established based on Enagás' ranking among the 16 comparables (hereinafter, "**Comparable Group**"). The ranking will be as follows:

<b>TSR objective</b> (Ranking)	<b>Level of Achievement of Objective</b> (GCO <sub>RTA</sub> ) (%)
1 - 4	125%
5	104%
6	83%
7	61%
8	40%
9 - 16	0%

The companies used as the reference for the TSR in the Plan are as follows:

<b>COMPARABLE GROUP</b>	
<b>15 COMPANIES</b>	
CÉNTRICA	RED ELÉCTRICA
ENEL	REN
ENGIE	RWE
E.ON	SEVERN TRENT

IBERDROLA	SNAM
GAS NATURAL FENOSA	TERNA
NATIONAL GRID	UNITED UTILITIES
PENNON GROUP	

To determine the TSR, and with the aim of preventing atypical movements in the indicator, the arithmetic mean rounded off to two decimal digits of the closing share price on 31 December 2015 and of the 20 sessions before and after that date will be taken into account as the reference values both on the date before the start of the Duration (31 December 2015) and on the End Date (31 December 2018).

For the Sustainability indicator, the Board of Directors will decide on the Level of Achievement of Enagás' 2016-2018 Sustainability Plan.

**(9) Requirements for obtaining the Incentive**

The requirements enabling the Beneficiary to receive the Incentive arising from this Plan are as follows:

1. The Plan's targets must be term under the terms and conditions established in its Regulations.
2. The Beneficiary must stay at the Company or at its group of companies until the Plan's Settlement Date, except under special circumstances such as death, permanent disability, retirement and other circumstances established in the Regulations and which must be approved by the Company's Board of Directors. Such special circumstances which enable the Beneficiary to obtain the Incentive include the removal of the Executive Directors through a resolution from the General Shareholders' Meeting (unless this is due to their negligence or disloyalty) and the loss of the executive status. In the event of voluntary resignation or fair dismissal, the Beneficiary will, therefore, lose the right to receive the shares under this Plan.

**(10) Delivery of shares and availability system**

Where applicable, the shares deriving from the Plan's settlement will be delivered to the Beneficiaries in their corresponding securities account by book-entry or the applicable stock market procedure.

The shares received through this Plan will be fully paid up, listed and free of any charges and encumbrances and, in general, their holders will be subject to the limits or restrictions applicable to the general Company shareholders under the contractual, bylaw or legal provisions.

The foregoing will not be applicable to the Company's Executive Directors, which will be subject to the limit that includes the obligation to keep the shares received (net of the corresponding personal income tax payments on account) for two years. Once that period has elapsed, the shares will be freely available.

**(11) Early settlement of the Plan**

The Plan can envisage early settlement circumstances in the event of a takeover or a change of control at the Company or if a corporate event or transaction significantly affects the Plan in the Board's opinion.

**(12) Management and administration of the Plan**

At the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, Enagás' Board of Directors will adopt, in each case, the appropriate resolutions so that the Plan can be correctly managed and administered.

**B) REMUNERATION OF DIRECTORS FOR THEIR POSITION AS SUCH IN 2016-2018**

This is the remuneration received by all the members of the Board of Directors for belonging to it and whose maximum annual amount must be included in this Policy and approved by the General Meeting, in accordance with article 529 septdecies of the Spanish Limited Liability Companies Law, article 36 of the Articles of Association and article 16 of the Board Regulations.

**Analysis of the current positioning**

The Company's prudent remuneration policy has affected this item, which has not increased since 2008. In fact, the Board's total remuneration, approved by the General Meeting for this item, amounted to 1,249,733 euros for 2008-2011, but was decreased to 1,115,741 euros for 2011-2015. Such figures were the maximum authorised by the General Meeting. The remuneration that was actually received by the directors as a whole was lower than such figures, as can be seen in the information reported by the Company each year.

The inclusion of the Incentive as a new remuneration item, as stated above, does not affect the directors in their position as such.

An analysis of this remuneration's external competitiveness provides the following conclusions:

a) The Enagás Board's total remuneration for this item, which includes the allowance for attending the Board meetings and the remuneration for belonging to a Committee, was below the median for the power market considered.

b) The structure of Enagás' remuneration components was not aligned with market practices. Its structure is based almost solely on attendance allowances and

it is understood that this has become obsolete and is significantly different to that of the comparables' standards.

