



**REPORT BY THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS OF
ENAGÁS, S.A.
ON THE AMENDMENT OF THE RULES AND REGULATIONS OF THE ORGANISATION AND
FUNCTIONING OF THE BOARD OF DIRECTORS**

19 March 2013

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- Pursuant to the provisions of Article 528 of the Amended Corporate Enterprises Act (*Ley de Sociedades de Capital*, "LSC"), at its meeting on 19 March 2013 the Company's Board of Directors approved this Report with a view to informing the General Meeting of amendments to the Rules and Regulations of the Company's Board of Directors, approved by the Board at its meeting of 18 February 2013 following a proposal by the Appointments, Remuneration and Corporate Responsibility Committee, pursuant to the provisions of Article 2 of the aforementioned text.
- The modifications were made in accordance with the requirements of Article 63.3 b) of Law 34/1998 governing the Hydrocarbons Sector (and, pursuant to same, the Spanish National Energy Commission's Resolution of 26 July 2012) with respect to limitations of access and obligation to resign Board membership for those exercising control or rights in a company carrying out any of the functions of production or sale of natural gas arising from separation of activities involving the transportation and production or sale of natural gas.

The express stipulation has been added to the Board's Regulation of limitation of access and the obligation to resign Board membership for any natural persons or bodies-corporate with one of the incompatibilities indicated (i.e. exercise of control or rights in a company carrying out any of the functions of production or sale of natural gas), the presence of whom or which on the Enagás Board could affect status as technical transmission operator.

- The following amendments have been made in this regard:
 - (i) Firstly, an addition has been made to the prohibitions in Article 3 of the Board's Regulations ("Quantitative and Qualitative Composition"), to expressly prohibit access to the Board to those exercising control or rights in a company carrying out functions of production or sale of natural gas, in the terms established in Article 63.3 b) of the Hydrocarbons Law.
 - (ii) Furthermore, in addition to the above, a specific reference has been added to the Articles of Association and the Board's Regulations within the reasons for resignation of Board members listed in Article 12 of the Regulations, stipulating the obligation of Board members to place their posts at the disposal of the Board and, where applicable, to resign when they are affected not only by one of the incompatibilities or prohibitions provided for in law, but also by one of the instances set out in the Company Memorandum and Articles of Association or in the Board's Regulations.

- (iii) Finally, in consonance with the amendments indicated, Article 25 of the Board's Regulations has also been modified to add, to the criteria that must be utilised by the Enagás Appointments, Remuneration and Corporate Responsibility Committee to select those proposed for directorships, the stipulation that the Committee must ensure that access to the Board by a new director does not affect the Company's status as technical transmission operator.
- Additionally, with a view to compliance with the legal requirements concerning restrictions on the exercise of voting rights arising from the Hydrocarbons Law, and particularly concerning restrictions on access to or sojourn on the Board of Enagás as technical transmission operator, a new letter g) has been added to section 3 of Article 27 concerning Shareholder Relations, stipulating that the Board, as the Presiding Panel, shall guarantee compliance with the legal restrictions arising from legislation concerning hydrocarbons (a limit of 5% on equity holdings, or 1% on the exercise of voting rights).
 - There follows a transcription of the articles of the Board Regulations as amended, with the aforementioned stipulations added.

ARTICLE 3.- QUANTITATIVE AND QUALITATIVE COMPOSITION

1.- Within the minimum and maximum limits set forth under Article 35 of the Company's current Articles of Association, and without prejudice to the powers of proposal enjoyed by shareholders, the Board of Directors shall submit to the General Meeting such Board membership size as it deems appropriate in the interests of the Company at the given time. The General Shareholders' Meeting shall decide on the final number.

2.- The Board of Directors shall be composed of Directors classified as specified below:

a) Internal or Executive Directors: directors who perform senior management functions or are employed by the company or its Group. If a director performs senior management functions and, at the same time, is or represents a significant shareholder or a shareholder represented on the Board of Directors, he/she shall be considered internal or executive for the purposes of these Regulations.

No more than 20% of the total number of Directors may belong to this category.

b) External or Non-Executive Directors: These directors shall in turn fall into three categories:

b1) Proprietary Directors: Directors that hold an interest equal to or greater than that which qualifies as significant under the law or have been appointed on account of their status as shareholders even if their interest is less than that amount, and Directors representing such shareholders.

b2) Independent Directors: Directors of acknowledged professional prestige are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under Article 9 of these Regulations. The number of Independent Directors shall represent at least one third of the total number of Directors.

b3) Other Non-Executive Directors: non-Executive Directors who, though not Proprietary Directors, cannot be classified as Independent Directors pursuant to Article 9 of these Regulations.

