



**REPORT DRAFTED BY THE BOARD OF DIRECTORS OF ENAGÁS, S.A., IN RELATION TO THE PROPOSED DELEGATION OF POWER TO ISSUE ANY FIXED-INCOME SECURITIES OR ANALOGOUS CONVERTIBLE DEBT INSTRUMENTS OR THOSE WHICH CAN BE EXCHANGED OR GIVE THE RIGHT TO BUY SHARES OF THE COMPANY, WITH THE POWER TO INCREASE CAPITAL BY THE NECESSARY AMOUNT AND EXCLUDE, WHERE APPLICABLE, THE PREFERENTIAL SUBSCRIPTION RIGHT UP TO A LIMIT OF 20% OF SHARE CAPITAL (ITEM 11 ON THE AGENDA).**

### ***1. Purpose of the Report***

This report was prepared by the Board of Directors of Enagás, S.A. (hereinafter, the "**Company**") pursuant to the provisions of articles 286, 297.1.b) and 511 of the Spanish Limited Liability Companies Law (*Ley de Sociedades de Capital*), approved by Legislative Royal Decree 1/2010 of 2 July (hereinafter, the "**LSC**"), justifying the proposed delegation to the Board of Directors, with express replacement powers, the power to resolve issuing, one or more times, any fixed-income securities or analogous convertible debt instruments or those which give the right to subscribe to Company shares or which can be exchanged or give the right to buy shares of the Company or of other companies, for a maximum of one billion euros (€1,000,000,000); and to exclude the pre-emptive subscription right up to a limit of 20% of share capital at the time of this delegation of powers, which will be submitted for approval by the Ordinary General Shareholders' Meeting of the Company, to be held upon first call on 17 March 2016, and upon second call on 18 March 2016 (Item 11 of the Agenda).

### ***2. Rationale for the proposal***

All commercial companies, particularly those whose shares are traded on the stock market, require their governing body to have, at all times, the best instruments available to adequately respond to the particular needs or demands of the Company itself or of the market it operates in. These may include providing the Company with additional economic resources, which can be obtained through the issue of securities; which is the purpose of this report.

On this basis, the Board of Directors considers that it is advisable to hold the delegated powers provided for under prevailing legislation, in order to remain at all times well-positioned to secure funds in primary securities markets so it can properly manage the Company's interests.

As such, the Company's Board of Directors will be empowered, should it be necessary, to secure a significant volume of funds in a short period of time, placing at the disposition of the Company a quick and effective financing mechanism with which it can strengthen its balance sheet, reinforce its financial structure, and even undertake investment and growth initiatives that, given the particular current economic environment, could prove to be of strategic interest for the Company.

Therefore, the Board of Directors deems it appropriate to resolve issuing, one or more times, any fixed-income securities or analogous convertible debt instruments or those which give the right to subscribe to Company shares or which can be exchanged or give the right to buy shares of the Company or of other companies, for a maximum of one billion euros (€1,000,000,000).

The proposed resolution submitted to the General Meeting of Shareholders establishes the bases and types of conversion and/or exchange, although, when approving the issuance of convertible and/or exchangeable debentures or bonds subject to the authorisation included in this resolution, the Board of Directors shall issue a report which states and specifies, based on the criteria set out in the proposed resolution, the bases and types of conversions that are specifically applicable to the stated issuance. This report will also include the auditor's report referred to in article 414.2 of the LSC.

Regarding warrants and similar securities, the proposed resolution stipulates that the provisions of the LSC for convertible debentures will be analogously applied to them. With regard to the determination of the bases and types of their exercise, the Board of Directors is empowered to determine, in the broadest terms, the criteria applicable to exercising the rights to subscribe or acquire the shares of the Company or of another that may or may not belong to its Group, or to a combination of any of them, arising from these types of securities that are issued subject to the delegation of power; in relation to such issuances, the criteria established for the issue of fixed-income securities convertible into shares in the Company, with the necessary adaptations so that they can be compatible with the legal and financial system for these types of securities.

The purpose of this report, therefore, is the proposed delegation of powers to the Board of Directors to resolve the capital increase necessary to carry out the conversion, providing that this increase does not exceed 50% of share capital, pursuant to article 297.1.b) of the LSC. This delegation is justified by providing the necessary flexibility in relation to those resolutions that have as their object issuance and, where applicable, subsequent conversion into Company shares.

Finally, the resolution anticipates the delegation of powers to exclude the pre-emptive subscription right, when the Company's interests require it, up to a total maximum nominal amount equal to 20% of the share capital of the Company on the date of the adoption of this resolution, pursuant to Recommendation 5 of the new Good Governance Code for Listed Companies, published on February 24 2015. The Board of Directors considers that this additional possibility, which significantly increases upon the room for manoeuvre and the ability to respond offered by a simple delegation of powers to issue convertible debentures, is justified by the greater flexibility and agility it provides, which is required, at times, in current financial markets, in order to take advantage of occasions on which the markets are more favourable.