### **Proposed remuneration for 2018 and transitional plan**

a) To correct this lack of remuneration positioning, the proposal is to align the remuneration for Enagás directors in their position as such to **90% of the 2014 median** for the companies used as the reference at the end of the period envisaged in the Policy, i.e. **2018**. To do this, the proposal is to implement a transitional plan that progressively increases the remuneration each year during the 2016-2018 period.

b) To correct the lack of positioning of the remuneration structure, the proposal is to adapt the several remuneration components to the usual practices in the reference market, which provides remuneration preferably to those who belong to the Board and its Committees while maintaining remuneration that incentivises attendance to the meetings.

### **Individual remuneration for directors and maximum annual limit for directors' remuneration for this item**

In accordance with article 529 septdecies of the Spanish Limited Liability Companies Law and article 36 of the Articles of Association, the allocation of remuneration among the various remuneration components and to each Director shall be determined by resolution of the Board of Directors, in consideration of their functions and responsibilities. Without prejudice to the resolutions adopted in this sense by the Board, at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee, the Board understands that the allocation by item and the remuneration amount for each director will be that stated below. Nevertheless, the Board, in line with the stated provisions, can change, during the Policy's period, the amounts allocated to each item, without exceeding the maximum remuneration figure for the Board as a whole approved by the General Meeting in any case. The individual director remuneration for 2016 based on the positions held and attendance to the meetings of the Board and its Committees will be: (i) an annual fixed amount of 82,000 euros for belonging to the Board; (ii) an annual variable amount of up to 20,000 euros for attending the Board meetings; (iii) an annual fixed amount of 20,000 euros for belonging to one of the Board Committees; (iv) an annual variable amount of up to 4,000 euros for attending the Committee meetings; (v) an annual fixed amount of 15,000 euros for the holding the position of Chairperson on each Committee; and (vi) an annual fixed amount of 15,000 euros for the holding the position of Lead Independent Director. To determine, in line with this individual remuneration, the maximum remuneration amount for the entire Board for this item in 2016, which must be approved by the General Meeting as part of this Policy in accordance with article 529 septdecies of the Spanish Limited Liability Companies Law, the maximum number of directors as determined in article 35 of the Articles of Association, i.e. fourteen, has been taken into account, although there are currently thirteen directors. Eleven ordinary meetings of the Board and four meetings of each Committee per year have been taken into account. A provision has been included to remunerate the attendance to a potential extraordinary meeting of the Board or of each Committee, if they take place. Attendance to other extraordinary meetings, if they take place, will also be remunerated, provided that there are sufficient retained earnings for this. The resulting figures have been slightly rounded up. Consequently, the maximum annual remuneration amount to be paid to all the directors in their position as such in 2016 and which the Board proposes for the General Meeting's approval for the purposes of article 529 septdecies.1 of the Spanish Limited Liability Companies Law and article 36 of the Articles of Association is 1,770,000 euros.

As stated, the transitional plan will progressively increase the remuneration each year during the Policy's period. The allocation by item and the remuneration amount for each director in 2017 will be as follows: (i) an annual fixed amount of 92,000 euros for belonging to the Board; (ii) an annual variable amount of up to 25,000 euros for attending the Board meetings; (iii) an annual fixed amount of 22,000 euros for belonging to one of the Board Committees; (iv) an annual variable amount of up to 5,000 euros for attending the Committee meetings; (v) an annual fixed amount of 15,000 euros for the holding the position of Chairperson on each Committee; and (vi) an annual fixed amount of 15,000 euros for the holding the position of Lead Independent Director. As a result of applying the aforementioned criteria to determine, in line with the individual remuneration, the maximum remuneration figure for the Board in 2017, the maximum annual remuneration amount to be paid to all the directors in their position as such in 2017 and which the Board proposes for the General Meeting's approval for the purposes of article 529 septdecies.1 of the Spanish Limited Liability Companies Law and article 36 of the Articles of Association is 2,020,000 euros.