In exercising its powers of co-option and proposal to the General Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, Independent Directors represent a broad majority over Executive Directors, and that among Non-Executive Directors the ratio of Nominee to Independent Directors reflects the existing ratio of share capital represented by Proprietary Directors to all other capital.

The following cannot be Directors or natural persons representing a body-corporate Director:

a) Natural persons or bodies-corporate who or which hold the post of director in more than 5 (five) companies whose shares are admitted for trading on national or foreign markets.

b) Natural persons or bodies-corporate the circumstances of whom or which render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that opposed those of the Company or its Group.

c) Directorships may not be exercised by natural persons or bodies-corporate that exercise control or rights in a company carrying out functions of production or sale of natural gas, or by any other natural persons or bodies-corporate the presence of whom or which on the Board, pursuant to the legislation applicable to the

hydrocarbons sector, may affect the Company's status as technical transmission operator.

ARTICLE 12.- DEPARTURE OR REMOVAL OF DIRECTORS

- 1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Articles of Association and these Regulations.
- 2.- Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:
 - a) When they are affected by instances of incompatibility or prohibitions laid down in law, in the Articles of Association, and in these Regulations.
 - b) When they are in serious breach of their duties as Directors.
 - c) When they may put the interests of the Company at risk or damage its credibility and reputation. When a Director is tried by the courts or is summoned to declare in connection with any of the offences stipulated in Article 213 of the LSC, the Board shall examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not the Director shall be called upon to resign.
 - d) When the reason for which they were appointed as Directors no longer exists.
 - e) When Independent Directors cease to meet the conditions required under Article 9.
 - f) When the shareholder represented by a Proprietary Director sells its entire holding. They shall also do so, in the appropriate number, when the shareholder reduces the holding to a level requiring a reduction in the number of Proprietary Directors.

Should the Board of Directors not deem it advisable to have the Director tender his/her resignation in the cases specified under d), e) and f), the Director must be included in the category that, in accordance with these Regulations, is the most appropriate based on his/her new circumstances.

- 3.- The Board of Directors shall not propose the removal of Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a proposal by the Appointments Committee.

- 4.- After a Director resigns from his/her post, he/she may not work for a competitor for a period of two years, unless dispensed from this obligation by the Board of Directors, or the duration of the obligation is shortened by the Board of Directors.

ARTICLE 25.- APPOINTMENTS, REMUNERATION AND CORPORATE RESPONSIBILITY COMMITTEE

- 1.- The Appointments, Remuneration and Corporate Responsibility Committee shall comprise at least three and no more than six Directors, to be appointed by the Board.

The Appointments, Remuneration and Corporate Responsibility Committee must comprise a majority of Independent Directors. No Executive Director may sit on the Committee, but may be present if this is expressly agreed by the Committee.

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

- 2.- Under Article 45 of the Articles of Association, the Committee has the following duties and powers:

- To propose remuneration criteria for the Directors of the Company and of Group companies, in accordance with the stipulations of the Articles of Association and in line with resolutions passed at the General Meeting, and to ensure that remuneration is transparent.
- To propose a general remuneration policy for Enagás management personnel, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers of the Company and its Group, in order to ensure that the Company has appropriate highly-qualified staff for administering its business at all times.
- To review the structure of the Board of Directors of Enagás and the companies comprising its Group, in addition to the criteria for the renewal of Directors required under the Articles of Association, the addition of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that the Committee considers necessary.
- To report on the appointment or dismissal of the Secretary of the Board of Directors.

- To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake which entail or may entail a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
- To draw up and review the criteria that must be utilised for the composition of the Board and for selection of those nominated as Directors, ensuring that their access to the Board does not affect the Company's status as technical transmission operator, pursuant to the provisions of regulations applicable concerning hydrocarbons.
- To provide information, objectively and in the Company's interest, concerning the proposals for appointment, re-election and ratification of Directors, and for the appointment of members of each of the Board's Committees.
- To submit proposals to the Board of Directors regarding the Company's organisational structure, including the creation of senior management posts in order to secure better and more efficient Company administration.
- To produce reports on intended appointments and dismissals of senior management staff, and, where necessary, approve special terms in their contracts.
- To approve the remuneration of senior management, provided that this does not diverge from criteria established in the general remuneration policy for executives.
- To report to the Board of Directors on any related-party transactions prior to authorisation for such transactions. Under no circumstances shall the transaction be authorised if prior to this the report stipulated in Article 14 bis of these Regulations has not been issued.
- Report to the Board on the general CSR and Corporate Governance policy, ensuring the adoption and effective application of best practices, both those which are compulsory and in line with generally accepted recommendations. To this end 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.
- To report to the Board of Directors on measures to be taken in the event of breach of these Regulations or the Internal Code of Conduct on matters relating

to the securities markets by Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and Corporate Responsibility Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

- 3.- The Committee shall meet at least four times a year. Meetings shall be called by the Chairman, and the Committee may seek advice both internally and externally and request the attendance of senior management of the Company and Group, as deemed necessary in the execution of its functions. Each Committee meeting shall be reported at the first subsequent meeting of the full Board, and a copy of the minutes of Committee proceedings shall be sent to each Director.