In any case, it is expressly stated that the exclusion of the pre-emptive subscription right is only one of the powers that the General Shareholders' Meeting gives the Board of Directors and the exercising of it will depend upon the Board itself deciding to do so, taking into account the circumstances existing in each case and the relevant legal requirements. If the Board of Directors decides to exercise these powers and exclude the pre-emptive subscription right in relation to any specific issue of convertible debentures that it may decide to carry out, pursuant to the authorisation given by the General Shareholders' Meeting, it shall, when approving the issuance, provide a report detailing the specific corporate interests justifying this measure, which will also be addressed in the correlative report by an

independent expert in accordance with the provisions of articles 414.2, 417.2 and 511 of the LSC.

Finally, with the approval of this delegation of powers, the one granted to the Board of Directors and approved as item nine on the Agenda of the Company's General Shareholders' Meeting on 25 March 2011 would be rendered null and void.

The full text of the proposed resolution to be submitted to the Ordinary General Shareholders' Meeting for approval as Item 11 on the Agenda is given below:

**"To delegate to the Board of Directors, with express replacement powers, the power to resolve issuing, one or more times, any fixed-income securities or analogous convertible debt instruments or those which give the right to subscribe to Company shares or which can be exchanged or give the right to buy shares of the Company or of other companies, for a maximum of one billion euros (€1,000,000,000); and to increase share capital by the necessary amount and exclude, where applicable, the preemptive subscription right up to a limit of 20% of share capital at the time of this delegation of powers.**

To delegate to the Board of Directors, with express replacement powers, subject to the provisions of articles 297.1.b), 401 and subsequent, 417 and 511 of the LSC and article 319 of the Mercantile Registry Regulations, the power to issue marketable securities in accordance with the following terms and conditions:

**1. Securities addressed by the issuance**

The securities referred to in this delegation of power include debentures, bonds exchangeable for shares of the Company or of other companies that may or may not belong to its Group, and/or those convertible into Company shares, and other fixed-income securities or analogous debt instruments in the form allowed by law, including, but not limited to, covered bonds, commercial paper, preference shares and warrants or other analogous securities which may directly or indirectly give the right to subscribe or acquire shares of the Company or of other companies that may or may not belong to its Group.

**2. Term**

The securities can be issued one or more times, at any time, within five (5) years of the date of adopting this resolution.

**3. Maximum amount for the delegation of power**

The total maximum amount of the securities issued cannot exceed one thousand million euros (€1,000,000,000) or the equivalent in another currency.

To calculate the aforementioned limit, the issuances made subject to the delegation of power included in Item 10 of the Agenda will not be calculated for such purposes. Regarding the warrants, the sum of the premiums and prices during the year which are resolved subject to this delegation of powers will be taken into account.

**4. Scope of the delegation of power**

The Board of Directors will determine the terms and conditions of each issuance, including, but not limited to:

- a) The amount (while respecting the applicable quantitative limits).
- b) The place of issue (Spain or elsewhere) and the currency; if this is outside Spain, its equivalent in euros.
- c) The name, whether they are bonds or debentures, including subordinated ones, any other allowed by law.
- d) The issuance date(s).
- e) The number of securities and their nominal value, which cannot be lower than the nominal of the shares.
- f) The interest rate, dates and procedures for paying the coupon, including the possibility of remuneration linked to the Company share price or any other indices or parameters.
- g) Their perpetual or redeemable nature and, in the latter case, the deadline and types of redemption and maturity date(s).
- h) Their convertible and/or exchangeable nature, and the possibility of making the conversion or exchange, or partially or fully redeeming the issue in cash at any time.
- i) The anti-dilution mechanisms and clauses.
- j) The priority system and the subordination clauses, where applicable.
- k) The type of reimbursement, premiums and batches.
- l) The guarantees for the issuance, where applicable.
- m) The type of representation, through certificates or book entries or any other allowed by law.
- n) The system for exercising or excluding the pre-emptive subscription rights regarding the shareholders and, in general, the system for subscribing and paying out the securities.
- o) The system envisaged for when the issue is not fully subscribed.
- p) The applicable legislation.
- q) The necessary formalities, in accordance with the applicable securities market regulations, to execute the specific issuances resolved subject to this delegation of powers.
- r) The request, where applicable, for listing on official or non-official secondary markets, organised or non-organised, in Spain or abroad, of the securities issued by virtue of this delegation of powers, with the requirements established in each case by the prevailing regulations and, in general, any other terms and conditions of the issuance.
- s) Where applicable, the designation of the Trustee and approval of the fundamental rules governing the legal relations between the Company and the syndicate of holders of the securities issued.

