



**REPORT PREPARED BY THE APPOINTMENTS, REMUNERATIONS AND CORPORATE SOCIAL RESPONSIBILITY COMMITTEE OF ENAGÁS, S.A. PURSUANT TO ARTICLE 529 (DECIES) AND 529 (QUINQUEDECIES) OF THE CONSOLIDATED TEXT OF THE SPANISH CORPORATE ENTERPRISES ACT JUSTIFYING THE PROPOSED APPOINTMENT AND RE-ELECTION OF THE DIRECTORS NAMED IN ITEM 4 OF THE AGENDA OF THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 21 AND 22 March 2018, IN FIRST AND SECOND CALL RESPECTIVELY.**

**1. Introduction.**

Pursuant to article 518 e) of the Consolidated Text of the Corporate Enterprises Act, when convening the General Shareholders' Meeting and when appointing, ratifying or re-electing Directors, companies shall include the identity, CV and position of each Director, in addition to the proposed resolution and reports mentioned in article 529 decies.

Pursuant to article 529 decies of the Consolidated Text of the Corporate Enterprises Act, the Appointments and Remuneration Committee shall be responsible for proposing all appointments and re-elections of members of the Board of Directors in the case of Independent Directors, while the Board itself shall be responsible for proposing all other appointments and re-elections. The proposal shall always be accompanied by a report from the Board justifying the competencies, experience and merits of the proposed candidate. This report shall be attached to the minutes of the General Meeting or of the Board. All proposed appointments or re-elections of non-Independent Directors shall also be subject to a report from the Appointments and Remuneration Committee.

Pursuant to article 529 quidecies, the Appointments and Remuneration Committee shall, inter alia, formulate proposals for the Board of Directors for appointing Independent Directors in order for them to be designated by the method of co-optation or to be subject to the decisions of the General Shareholders' Meeting, along with proposals for the re-election or removal of those Directors by the General Shareholders' Meeting. The Committee shall also report on the proposed appointments, re-elections or removal of the remaining Directors.

The Board of Directors has agreed to call a General Shareholders' Meeting for 21 March 2018 at first call and for 22 March 2018 at second call. Item four of the agenda shall include the following proposed resolution:

4. To appoint or re-elect members of the Board of Directors. The following proposals shall be put to vote separately:

- 4.1 To re-elect Mr Antonio Llardén Carratalá as Director for the four-year period. Mr Antonio Llardén Carratalá shall be an Executive Director.
- 4.2 To re-elect Mr Marcelino Oreja Arburúa as Director for the four-year period. Mr Marcelino Oreja Arburúa shall be an Executive Director.
- 4.3 To re-elect Ms Isabel Tocino Biscarolasaga as Director for the four-year period. Ms Isabel Tocino Biscarolasaga shall be an Independent Director.

- 4.4 To re-elect Ms Ana Palacio Vallelersundi as Director for the four-year period. Ms Ana Palacio Vallelersundi shall be an Independent Director.
- 4.5 To re-elect Mr Antonio Hernández Mancha as Director for the four-year period. Mr Antonio Hernández Mancha shall be an Independent Director.
- 4.6 To re-elect Mr Gonzalo Solana González as Director for the four-year period. Mr Gonzalo Solana González shall be an Independent Director.
- 4.7 To appoint Mr Ignacio Grangel Vicente as Director for the four-year period. Mr Ignacio Grangel Vicente shall be an Independent Director.

The Appointments, Remuneration and Corporate Social Responsibility Committee of Enagás, S.A., in its meeting held on 19 February 2018, made its proposal to appoint and re-elect Independent Directors, and has given a favourable report on the proposal to re-elect other Directors, for the purposes of the aforementioned provisions. The Board shall make available to all shareholders the report referred to in article 529 decies.

## **2. Report regarding the proposal of both Executive Directors.**

### **2.1 Report on the proposal to re-elect Mr Antonio Llardén Carratalá as Executive Director.**

Since January 2007, Mr Antonio Llardén Carratalá has acted as the Executive Director and holds the office of Chairman of the Board of Directors.

His last re-election to office was at the General Shareholders' Meeting of 25 March 2014, at which his re-election was approved by 97.8% votes in favour.

