

Activity Report of the Appointments, Remuneration and Corporate Social Responsibility Committee of Enagás S.A. for 2018

Appointments, Remuneration and CSR Committee
22 February 2019

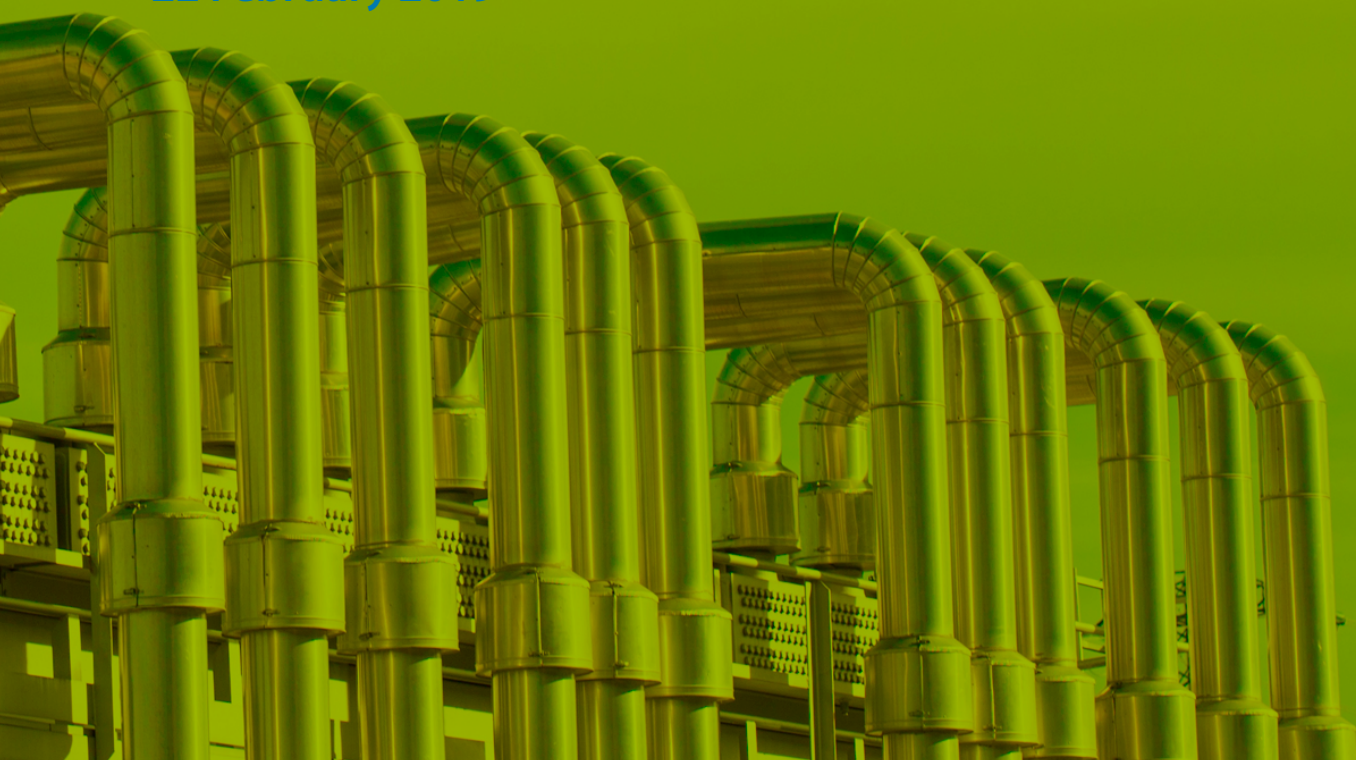


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1

Composition, attendance and operation

Composition

On 31 December 2018, the Appointments, Remuneration and Corporate Social Responsibility Committee comprised the following members:



Chairwoman
Ms Ana Palacio
Vallelersundi
Independent



Member
Santiago Ferrer Costa
Proprietary



Member
Mr Gonzalo Solana
González
Independent



Member
Mr Antonio Hernández
Mancha
Independent



Member
Mr Ignacio Grangel
Vicente
Independent



Member
Mr Luis Javier Navarro Vigil
External



Secretary
Mr Rafael Piqueras Bautista



The following changes took place in the composition of the committee in 2018:

- The Board of Directors agreed to appoint Mr Luis García del Río as a member of the Audit and Compliance Committee on 22 March 2018 to occupy the vacancy, having ceased to be a member of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- The Board of Directors also agreed to appoint Mr Ignacio Grangel Vicente to the Appointments, Remuneration and Corporate Social Responsibility Committee to fill the vacancy left by Mr Luis García del Río.
- Finally, on 15 October 2018, the Board of Directors agreed to approve Mr Santiago Ferrer Costa, Proprietary Director for SEPI, to the Committee by means of co-option in order to replace Mr Jesús Máximo Pedrosa.