In 2018, the target of 90% of the 2014 median for the reference companies will be met. The allocation by item and the remuneration amount for each director in 2017 will be as follows: (i) an annual fixed amount of 100,000 euros for belonging to the Board; (ii) an annual variable amount of up to 30,000 euros for attending the Board meetings; (iii) an annual fixed amount of 25,000 euros for belonging to one of the Board Committees; (iv) an annual variable amount of up to 5,000 euros for attending the Committee meetings; (v) an annual fixed amount of 15,000 euros for the holding the position of Chairperson on each Committee; and (vi) an annual fixed amount of 15,000 euros for the holding the position of Lead Independent Director. As a result of applying the aforementioned criteria to determine, in line with the individual remuneration, the maximum remuneration figure for the Board in 2018, the maximum annual remuneration amount to be paid to all the directors in their position as such in 2018 and which the Board proposes for the General Meeting's approval for the purposes of article 529 septdecies.1 of the Spanish Limited Liability Companies Law and article 36 of the Articles of Association is 2,241,000 euros.

### **C) REMUNERATION OF EXECUTIVE DIRECTORS IN 2016-2018**

This is the remuneration to be received by the two executive directors (Executive Chairperson and Chief Executive Officer) for their executive functions based on their contracts approved by the Board of Directors in accordance with the requirements established in article 249.3 of the Spanish Limited Liability Companies Law.



## **Analysis of the current positioning**

The Company's prudent remuneration policy has also affected this item, which has not increased since 2008 in the case of the Executive Chairperson, and from his appointment in 2012, in the case of the Chief Executive Officer. An analysis of this remuneration's positioning provides the following conclusions:

- a) In terms of the total potential remuneration (with 100% achievement of the objectives for the annual variable remuneration), the remuneration for Enagás' executive directors was below that of the comparables in question, which is the median for the figures published by the Ibx-35 companies (**Acciona, Endesa, Gamesa, Gas Natural Fenosa, Iberdrola, REE and Repsol**) in 2014.
- b) Regarding the remuneration structure for the executive directors, the conclusions are as follows:
- The remuneration components of the market in question (remuneration mix) include fixed and variable items, where the latter also includes short and long term. As stated, Enagás' current remuneration is characterised by the lack of a multi-year variable item.
  - The annual variable remuneration, expressed as a percentage of fixed remuneration, is competitive in comparable market terms.

## **Proposed remuneration for 2018 and transitional plan**

To correct this lack of remuneration positioning, the proposal is to align the remuneration for Enagás' executives to **90% of the 2014 median** for the companies used as the reference at the end of the period envisaged in the Policy, i.e. **2018**. To do this, the proposal is to implement a **transitional plan** that progressively increases the remuneration each year during the 2016-2018 period.

The proposal is to achieve the target positioning in 2018 by: (i) implementing the Incentive described in section A) above; (ii) updating the remuneration for executive directors so that it corresponds to the fact that they belong to the Board as described in section B) above; and (iii) applying remuneration increases which cannot exceed 30% per year, to be made in accordance with an orderly three-year transitional plan.

Subsequently, in accordance with article 528 octodecies.1 of the Spanish Limited Liability Companies Law, the following are detailed: the annual fixed remuneration amount for the Executive Chairperson and the Chief Executive Officer and the changes in the 2016-2018 period; the different parameters for fixing variable components and the main terms and conditions of their contracts, paying particular attention to their duration, compensation for early severance or termination of the contractual relationship and exclusivity, post-contractual non-competence, permanence and loyalty pacts.

### **1. Executive Chairperson.**

#### **Remuneration of the Executive Chairperson for his position as a director**

Between 2016 and 2018, the Executive Chairperson will receive the remuneration that corresponds to him for his position as a director under the terms described in section B) above. The Chairperson, in his capacity as the Executive Chairperson, cannot be a member of any of the two Board Committees.

## **Fixed remuneration**

Based on the proposed transitional plan, the annual fixed remuneration in monetary terms for the Chairperson in the period addressed by this Policy will be 980,000 euros in 2016, 1,000,000 in 2017 and 1,000,000 in 2018.

