



**REPORT FROM THE BOARD OF DIRECTORS OF ENAGÁS, S.A. TO THE  
SHAREHOLDERS EXPLAINING WHY ITS 2015 REMUNERATION POLICY  
DOES NOT INCLUDE LONG-TERM VARIABLE REMUNERATION AND MAKING  
CLEAR ITS COMMITMENT TO INCLUDE SUCH REMUNERATION STARTING IN  
2016**

## **1. Introduction**

As is stated in detail in the Annual Report on Directors Remuneration that the Board has submitted to the General Shareholders' Meeting for consultative approval and with the scope and for the purposes set forth in the transitory provision of Law 31/2014, of 3 December, the Board has elected for its remuneration policy for 2015 to not include any new variable remuneration, in keeping with the fulfilment of long-term goals (over three or more years).

In accordance with the best practices of good corporate governance and the "comply or explain" principle on which it is based, the Board considers that shareholders must be provided with a proper explanation, for information purposes, of the reasons leading to its decision not to include any "long-term" variable remuneration in 2015 and its position with regard to 2016 and the years following.

Without prejudice to the information included in the Annual Remuneration Report, information which the Board hereby expressly excludes, in order to provide access to this explanation by the Company's many international shareholders and the consultants employed to determine their votes ("proxy advisors"), all of whom have repeatedly expressed an interest in the establishment of this type of remuneration, the Board of Directors, acting on a proposal of the Appointments, Remuneration and Social Corporate Responsibility Committee, has approved and furnished a specific report on the subject as information for shareholders as part of the documentation for the General Shareholders' Meeting, convened in the first notice for 26 March 2015, and in the second notice for 27 March 2015.

### **2.- Acceptance by the Company of the long-term variable remuneration as a good corporate governance practice.**

The Company is fully aware that determining a portion of the variable remuneration of executive directors and, in accordance with this, the remuneration of the Company's senior executives and managers, on the basis of long-term criteria is a desirable practice of good corporate governance in that it converges the interests of Company management and of its shareholders.

It must also be said that applying long-term remuneration incentives may be well suited to updating the Company's remuneration structure. This update is advisable after seven years of a particularly cautious remuneration policy - irrespective of good performances by the Company - for the Board and executive directors, senior executives and the entire management team.

It is also advisable in terms of the major strategic change entailed by the international development carried out by the Company during this period, which is leading to substantial organisational and functional changes and changes to working procedures at the Company.

### **3.- The reasons for which the Board of Directors of Enagás, S.A. did not include long-term variable remuneration in its remuneration policy for 2015.**

Despite the foregoing, the Board, taking up the criterion of the Appointments, Remuneration and Corporate Social Responsibility Committee, feels that it is not yet appropriate to implement a long-term variable remuneration policy in 2015. The reasons for this are as follows:

1. Since the onset of the economic crisis that has affected Spain and many other countries, the Company has availed itself of a particularly cautious remuneration policy. There have been no increases to the remuneration earned by the Board and executive directors since 2008. In accordance with uniform criteria, there have been very few changes to the remuneration of senior management. The situation was largely similar in the case of management on lower levels. This was irrespective of the good results secured by the Company during the period.

Despite the undeniable signs of improvements in the economic crisis, the Board considers that 2015 is still a year of transition, and that the uncertainty that still persists is sufficient to justify non-relinquishment of the policy of austerity implemented by the Company.

2. In this context, the Company is aware that it is an energy company the main activities of which are "regulated" by Spain's Hydrocarbons Law and that - notwithstanding the excellent progress of its new international business - most of its income is earned in the Spanish gas system and therefore from the prices, tariffs, tolls, fees and other contributions to the system. This circumstance accentuates the caution with which the Company applies its remuneration policy.
3. Law 18/2014 of 15 October (stemming from Royal Legislative Decree 8/2014 of 4 July) introduced some major amendments to the annual remuneration from the Company's regulated transmission, regasification and basic storage. The Company believes that the reform is positive in that it definitively eliminates the existing gas tariff deficit and helps guarantee regulatory stability in the sector, with the main objective of reducing the final cost of energy in Spain and increasing competitiveness among Spanish companies. It also guarantees an economically sustainable system in the future. This would appear to be the opinion of shareholders and investors, in view of the good performance of the Company's share price since these measures were announced. The Company, however, acknowledges that the reform affects its income, and in order to offset this it has undertaken an Efficiency Plan to step up its efforts to reduce and control costs since 2008. In accordance with the Plan, the Board feels it is prudent to postpone any reform of the Company's remuneration structure.
4. Although this may not under any circumstances be taken as an argument against the establishment of long-term variable remuneration - which the Company considers extremely positive for the reasons stated above - it should be noted that, although it has not been implemented at the Company, to date there has certainly been no divergence between the interests of Company management and the interests of investors in the long term. Quite the opposite, in fact - creating value for shareholders has constituted a priority for Company management, as demonstrated by the following data:

- The share price rose by 49% between 2006 and 2014.
- The share price rose by 37.9% in 2014.

- In its proposals to the General Meeting for the distribution of each year's profits, the Board has gradually increased the percentage for distribution to shareholders in dividends, and the dividend has also increased in absolute terms.

Here some mention should also be made of the commitment of Executive Directors, the Chairman and the Chief Executive Officer to Company shareholders, as they personally are also shareholders of Enagás, S.A. Pursuant to the register of significant Company shareholders kept by the Spanish Securities Market Commission, available for consultation at its website [www.cnmv.es](http://www.cnmv.es), Mr. Antonio LLardén Carratalá has gradually increased his shareholding since he took up the post in 2007, and now holds 56,396 shares. Since his appointment as Chief Executive Officer in September 2012 - according to the same public register, - Mr. Marcelino Oreja Arburúa has acquired 1,260 Company shares.

#### **4. Commitment to establish long-term variable remuneration starting in 2016.**

Although the criterion of the Board is to refrain from establishing long-term variable remuneration in 2015, the Board considers that as of 2016 the reasons behind its decision for this year shall have disappeared or shall have been substantially mitigated and shall not hinder the incorporation of this kind of remuneration, which the Company considers positive and pursuant to the best practices of good governance.

In addition, the recommendations set forth in the New Good Governance Code announced by the Spanish National Securities Market Commission (CNMV), publication of which is imminent, will be applicable effective 1 January 2016. These recommendations are expected to call for variable remuneration to include long-term remuneration and to stipulate how long-term remuneration should be paid.

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 objectives of the remuneration programme will be in keeping with extending the updating of the Company's 2015-2017 Strategy through 2018, which the Company will announce in due time. 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 Corporate Enterprises Act.

This report, which, as indicated, is for information purposes only, was prepared by the Board of Directors at its 23 February 2015 meeting.

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