The Board of Directors has appointed the members of the Committee taking into consideration their knowledge, skills, as well as their experience in corporate governance, selection of senior managers, performing duties as senior managers, and the design of remuneration policies and plans for members of the Board of Directors and senior management. The composition of the Committee is therefore in accordance with the best practices of good corporate governance.

All the information on the Directors, including their work experience, is available on the Enagás Corporate Website:



<https://www.enagas.es/enagas/en/QuienesSomos/ConsejoAdministracion>

Attendance

In accordance with the provisions of the Regulation for the Organisation and Functioning of the Board of Directors of Enagás, S.A. and the scheduled actions approved on 15 January 2018, the Committee met six times in 2018.

All members of the Committee physically attended these meetings.

The Committee Chairwoman informed the Board of Directors of the issues dealt with at each Committee meeting at the following Board meeting.

The documentation relative to each meeting, such as the agenda and the minutes from the previous meeting, were given to Committee members sufficiently in advance.

Ordinarily, after each Audit and Compliance Committee meeting the Chairwoman of the Committee reported to the Board of Directors in a meeting held the same day, with regard to the actions taken and matters addressed in each Committee meeting.

Committee Operation

The Committee conducted its activity in 2018 in accordance with the best practices of corporate governance and the standard procedures set out in the Draft Technical Guidelines on Appointment and Remuneration Committees.

The meetings were convened by the Committee Chairwoman, with the collaboration of internal and external advisers, and the appearance a number of Company executives who addressed subjects under their competency, in accordance with the agenda. Specifically, the Human & Corporate Resources General Manager and other members of the Management Committee were present.



2

Regulation of the Appointments, Remuneration and Corporate Social Responsibility Committee

The Appointments, Remuneration and Corporate Social Responsibility Committee is governed by the applicable regulations and laws, the provisions of the Articles of Association and of the Regulation for the Organisation and Functioning of the Board of Directors of Enagás, S.A.

Both documents are available on the Company's website.

The main duties entrusted to the Committee are listed under the following basic categories:

2.1. Competencies for appointing and re-electing directors:

- i. To evaluate the competencies, knowledge and experience required on the Board of Directors. To these ends, it shall define the functions and capabilities required of the candidates to fill each vacancy, and evaluate the time and dedication needed for them to properly perform their duties.
- ii. To review the structure of the Board of Directors, 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.
- iii. To establish a goal concerning the representation of the less-represented gender on the Board of Directors and to prepare guidelines on how this goal can be attained.
- iv. To forward to the Board of Directors proposed appointments of Independent Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- v. To report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Shareholders' Meeting, as well as on proposals for their re-election or removal by the General Shareholders' Meeting.
- vi. To inform the Board of Directors on the appointment and dismissal of their Secretary.
- vii. To examine and arrange the succession of the Chairman of the Board of Directors and Chief Executive Officer of the company and, where required, to make proposals to the Board to ensure the succession is smooth and well-planned.



2.2. Competencies for appointing and structuring senior management

- i. To report on proposed appointments and removals of senior management and the basic terms of their contracts.
- ii. To formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of the necessary senior management posts in order to achieve better and more efficient company administration.

2.3. Competencies for remunerating Directors and members of the Management Committee

- i. To propose to the Board of Directors a remuneration policy for Directors and general managers or those who perform senior management functions and report directly to the Board of Directors, to executive committees or Executive Directors, along with individual remuneration and other contractual terms of Executive Directors, also to ensure that said policy is observed.
- ii. To this end, the committee will periodically review the remuneration policy for Directors and senior management and ensure that their individual remuneration is proportional to that paid to the other Directors and senior management of the company.