Moreover, under the terms of the contract approved by the Board, the Chairperson will receive an annual fixed remuneration in kind for the usual items in these types of benefits and similar ones to those for the Company's management team (car, medical insurance, etc.). Furthermore, the Executive Chairperson is also an insured participant in the "Company's Directors' Pension Plan" which the Company established for its management team 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, which the Company has signed with an insurance company. In 2015, the Chairman received the contributions to the Enagás Pension Scheme that is applicable to all the Company employees.

Based on the information made public by the Company for other purposes, the Executive Chairman received the following amounts for these items in 2015: payments in kind amounting to 150,000 euros; a life insurance premium totalling 33,000 euros; contributions to the Directors' Pension Plan amounting to 177,000 euros; and contributions to the pension plan totalling 7,000 euros.

No changes are expected in these items comprising the annual fixed remuneration in kind for the 2016-2018 period, and any differences will come from applying the price increases at any given time and, where applicable, from the applicable valuation rules.

The Executive Chairman forms part of the group insured by the civil liability policy that covers the contractual and extra-contractual liabilities arising from carrying out the activities included in this position.

The Company will compensate the Executive Chairman for the amounts incurred as travel, accommodation, board and other similar expenses as a result of carrying out his functions, in accordance with the expense and travel policy prevailing at the Company at any given time.

#### **Annual variable remuneration:**

The Chairman has been acknowledged the right to receive an annual variable bonus as the annual variable remuneration for meeting the objectives established by the Board of Directors at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee for the corresponding year. The variable bonus cannot exceed 60% of the annual fixed monetary remuneration in any case.

At the start of each year included in the Policy, the Board will approve the objectives applicable to the Executive Chairman for such purposes and, at the end of the year, the Board, at the proposal of the Committee, will assess the Level of Achievement of the objectives and determine the annual variable remuneration corresponding to the Chairman.

At the proposal of the Committee, the Board has already established at this date the objectives applicable to the Chairman for such purposes for 2016, which generally refer to:

- 1.- An improvement in the Company's financial results, with growth in after-tax profit.
- 2.- Consolidation of the Company's regulated revenues.
- 3.- Consolidation of the Company's Strategic Plan, particularly regarding its international development.

4.- Development of Corporate Social Responsibility and Good Governance initiatives.

#### **Long-term variable remuneration (2016-2018 Incentive Plan)**

The Executive Chairman will be a Beneficiary of the 2016-2018 Incentive Plan under the terms stated in section A) above and whose effects are given here as reproduced.

The Incentive will not have a direct remuneration effect on the Chairman in 2016, 2017 or 2018, without prejudice to the accounting treatment that the Company must give to the proportional part of the theoretical maximum each year.

In 2019, the Incentive will be settled, and the Executive Chairman will receive the amount corresponding to him in accordance with the Level of Achievement of the multi-year objectives. He will receive all the Incentive in the form of shares, and he will be obligated to keep them for two years. If the minimum objectives are not met, the Incentive will be equal to zero.

In 2021, the Executive Chairman can freely sell the shares received.

#### **Main terms and conditions of the contract with the Executive Chairman:**

For the purposes of article 529 octodecies, the main terms and conditions of the contract with the Executive Chairman are stated below.

The relationship between Enagás and the Executive Chairman is governed by a "Service provision contract for the position of Executive Chairman", approved by the Board of Directors in accordance with all the requirements envisaged in article 249.3 of the Spanish Limited Liability Companies Law. The contract is aimed at regulating the rights and obligations for the parties as a result of the position of Executive Chairman, which corresponds to Mr Antonio Llardén Carratalá since his appointment by the Board on 24 January 2007. The contract stipulates the period during which the Executive Chairman will hold this position as such.

The contract regulates the services provided by the Executive Chairman when carrying out his functions and those of the Company. The aforementioned sections detail the scope of his remuneration. The contract also regulates the circumstances for termination. In the event that the Company freely decides to terminate the contract for whatever reason, as long as this is not due to a breach or being guilty of any actions by the Executive Chairman or because the Company has failed to comply with its contractual obligations, the Executive Chairman will be entitled to an indemnity equivalent to three years' salary of his annual fixed remuneration, understood as that held by the Chairman at the time of the termination of employment plus the remuneration in kind and the last annual variable remuneration received. This clause was established at the same time that the Executive Chairman was designated in 2007.