In issuing its report on the proposal to re-elect Mr Antonio Llardén, the Committee evaluated his performance as Chairman of the Board of Directors, taking into consideration the evolution of the Company since Mr Antonio Llardén was appointed Chairman and in particular, during his last term of office of four years.

The Committee considered the evolution of the economic magnitudes of the Company; the return generated for shareholders; the adopting of best corporate governance practices; and the Company's progress in relation to Corporate Social Responsibility.

#### **Economic magnitudes.**

- EBITDA has gone from 596 million euros in 2007 to 1.110 billion euros in 2017, representing an annual average increase of +6.4%.
- Net profit after taxes has increased from 238 million euros in 2007 to 491 million euros in 2017, representing an annual average increase of +7.5%.
- The amount allocated to dividends in 2007 was 112 million euros, rising to 348 million euros in 2017, representing an annual average increase of +9.8%.

#### **Shareholder return.**

Since 2007, total shareholder return (TSR) has increased by 95.02% and the share value of Enagás, S.A. has increased by +37.2%, compared to an Ibex loss of -30% and EuroStoxx Utilities loss of -38%.

### **Corporate Governance.**

Mr Llardén has promoted the adoption of good corporate governance practices by the Company in keeping with its share capital structure, which presents a *free float* of 95%. 70% of this pertains to shareholders, preferably institutional, from outside Spain.

The enormous support received by the proposals of the Board of Directors by shareholders at successive General Meetings demonstrates the alignment of the Company's good governance practices with the policies followed by its institutional shareholders and proxy advisors.

During Mr Llardén's chairmanship, the Company has installed the majority of Independent Directors on the Board, separated the positions of Chairman and CEO, and maintained an Independent Director and Coordinator, with the mandate of Independent Directors being limited to 12 years; the performance of the Board and its Committees has been evaluated by an independent third party whose conclusions are disclosed publicly; functions related to good corporate governance are assigned to the Secretary to the Board; a Chairman and CEO succession policy has been approved; the Board Committees are chaired by Independent Directors and have a majority of Independent Directors; and the Audit Committee has its own regulations, among others.

The Company has adopted a Code of Ethics and established a policy for the confidential reporting of fraudulent conduct; it has a policy in place governing relations with shareholders and proxy advisors; a policy governing the selection of Directors; a tax policy; and a conflict of interest policy. All the above is accessible through the corporate website.

The remuneration practices of Enagás are solid and transparent. The Company applies a remuneration policy approved by the General Shareholders' Meeting in 2016 for a period of three years and a vote is taken every year on the report related to the application thereof. The Company's remuneration structure includes variable annual remuneration and a three-year incentive based on objectives approved and evaluated by the Board of Directors. Variable remuneration based on objectives is subject to a clawback provision. Compensation for termination of the relationship with the Company is restricted to cases attributable to the Company and is limited to a maximum of two years' remuneration.

The Committee places special value on the voluntary waiver of Mr Antonio Llardén in 2016 of one year's remuneration in order to keep his remuneration in line with good governance recommendations which, following his contract in 2007, established a limit of two year's remuneration for this type of compensation.

### **Corporate Social Responsibility.**

During Mr Llardén's term of office, the Company has been included in many sustainability indexes such as the Dow Jones Sustainability Index (from 2008 to the present); the Ethibel Index (from 2009 to the present); and the MSCI Global Sustainability Index (from 2010 to the present).

Between 2006 and 2017 the Company reduced its CO2 emissions by 49%.

The Company has been certified since 2007 as a "Family Responsible Company"; the number of women working in the Company has increased by 37%; the number of women in management positions has risen by 126% and the number of women on the Board has gone from one to three.

Annual and long-term variable remuneration of the Company's directors includes objectives related to Corporate Social Responsibility.

### **Attendance at Board Meetings.**

Mr Llardén has personally attended all the Board meetings held during his term of office.

### **Personal information.**

Mr Antonio Llardén has been the Executive Chairman of Enagás since 2007. In addition, he currently holds the office of Chairman of the Foundation for Energy and Environmental Sustainability (Funseam), formed by the major companies operating in the energy market in Spain, as well as being a member of the Executive Committee and the Spanish Energy Club Management Board and of the CEOE Business Action Council and the Business Leadership Forum. He is a Patron of the Elcano Royal Institute of International and Strategic Studies (presided by His Majesty King Felipe VI of Spain), of the Princess of Girona Foundation (whose Honorary President is H.R.H. the Princess of Asturias and Girona) and of Aspen Institute España.