- iii. To propose the general remuneration policy for Directors and senior managers contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- iv. To propose a general remuneration policy for Enagás management, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the Company has suitable highly qualified staff to administer its activities at all times, proposing to the Board the basic conditions of their contracts.
- v. To verify information on remuneration of Directors and senior management contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- vi. To ensure that any conflicts of interest do not impair the independence of external advisers to the Committee on remuneration.

2.4. Competencies for Corporate Social Responsibility and Good Corporate Governance

- i. To report to the Board on general policy concerning Corporate Social Responsibility and Good Corporate Governance, ensuring the adoption and effective application of best practices, both compulsory practices and generally-accepted guidelines.

For this purpose, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall report on the proposals submitted to the Board and on the information the Company prepares with regard to corporate social responsibility.

- ii. To this end, the Committee shall be responsible for the following functions:
 - a) Submit to the Board the initiatives and proposals it deems appropriate and provide information on proposals submitted to the Board and information the company releases to shareholders annually regarding corporate social responsibility.
 - b) To monitor compliance with the rules of corporate governance of the Company, periodically assessing the adequacy of the company's system of corporate governance, in order to fulfil its mission of promoting the social interest, and consider, as appropriate, the legitimate interests of other stakeholders.

c) To monitor the communication strategy and relations with shareholders and investors, including small and medium shareholders.

d) To monitor the corporate social responsibility strategy and practices and assess their degree of compliance.

e) To oversee and assess the processes of liaising with different stakeholders.

f) To review the corporate responsibility policy of the Company, ensuring that it is aimed at creating value. To report to the Board of Directors on measures to be taken in the event of breach of these Board Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Appointments, Remuneration and Corporate Social Responsibility Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

The Committee shall consult the Chairman of the Board and Chief Executive Officer of the company, especially on matters relating to the appointment of Executive Directors and the remuneration of senior management and Executive Directors. Any Board member may request that the Committee consider the suitability of potential directorship candidates to cover any vacancies.



3

Activities of the Appointments, Remuneration and CSR Committee in 2018

During 2018, the Appointments, Remuneration and CSR Committee conducted its activities in accordance with the standard procedures set out in the Draft Technical Guidelines on Appointment and Remuneration Committees and the best practices of the Good Governance Code of Listed Companies, dated 18 February 2015, strengthening its specialisation and independence.

The most relevant activities conducted by the Appointments, Remuneration and Corporate Social Responsibility Committee in 2018 is summarised below.

The Committee's activities in relation to the appointment and re-election of directors.

In accordance with the provisions of Articles 529 decies and 529 quinquies of the Spanish Corporate Enterprises Act, at its meeting on 19 February 2018, the Committee approved the report proposing the re-election of Directors other than Independent Directors and the proposal for the appointment and re-election of Independent Directors, which were included on the agenda of the General Shareholders' Meeting held on 22 March 2018 and subsequently approved. The report drafted by the Committee was made available to the shareholders at the same time as the General Meeting was convened. This report did not highlight any incidents or deviations in regard to the appointment process.

At its meeting on 22 February 2019, the Committee formulated its proposals for the appointment and re-election of Independent Directors and reported on proposals relating to other categories of Director, included on the agenda of the forthcoming General Shareholders' Meeting. The approved report will be made available to shareholders in accordance with above-mentioned provisions..

Activities regarding the remuneration for Directors and members of the Management Committee.

At its meeting on 19 February 2018, the Committee assessed the degree of achievement of the company's objectives established for 2017 for the purpose of determining the annual variable remuneration for the Executive Directors and members of the Management Committee.

Based on the level of achievement, the Committee approved the 2017 annual variable remuneration for the members of the Management Committee and submitted its proposed annual variable remuneration for the Executive Directors to the Board, which was approved at its meeting on 19 February 2018.

At the same meeting, the Company's objectives for the purpose of determining the 2018 variable remuneration were approved.



At the same meeting, the Committee reported favourably on the Annual Remuneration Report for 2018, approved by the General Meeting on 22 March 2018.

At its various meetings, the Committee highlighted the importance of working towards the definition of a proposal for liquidating the Remunerations Policy for the period 2017–2019, and a Draft 2019–2021 Remuneration Policy, which will be presented for approval at the forthcoming 2019 General Shareholders' Meeting.