The delegation also includes the grant to the Board of Directors of the power, in each case, to decide the conditions for repayment of the fixed-income securities issued pursuant to this authorisation, and the power to use, to the extent applicable, the means of withdrawal referred to in article 430 of the LSC or any other means applicable. In addition, the Board of Directors is authorised, whenever it deems appropriate, and subject to the necessary official authorisations and, where appropriate, the approval of the Meetings of the respective Syndicates or bodies representing the holders of the securities, to amend the conditions for repayment of the fixed-income securities issued and the maturity thereof, as well as the interest rate, if any, of those included in each of the issuances made pursuant to this authorisation.

## **5. Bases and types of conversions**

The following criteria are established for the fixed-income securities convertible into Company shares made in accordance with the preceding sections and for the purposes of determining the bases and types of conversions:

(i) The securities issued subject to this resolution can be partially or fully convertible into and/or exchangeable for newly-issued shares of the Company or exchangeable for shares in circulation of the Company, ordinary or other types of shares, in accordance with a fixed (determined or determinable) or variable conversion and/or exchange ratio, and the Board of Directors can decide whether or not they are necessarily or voluntarily convertible and/or exchangeable; if voluntary, this will depend on the holders or on the Company, with the frequency and during the period established in the issuance resolution and it cannot exceed thirty (30) years from the corresponding issue date. The Board of Directors can establish that the Company reserves the right to choose, at any time, either the conversion into newly-issued Company shares or the delivery of existing Company shares, specifying the nature of the shares to be delivered when making the conversion; it can even deliver a combination of newly-issued and existing Company shares, always respecting equal treatment between the holders of the securities that are converted on the same date. The Company can also choose to pay a cash amount to replace its obligation to partially or fully deliver shares.

(ii) If the ratio of the conversion into and/or exchange for Company shares is fixed, the convertible and/or exchangeable debentures or bonds will be valued at their nominal amount and the shares at the fixed exchange rate determined in Board of Directors' resolution, or at the exchange rate determinable on the date(s) stated in the Board's resolution, and based on the Company share price on the date(s) or period(s) used as the reference for the resolution. In any case, the share price cannot be lower than the arithmetic mean for the closing price, the weighted average price or another share price reference in the electronic market during the period to be determined by the Board of Directors, which cannot be more than three (3) months or less than three (3) days before (i) the date of the Board meeting that uses this delegation of power to approve the securities issuance, or (ii) a specific date between the issuance announcement and the payment of the securities by the subscribers (both inclusive). Likewise, a premium or, where applicable, a discount can be established on that share price although, if a discount is established, it cannot be more than 25% of the share price used as the reference in accordance with that envisaged.

(iii) The debentures or bonds can be issued with a variable conversion and/or exchangeable ratio. In this case, the share price for the purpose of the conversion and/or exchange will be the arithmetic mean for the closing price, the weighted average price or another share price reference in the electronic market during the period to be determined by the Board of Directors, which cannot be more than

three (3) months or less than three (3) days before the conversion and/or exchange date, with a premium or, where applicable, a discount on the share price. The premium or discount can be different for each issue's conversion and/or exchange date (or, where applicable, for each tranche) although, if a discount is established on the share price, it cannot be more than 25%. Notwithstanding the foregoing, within the terms decided by the Board, a minimum and/or maximum reference share price can be established as the limits for the conversion and/or exchange.

(iv) When the conversion is made, the fractions of a share which have to be delivered to the securities holder will be rounded off in the way determined by the Board of Directors and each holder can receive, if the Board establishes this, in the event that the rounding off is by default, the difference in cash if this occurs.

(v) Regarding the conversion ratio of the debentures into shares, the share value cannot be lower than its nominal amount in any case. Likewise, in accordance with the provisions of article 415 of the Spanish Limited Liability Companies Law, the debentures whose nominal amount is lower than that of the shares cannot be converted into shares.

(vi) When approving the issuance of convertible and/or exchangeable debentures or bonds subject to the authorisation included in this resolution, the Board of Directors will issue a report which states and specifies, based on the aforementioned criteria, the bases and types of conversions that are specifically applicable to the stated issuance. This report will also include the auditor's report referred to in article 414.2 of the Spanish Limited Liability Companies Law.

The Board of Directors is delegated the power to develop and specify the bases and types of the aforementioned conversions and/or exchanges and, in particular, to determine the moment of the conversion and/or exchange, which can be limited to a period established in advance, those entitled to convert and/or exchange, which can be the Company itself or the holders of the debentures and/or bonds, the way in which the debenture holders will be paid (which can be through conversion, exchange, delivery of the cash amount or a combination of any of them or even a mandatory conversion, for which the Board will be free to choose the most appropriate method, even at the time of executing this) and, in general, any other factors or conditions which are necessary or appropriate for each issuance.