Antonio Llardén collaborates with different institutions from the musical world. He is a Patron of the Queen Sofia Royal College of Music and a member of the Teatro Real Board of Protectors and of its Steering Committee.

He is an Industrial Engineer and studied at the Higher Technical School of Industrial Engineering of the Polytechnic University of Catalonia in Barcelona, and has wide experience in the business sector. During his extensive professional career, he has held many senior posts in the infrastructure and energy sectors. He was Chairman of the Spanish Gas Association Sedigas, and also a member of the Management Board of Eurogas and of the Executive Committee of the International Gas Union (IGU). He has held the office of Director in different companies. In 2007 he chaired the LNG World Congress, which is held every three years and is attended by the main agents of the international natural gas industry.

He also held the post of Dean of the School of Engineering; member of the Social Council of the Autonomous University of Barcelona and Chairman of its Economic Committee.

He is Knight of the National Order of the Legion of Honour, the highest award granted by France for eminent merit in service to the country.

He is currently a guest lecturer at several universities and business schools.

### **Committee's Report.**

On the basis of the foregoing, the Appointments, Remuneration and Corporate Responsibility Committee issues a positive report on the proposal submitted to the General Shareholders' Meeting for the re-election of Mr Antonio Llardén Carratalá as Executive Director for the statutory period of four years.

## **2.2 Report on the proposal to re-elect Mr Marcelino Oreja Arburúa as Executive Director.**

Mr Marcelino Oreja Arburúa was appointed to the office of Executive Director and Chief Executive Officer in 2012. His last re-election to office was at the General Shareholders' Meeting of 25 March 2014, at which his re-election was approved by 98.4% votes in favour.

### **International development of the Company.**

During his term of office, Mr Oreja has led the internationalisation process undertaken by the Company in view of the maturity of the Spanish market.

Since he first joined the Company he has taken part in international projects in Mexico (TLA Altamira Regasification Plant, Morelos Gas Pipeline and Soto de la Marina Regasification Plant); Peru (TGP); Chile (Quintero LNG Regasification Plant); Sweden (gas system managed by Swedegas) and Greece-Albania-Italy (Trans Adriatic Pipeline, TAP). In Spain, Enagás has acquired stakes in the BBG and SAGGAS Regasification Terminals.

The contribution made to Enagás Group profit by the Group's subsidiaries during this period has risen from zero per cent in 2011 to approximately 13% in 2017, and dividends from these subsidiaries have increased from 0 million euros in 2011 to 120 million euros.

Since Mr Oreja was appointed CEO in 2012 until 2017, Enagás share value has increased by +63% as compared to an increase of + 36% in the Ibex35 Index and of +9% in the Euro Stoxx Utilities Index.

### **Innovation process.**

With the drive of its CEO, the Company is aware that innovation is essential for it to take advantage of the opportunities offered by the Company's international development and those related to new uses of gas, which is the cleanest of the fossil fuels. Through the subsidiary "Enagás Empeñe", Mr Oreja is currently promoting specific projects involving new energies such as hydrogen and renewable gas. In this respect, Mr Oreja has promoted a cultural change at the Company, focused on innovation and entrepreneurship; he has set up a general digitalisation process and created a long-term strategic vision (2020-2040)

### **Attendance at Board Meetings.**

Mr Oreja has personally attended all the Board meetings held during his term of office.

### **Personal information.**

Marcelino Oreja has been Chief Executive Officer of Enagás since September 2012. Moreover, he is currently a Director of MIBGAS, Patron of the Thyssen-Bornemisza Collection Foundation and Patron of the Transforma España Foundation.

Marcelino Oreja is an Industrial Property Agent and also has a degree in Industrial Engineering from the Higher Technical School of Engineering (ICAI) of Comillas Pontifical University. He studied on the IESE Business School Global CEO and Advanced Management Master Programs.

Between 1992 and 1997, he was the General Secretary of the Spanish Confederation of Young Employers, working closely with the Spanish Confederation of Employers' Organisations. He has offered advice on international and strategic development to companies such as COMET and SERVICOM.