During the preparation of the 2019–2021 policy, best practices from the Good Governance Code of Listed Companies were incorporated, namely the hiring of an independent external adviser, the inclusion of clawback and malus provisions, incentivising the sustainable accomplishment of the objectives contained in the Strategic Plan and contributing to create value in the long term, as well as ensuring alignment with the different stakeholders (shareholders, institutional investors and proxy advisers).

Finally, in the course of 2018, the Committee conducted an analysis of the current business environment and the potential strategic implications that could impact Enagás, in order to ensure alignment of the Draft 2019–2021 Remuneration Policy with the Strategic Plan.

Activities in relation to Social Responsibility and Good Corporate Governance.

The Committee was regularly informed of the Company's policies and actions regarding corporate social responsibility and good corporate governance.

On 19 February 2018, the Committee reported favourably on the draft of the Annual Corporate Governance Report that was delivered as a material event at the convening of the General Shareholders' Meeting to be held on 22 March 2018.

At this meeting, the Committee reported favourably on the 2017 Annual Report, which contained non-financial information, as required by Article 262 of the Spanish Corporate Enterprises Act.

On 22 April 2018, the Committee was informed of the main challenges it would be facing 2018 in relation to corporate responsibility, and presented with a detailed plan of the different contents on which it would subsequently report on a quarterly basis.

Finally, on 17 December 2018, the 2019–2021 Sustainability Strategy was approved, together with the Emissions Trading Strategy. The Committee was also informed of the ranking of Enagás on the different sustainability indices.

Activities in relation to assessing the performance of the Board of Directors and of its Committees.

In accordance with Article 529 nonies of the Spanish Corporate Enterprises Act, the Board of Directors is obligated to conduct an annual assessment of the operation of its Committees and, based on its outcome, to put forward an action plan to correct detected needs for improvement.

In 2018, the Appointments, Remuneration and CSR Committee agreed that the assessment should be conducted by an independent external adviser, whose independence was evaluated by the Committee itself.

The assessment consisted of the completion of a confidential and anonymous questionnaire and personal interviews with specific members of the Board of Directors, namely the Chief Executive Officer, Committee Chairs and the Lead Independent Director. The assessment process focused on the following areas:

- Structure and composition of the Board of Directors and its Committees.
- Operation of and debate by the Board and its Committees.
- Personal contribution of each of the Board members.

- Overall assessment of compliance with best practices of good governance.
- Leadership, particularly in relation to the Chairman, Chief Executive Officer, Committee Chairs and the Lead Independent Director.

On 19 February 2018, the Committee reviewed the conclusions of the performance assessment conducted by the external adviser, agreeing as an action plan that the necessary measures should be taken to resolve the needs for improvement detected.

The Committee reported the results of the assessment to the Board of Directors on the same day.

In continuation of this practice, in the course of 2019, the Board of Directors and the both Committees underwent an evaluation of the quality and efficiency in the performance of their functions and competencies during 2018, by an external consultant, taking as a frame of reference for its evaluation the applicable laws and best practices in corporate governance.

Moreover, the Committee introduced a number of improvements to the process for assessing the performance of the Board of Directors:



- Creation of a customised competency matrix for the Board of Directors and its Committees.
- Review of the performance assessment procedure for the Board of Directors and its Committees.

The result of this evaluation highlighted the fact that the Committee performs its duties in accordance with the best corporate governance practices, and that there was no need for changes in its internal organisation or to its operating procedure.

The results of this assessment were approved by the Committee and the Board of Directors on 22 February 2019.



4

Progress made in 2018

The following progress was identified in 2018:

- Implementation of required improvements detected in the performance assessment process conducted in early 2018, described in Section 3.
- Definition and publication of new indicators and objectives associated with short and long-term variable remuneration in the Consolidated Management Report, which strengthens transparency in remuneration-related areas.
- Enhanced training through courses on:
 - New Accounting Standards – IFRS 9 on Financial assets and liabilities, IFRS 15 on Revenue, and IFRS 16 on Leases (23 May 2018).
 - Tax-Related Matters – Immediate provision of information to the Spanish Tax Authority, AEAT (23 May 2018).
 - Process for Managing Purchasing and Suppliers (23 May 2018).
 - Risk Management and Control Model (19 November 2018).

The Secretary to the Board of Directors of Enagás S.A.

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