## **6. Bases and types of warrants and other analogous securities**

The following criteria are established for warrants issues:

(i) Regarding warrants issues, which will be governed by analogy by the provisions of the Spanish Limited Liability Companies Law applicable to the convertible debentures and to the determination of the bases and types of their exercise, the Board of Directors is empowered to determine, in the broadest terms, the criteria applicable to exercising the rights to subscribe or acquire the shares of the Company or of another that may or may not belong to its Group, or to a combination of any of them, arising from these types of securities that are issued subject to this delegation of power; in relation to such issuances, the criteria established in section 5 above will be applicable, with the necessary adaptations so that they can be compatible with the legal and financial system for these types of securities.

(ii) The aforementioned criteria will be applied, *mutatis mutandi* and insofar as they are applicable, in relation to the issue of fixed-income securities (or warrants) exchangeable for shares of other companies.

## **7. Capital increase**

The Board of Directors is delegated the power to increase capital by issuing new ordinary shares with the necessary amount to deal with the requests for converting the convertible securities issued subject to this resolution. This delegation of powers is conditional upon the fact that the total of the capital increases resolved by the Board of Directors, including the powers now delegated resolved during the year and those which may be made in accordance with other General Shareholders' Meeting's authorisations, does not exceed the limit of half of the current share capital envisaged in article 297.1 b) *in fine* of the LSC, or 20% of that total share capital in the event that the issuance of convertible securities excludes the shareholders' pre-emptive subscription rights. This authorisation to increase capital includes the power to issue and put into circulation, one or more times, the shares representing it which are necessary for carrying out the conversion, and to give new wording to the article of the Articles of Association regarding the capital amount and, where applicable, to annul the part of the capital increase that is not necessary for the conversion into shares.

## **8. Exclusion of pre-emptive subscription rights**

Subject to articles 417 and 511 of the LSC, the Board of Directors is expressly delegated the power to partially or fully exclude the shareholders' pre-emptive subscription rights in the issuances of convertible debenture or bonds, warrants and other similar securities which may be resolved under this authorisation, when this is deemed necessary or appropriate for the Company's interests. In any case, if the power to exclude the pre-emptive subscription rights is exercised, the Board will issue, when approving the issuance and in accordance with the applicable regulations, a report detailing the specific reasons in the Company's interests to justify this measure, which will also be addressed in the correlative report issued by an independent expert in accordance with the provisions of articles 414.2, 417.2 y 511 of the LSC.

## **9. Listing**

The Company will request, where applicable, the listing on official or non-official secondary markets, organised or non-organised, in Spain or abroad, of the securities issued by virtue of this delegation of powers, enabling the Board to carry out the necessary formalities and actions at the competent bodies of the Spanish or foreign stock markets for listing the securities.

It is hereby expressly stated that, where the securities are subsequently requested to be delisted, this shall take place with the same applicable formalities as the request for their listing, and, in such case, the interests of shareholders and debenture holders who opposed or did not vote for the resolution shall be guaranteed in accordance with existing legislation. Likewise, the Company is also expressly subject to the stock market that exist or which may be issued in the future, in particular, those regarding transactions, permanence and delisting.

## **10. Guarantee of the convertible and/or exchangeable fixed-income securities or warrants issued by Group companies**

The Board of Directors is also empowered to guarantee, in the name of the Company, within the aforementioned limits, the new convertible and/or exchangeable fixed-income securities or warrants which may be issued by the subsidiaries during the valid period of this resolution.

## **11. Power to delegate and replace powers, and grant powers**

Without prejudice to the delegation of the specific powers included in the preceding sections (which must be understood as having been granted with express powers to be replaced on the bodies and by the persons detailed herein), the Board of Directors is empowered, with the broadest powers as possible in law and with the express powers to be replaced by the Board members deemed fit, including the Board Secretary, or a third party when so resolved so that any of them, indistinctly and with a sole signature, can request any authorisations and adopt any resolutions that are necessary or appropriate for complying with the prevailing legal regulations, executing and carrying out this resolution, including performing any formalities and signing any public or private documents, agency contracts, insurance, calculation and other necessary items for issuing these types of securities, as well as information brochures that may be necessary while using the delegation of power addressed by this resolution.

## **12. Directors' report**

In accordance with articles 286, 297.1.b) and 511 of the LSC, the Board of Directors has made the report justifying this proposed resolution available to the shareholders.

With the approval of this resolution, the authorisation granted to the Board of Directors approved as item nine on the Agenda of the General Shareholders' Meeting on 25 March 2011 has been rendered null and void."

And for all appropriate legal purposes, it is hereby stated that the current report was approved by the Board of Directors at its meeting held on 15 February 2016.

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