He founded DEF-4 patents and brands, which he sold to Garrigues Andersen in 1997, assuming the position of its Managing Director.

Among other senior positions, he was International Director of Aldeasa, Managing Director of EMTE and after the merger with COMSA, Managing Director of COMSA EMTE (the second most important unlisted Spanish group in the infrastructure and technology sector). He was also Chairman of the railway company FEVE.

In the political sphere, he was a Member of the European Parliament from 2002 to 2004. In addition, he was Director of Ente Vasco de la Energía.

### **Committee's Report.**

On the basis of the above, the Appointments Remuneration and Corporate Social Responsibility Committee issues a positive report on the proposal submitted to the General Shareholders' Meeting to re-elect Mr Marcelino Oreja Arburúa as Executive Director for the statutory term of four years.

### **3.- Committee proposals for the re-election and appointment of Independent Directors.**

#### **3.1 Proposal for the re-election of Ms Isabel Tocino Biscalorasaga as Independent Director**

Ms Isabel Tocino Biscalorasaga was appointed Independent Director at the General Shareholders' Meeting of 25 June 2014 with 96.8% votes in favour.

She was Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee until June 2017. Since then, she has been Chairwoman of the Audit and Compliance Committee.

#### **Contribution of Ms Isabel Tocino to the Board of Directors**

The Committee attached particular importance to Ms Isabel Tocino's contribution to the Board of Directors and its Committees. In general, she has contributed her experience as a member of the Board of Directors in relevant Ibex35 companies and her experience in environmental and corporate social responsibility matters as a former Minister of the Environment.

During her term as Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee (until June 2017), she promoted a new remuneration policy in accordance with the best good governance practices which came to fruition in the form of the Directors Remuneration Policy approved by the General Shareholders' Meeting of 2016. She has promoted the adoption of different policies related to good governance and a considerable improvement in information related to corporate social responsibility. All the proposals for the appointment or re-election of Directors submitted to the General Meeting during her term as Chairwoman of the Appointments, Remuneration and Corporate Social

Responsibility Committee were approved with the wide consensus of the shareholders.

During her term as Chairwoman of the Audit and Compliance Committee (from June 2017) she was responsible for the rapid implementation of the criteria set out in the Technical Guide of the Securities Market Commission for Audit Committees; improvement of information on risks and consolidation of Internal Audits and of the Company's Compliance Department.

#### **Attendance at Board Meetings.**

During her four-year term of office, Ms Isabel Tocino has only failed to attend three Board Meetings, delegating another Independent Director to represent her for reasons that the Commission considers fully justified. She has attended all the meetings of the Appointments, Remuneration and Corporate Social Responsibility Committee and of the Audit and Compliance Committee in person during her time as a member of each one.

#### **Personal information.**

Doctor of Law (*cum laude*) awarded by the Complutense University of Madrid and a tenured lecturer in Civil Law. She studied the *Advanced Management Program* of the IESE Business School and Harvard Business School.

Elective member of the Spanish Council of State.

Chairwoman of Banco Pastor and Vice-Chairwoman of Santander España. Independent Director of ENCE.

She was Minister of the Environment of the Government of Spain (1996-2000) and a Member of the Spanish Parliament (1986-2002).

She was a member of the Board of Directors of Banco de Santander and a member of its Executive and Risk Committees. Former Chairwoman for Spain and Portugal and former Vice-Chairwoman of Siebel (subsequently acquired by Oracle). Former legal adviser to the Nuclear Energy Board (currently CIEMAT). Member of the Spanish Royal Academy of Doctors.

#### **Committee proposal.**

The Committee therefore proposes (with the abstention of Ms Tocino) to re-elect Ms Isabel Tocino Biscalorasaga as Independent Director for the statutory term of four years.

### **3.2- Proposal for the re-election of Ms Ana Palacio Vallelersundi as Independent Director.**

Ms Ana Palacio Vallelersundi was appointed Independent Director at the General Shareholders' Meeting of 25 June 2014 with 96.8% votes in favour. She is an Independent Director and Coordinator and Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee.

#### **Contribution of Ms Ana Palacio to the Board of Directors.**

The Committee attached particular importance to Ms Ana Palacio's contribution to the Board of Directors and its Committees. In particular, she has contributed her experience and know-how of the international setting and institutions in aspects that may affect the Company's new activities and the role of natural gas in the framework of the energy sector transition and sustainability criteria.