ARTICLE 27. – SHAREHOLDER RELATIONS

- 1.- In its relations with shareholders, the Board shall apply the principle of equality of treatment, create appropriate systems to consider shareholders' proposals as to the running of the Company, host presentations on the performance of the Company and its Group, and open the channels required for regular information exchange with shareholder committees and groups.
- 2.- As regards institutional shareholders, the Board shall put in place systems allowing for regular information exchange on topics such as investment strategy, performance assessment, composition of the Board and management effectiveness. Such information may in no event create states of privilege or afford special advantages with respect to the rest of shareholders.

In particular, the Board shall see to it that no asymmetric distribution of information among shareholders arises, and that significant shareholders do not gain improper access to the Company's privileged information.

3. The Board of Directors shall encourage informed participation by shareholders at the General Meetings, adopting such measures as are appropriate to facilitate the General Meeting, properly carrying out the functions attributed to it by law and the Articles of Association.

In particular, the Board shall take the following steps:

- a) The Board shall, in advance of the General Meeting, furnish shareholders with all information required by law and, as far as practicable, any information which, though not a statutory requirement, is manifestly relevant and may reasonably be furnished.

- b) The Board shall publish an Annual Corporate Governance Report at least containing the disclosures prescribed in Article 61.bis of the *Ley de Mercado de Valores* (Securities Market Act, "LMV"), in the laws and regulations implementing this law, and any other applicable laws and regulations.

The Annual Corporate Governance Report shall be published in the form of a 'significant event' (*Hecho Relevante*) and made available to shareholders over the Company's website to facilitate shareholders' right to information as prescribed in Articles 197, 520 and 539 of the LSC Corporate Enterprise Law.

- c) The Board shall publish an annual Report on Directors' Remuneration at least containing the disclosures prescribed in Article 61.ter of the *Ley de Mercado de Valores* (Securities Market Act, "LMV"), in the laws and regulations implementing this law, and any other applicable laws and regulations.
- d) The Board shall ensure that the Company's website functions as an effective reporting tool and at all times provides the mandatory content, in properly updated form, stipulated in applicable laws and regulations.

The Board of Directors shall be responsible for updating the information displayed on the Company's website, and shall ensure that its content is consistent with that of the documents filed and deposited with the appropriate public registers.

- e) The Board shall exercise the utmost diligence in dealing with shareholders' information requests in advance of the General Meeting.
 - f) The Board shall likewise exercise the utmost diligence in replying to shareholders' questions on the occasion of the General Meeting.
 - g) It shall ensure, in its functions as Presiding Panel at the General Meeting, that the stipulations of regulations for the hydrocarbons sector are met in connection with restrictions on exercise of voting rights.
 - h) The Board shall ensure compliance with the Regulations of the General Meeting.
- 4.- The Board of Directors shall establish appropriate procedures to familiarise itself with shareholders' proposals with regard to management of the Company.
 - 5.- The Board, through one of the Directors and with the assistance of such executives as it deems fit, may host presentations on the performance of the Company and its Group aimed at shareholders residing in the leading financial centres of Spain and other countries.

- 6.- Any public requests for proxies issued by any member of the Board must specify how the proxy intends to vote if the shareholder omits to give instructions.

Any Director who has issued a public call for proxies at a General Meeting shall refrain from exercising voting rights on the shares represented in relation to any item of business on the agenda in respect of which the Director is affected by a conflict of interest, unless the proxy has received precise voting instructions for each of these points, pursuant to the provisions of Article 522 of the LSC. The Director shall in any case be deemed to have a conflict of interest with respect to the following decisions:

- i. His/her own appointment, re-election or ratification as a Director.
- ii. His/her removal, dismissal or termination as a Director.
- iii. Filing of an action for liability against him/her.
- iv. The adoption or ratification, as applicable, of Company transactions with the Director in question or with companies controlled or represented by him/her or by persons acting on his/her behalf.

This report was approved by the Board of Directors at its meeting on 19 March 2013.

The Secretary to the Board of Directors

Rafael Piqueras Bautista