The contract establishes an exclusivity arrangement for the Executive Chairman, through which he cannot provide services of any nature to third parties or participate in or form part of another company or legal entity without the Board's express authorisation. No specific financial compensation for the Executive Chairman is envisaged for this item. The contract does not include any financial compensation for post-contractual non-competition arrangements either. The Executive Chairman's permanence and loyalty are incentivised through his participation in the aforementioned "Company's Directors' Pension Plan".

## **2. Chief Executive Officer**

### **Remuneration for his position as a director**

Between 2016 and 2018 (both inclusive), the Chief Executive Officer will receive the remuneration that corresponds to him for his position as a director under the terms described in section B) above. The Chief Executive Officer, in his capacity as an Executive Director, cannot be a member of any of the two Board Committees.

### **Fixed remuneration**

Based on the proposed transitional plan, the annual fixed remuneration in monetary terms for the Chief Executive Officer in the period addressed by this Policy will be 390,000 euros in 2016, 460,000 in 2017 and 500,000 in 2018.

Moreover, under the terms of the contract approved by the Board, the Chief Executive Officer will receive an annual fixed remuneration in kind for the usual items in these types of benefits and similar ones to those for the Company's management team (car, medical insurance, etc.). Furthermore, the Chief Executive Officer is also an insured participant in the "Company's Directors' Pension Plan" which the Company established for its management team 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, which the Company has signed with an insurance company. In 2015, the Chief Executive Officer received the contributions to the Enagás Pension Scheme that is applicable to all the Company employees.

Based on the information made public by the Company for other purposes, the Chief Executive Officer received the following amounts for these items in 2015: payments in kind amounting to 17,000 euros; a life insurance premium totalling 1,000 euros; contributions to the Directors' Pension Plan amounting to 93,000 euros; and contributions to the pension plan totalling 5,000 euros.

No changes are expected in these items comprising the annual fixed remuneration in kind for the 2016-2018 period, and any differences will come from applying the price increases at any given time and, where applicable, from the applicable valuation rules.

The Chief Executive Officer forms part of the group insured by the civil liability policy that covers the contractual and extra-contractual liabilities arising from carrying out the activities included in this position.

The Company will compensate the Chief Executive Officer for the amounts incurred as travel, accommodation, board and other similar expenses as a result of carrying out his functions, in accordance with the expense and travel policy prevailing at the Company at any given time.

**Annual variable remuneration:**

The Chief Executive Officer has been acknowledged the right to receive an annual variable bonus as the annual variable remuneration for meeting the objectives established by the Board of Directors at the proposal of the Appointments, Remuneration and Corporate Social Responsibility Committee for the corresponding year. The variable bonus cannot exceed 60% of the annual fixed monetary remuneration in any case. The bonus will be determined in the same way as that described for the Executive Chairman.

**Long-term variable remuneration (2016-2018 Incentive Plan)**

The Chief Executive Officer will be a Beneficiary of the 2016-2018 Incentive Plan under the terms stated in section A) above and whose effects are given here as reproduced.

The Incentive will not have a direct remuneration effect on the Chief Executive Officer in 2016, 2017 or 2018, without prejudice to the accounting treatment that the Company must give to the proportional part of the theoretical maximum each year.

In 2019, the Incentive will be settled, and the Chief Executive Officer will receive the amount corresponding to him in accordance with the Level of Achievement of the multi-year objectives. He will receive all the Incentive in the form of shares, and he will be obligated to keep them for two years. If the minimum objectives are not met, the Incentive can be equal to zero.

In 2021, the Chief Executive Officer can freely sell the shares received.

**Main terms and conditions of the contract with the Chief Executive Officer:**

For the purposes of article 529 octodecies, the main terms and conditions of the contract with the Chief Executive Officer are stated below.

The relationship between Enagás and the Chief Executive Officer is governed by a "Service provision contract for the position of Chief Executive Officer", approved by the Board of Directors in accordance with all the requirements envisaged in article 249.3 of the Spanish Limited Liability Companies Law. The contract is aimed at regulating the rights and obligations for the parties as a result of the position of Chief Executive Officer, which corresponds to Mr Marcelino Oreja Arburua since his appointment by the Board on 17 September 2012. The contract stipulates the period during which the Chief Executive Officer will hold this position as such.