As Independent Director and Coordinator, she has completed the necessary balance resulting from the separation of the offices of Chairman and CEO and has ensured that the Independent Directors always maintain the degree of influence that they are expected to maintain on the Board's decisions, by occasionally holding personal meetings with all or some of them.

As Chairwoman and Member of the Appointments, Remuneration and Corporate Social Responsibility Committee, she has taken part in the above activities. She played a part in the new remuneration policy in keeping with best practices for good governance which took the form of the Directors Remuneration Policy approved by the General Shareholders' Meeting of 2016. She has taken part in adopting different good governance policies and a considerable improvement in information related to corporate social responsibility. All the proposals for the appointment or re-election of Directors submitted to the General Meeting during her time as a member of the Appointments, Remuneration and Corporate Social Responsibility Committee were approved with a wide consensus of the shareholders. As Chairwoman of the Committee (from June 2017) she led the process for the appointment and re-election of Directors which deals with the proposals to be submitted to the Meeting.

#### **Attendance at Board Meetings.**

During her four-year term of office, Ms Ana Palacio has only failed to attend one Board Meeting in person, delegating another Independent Director to represent her for reasons that the Committee considers fully justified. She has attended all the Appointments, Remuneration and Corporate Social Responsibility Committee meetings.

#### **Personal information.**

Lawyer, founder of Palacio & Asociados law firm. She is an Independent Director and Coordinator and Chairwoman of the Enagás Appointments, Remuneration and Corporate Social Responsibility Committee. Director of Pharmamar. Elective member of the Spanish Council of State. Member of Investcorp's International Advisory Committee and Member of the Chérifien des Phosphates Offices. Member of IE Business School's Governing Board. Member of the World Economic Forum's Global Agenda Council and Member of the Executive Board of the Atlantic Council of the United States. Member of the governing bodies of a number of research centres and public institutions: el Conseil d'Orientation et de Réflexion de l'Assurance de France (CORA), the MD Anderson Cancer Center, the Fondation pour le droit continental and the Science Board of the Elcano Royal Institute. Guest lecturer at Edmund A. Walsh School of Foreign Service at Georgetown University. Regular contributor to "Project Syndicate", among other media. Regular panellist at international conferences and forums; in the energy sector, among others: the Istanbul G-20 International Energy Forum, the Atlantic Council Energy & Economic Summit and the Schlessinger Awards Energy Security Conference.



Holder of equivalent master's degrees in law, political science and sociology. Honorary doctorate in Humanities from Georgetown University and winner of the 2016 Sandra Day O'Connor Justice Prize. Coordinator of the Trans-European Transport Network (2014). Member of the Advisory Group of Foreign Affairs and Security (2010-2014) and of the Committee for the Appointment of Judges and Advocates-General of the European Court of Justice (2010-2013). Adviser to the European Commission on Justice, Fundamental Rights and Citizenship (2010-2012). Senior Vice-President and member of the Executive Committee of AREVA (2008-2009). Senior Vice-President and General Counsel of the World Bank (2006-2008). Secretary General of the International Center for the Settlement of Investment Disputes (2006-2008).

Member of the Spanish Parliament, Chairwoman of the Joint Committee of the Two Houses for EU affairs (2004-2006). Spain's first female Minister of Foreign Affairs (2002-2004).

Member of the Convention on the Future of Europe Praesidium: Took part in the debate and drafting of the European Constitution Bill (2001-2003). Member of the European Parliament, Chairwoman of the Legal Affairs and Internal Market, Citizen Rights, Justice and Internal Affairs Committees, and Chairwoman of the Conference of Committee Chairmen (1994-2002).

#### **Committee proposal.**

The Committee therefore proposes (with the abstention of Ms Palacio) to re-elect Ms Ana Palacio Vallelersundi as Independent Director for the statutory term of four years.

### **3.3 Proposal to re-elect Mr Antonio Hernández Mancha as an Independent Director.**

Mr Antonio Hernández Mancha was appointed Director at the General Shareholders' Meeting of 25 March 2014 with 96.4% votes in favour. He is a member of the Appointments, Remuneration and Corporate Social Responsibility Committee.