The contract regulates the services provided by the Chief Executive Officer when carrying out his functions and those of the Company. The aforementioned sections detail the scope of his remuneration. The contract also regulates the circumstances for termination. In the event that the Company freely decides to terminate the contract for whatever reason, as long as this is not due to a breach or being guilty of any actions by the Chief Executive Officer or because the Company has failed to comply with its contractual obligations, the Chief Executive Officer will be entitled to an indemnity equivalent to two years' salary of his annual fixed remuneration, understood as that held by the Chief Executive Officer at the time of the termination of employment plus the remuneration in kind and the last annual variable remuneration received.

The contract establishes an exclusivity arrangement for the Chief Executive Officer, through which he cannot provide services of any nature to third parties or participate in or form part of another company or legal entity without the Board's express authorisation. No specific financial compensation for the Chief Executive Officer is envisaged for this item. The contract includes a non-competition arrangement after its termination, which expires two years afterwards. To compensate for this non-competition arrangement, the Company undertakes to compensate the Chief Executive Officer with 80% of his annual gross fixed remuneration for each year of the arrangement. Nevertheless, the amount in his favour from the Directors' Pension Plan will be deducted from the resulting amount. The Chief Executive Officer's permanence and loyalty are incentivised through his participation in the aforementioned "Company's Directors' Pension Plan".

### **3. Contracts with the executive directors (Executive Chairperson and Chief Executive Officer)**

The contracts with the Chairman and with the Chief Executive Officer can be amended when necessary to comply with the provisions of article 249.3 of the Spanish Limited Liability Companies Law.

### **D) COMPANY REMUNERATION POLICY REGARDING THE MEMBERS OF THE MANAGEMENT COMMITTEE AND THE REST OF THE MANAGEMENT TEAM**

The remuneration policy that the Company implements regarding the Management Committee members and other managers of the Company is not addressed by this Policy, which is submitted for the General Meeting's approval for the purposes of article 529 novodecies of the Spanish Limited Liability Companies Law. This is without prejudice to the fact that the changes in the remuneration for the Management Committee members must be submitted for the Board's approval in accordance with the provisions of article 249 bis of the Spanish Limited Liability Companies Law.

Nevertheless, insofar as all the Company's remuneration policy must be taken as a whole, in this section the Board notifies the General Meeting of the policy which, in line with the proposal for the Executive Directors, will be applied to the Management Committee members (8 at present) and to the managers (33 at present).

The Appointments, Remuneration and Corporate Social Responsibility Committee, with collaboration from independent advisor Willis Towers Watson, extended the analysis of the remuneration positioning to the Management Committee members and other Company managers.

#### **Analysis of the current positioning**

Once again, the Company's prudent remuneration policy has affected this item, which has not increased significantly since 2008.

a) In terms of the total potential remuneration (with 100% achievement of the objectives for the annual variable remuneration), the remuneration for Enagás' managers was below that of the comparables in question, which was the median.

b) Regarding the remuneration structure for the Management Committee and the managers, the conclusions are as follows:

- As stated, Enagás' current remuneration is characterised by the lack of a multi-year variable item.
- The annual variable remuneration, expressed as a percentage of fixed remuneration, is competitive.

#### **Proposed remuneration for 2018 and transitional plan**

To correct this lack of remuneration positioning, the proposal is to align the remuneration for the Executive Directors to 90% of the 2014 median for the power companies used as the reference at the end of the period envisaged in the Policy, i.e. 2018. Cross-checks will be made periodically with the market to maintain the target reference updated.

The changes in the financial terms for the Management Committee members must be approved by the Appointments, Remuneration and Corporate Social Responsibility Committee and the Board in accordance with the provisions of article 249 bis of the Spanish Limited Liability Companies Law. Such changes will be made in accordance with the general policy envisaged for this by the Committee.

The changes in the financial terms for the other managers will be made in accordance with the general policy determined by the Company.

The proposal is to achieve the target positioning in 2018 by implementing the aforementioned Incentive and applying remuneration increases which cannot exceed 30% per year, to be made in accordance with an orderly three-year transitional plan.

For the corresponding legal purposes, the Board of Directors has issued this proposal for the "Director Remuneration Policy for 2016, 2017 and 2018" at its meeting on 15 February 2016.

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