#### **Contribution of Mr Antonio Hernández Mancha to the Board of Directors.**

The Committee has a very positive opinion of the contribution of Mr Antonio Hernández Mancha to the Board of Directors and the Appointments, Remuneration and Corporate Social Responsibility Committee.

Mr Hernández Mancha is a reputed lawyer with vast international experience. His interventions at the Board meetings have been very useful in terms of the strategy to be followed by the Company in the face of potential litigations arising within the scope of its international expansion. In particular, his interest and initiatives in regulatory compliance, crime prevention and cybersecurity measures.

#### **Attendance at Board Meetings.**

During his four-year term of office, Mr Hernández Mancha has personally attended all the meetings of the Board of Directors and the Appointments, Remuneration and Corporate Social Responsibility Committee.

#### **Personal information.**

Public prosecutor. Practising lawyer in business and international law. Member of the Court of Arbitration of Madrid's Chamber of Commerce and Industry and Member of the C.I.M.A. (Civil and Mercantile Arbitration Court).

Founding Chairman and Sole Administrator of Apple Energy Group Iberia, S.L. and Member of the M&A Arcano Advisor Board.

He was Director of Banco de Inversión y Servicios Financieros, advisor to Proudfoot Consulting Group and of Norman Broadbent, member of the Board of Directors of Aceites Toledo, S.A., Vice-Chairman of NAP de las Américas Madrid, S.A. and Chief Executive Officer of NAP de África Occidental e Islas Canarias, S.A. He was also a member of the Science Board of the Elcano Royal Institute.

### **Committee proposal.**

Therefore, the Committee (with the abstention of Mr Hernández Mancha) proposes the re-election of Mr Antonio Hernández Mancha as Independent Director for the statutory term of four years.

### **3.4 Proposal to re-elect Mr Gonzalo Solana González as an Independent Director.**

Mr Gonzalo Solana González was appointed Director at the General Shareholders' Meeting of 25 March 2014 with 96.8% votes in favour. He has been a member of the Appointments, Remuneration and Corporate Social Responsibility Committee since June 2017 and was a member of the Audit and Compliance Committee up to that date.

### **Contribution of Mr Gonzalo Solana to the Board.**

The Committee has a very positive opinion of the contribution of Mr Gonzalo Solana to the Board of Directors and its Committees.

The Board of Directors has benefited from his vast experience in business and commercial matters as the former Chairman of the Court of Competition Defence. As regards teaching, during this period he has published recognised economic research studies on Peru and other companies where the Company carries out activities and which show his sound knowledge of the international setting in which the Company has taken on new activities. He has expressed a particular interest in getting to know the Company from different perspectives, and at his initiative he decided to become a member of the Appointments, Remuneration and Corporate Social Responsibility Committee after being a member of the Audit and Compliance Committee, where he promoted several actions related to regulatory compliance.

### **Attendance at Board Meetings.**

During his four-year term of office, Mr Solana has personally attended all the meetings of the Board of Directors and those of the Appointments, Remuneration and Corporate Social Responsibility Committee and the Audit and Compliance Committee during his time as a member of these committees.

### **Personal information.**

Director of the Nebrija Santander Chair in International Business Management. Professor of international economics at a number of universities. Founding partner of the law firm Huerta & Solana specialising in competition law and regulations.

Independent Director of OMIClear, Chairman of the Audit Committee and Deputy Chairman of the Risk Committee.

Former President of the Tribunal for the Defence of Competition (2000-2005). Deputy President and Director of Analysis and Strategy of the High Council of Chambers of Commerce (2006-2011) and Director of Study Services at the High Council of Chambers of Commerce (1986-2000). Former Board Member of the National Institute of Statistics (1986-2000 and 2006-2011) and Chairman of the Regional Statistics Committee of the INE. Economist at the Institute for Economic Studies (1981-1986).

Professor of Applied Economics at the University of San Pablo CEU and University of Deusto.

### **Committee proposal.**

Therefore the Committee (with the abstention of Mr Solana) proposes the re-election of Mr Gonzalo Solana González as Independent Director for the statutory term of four years.

### **3.5.- Resignation of Mr Luis Valero Artola as Independent Director.**

Mr Luis Valero Artola was appointed as Independent Director by the General Shareholders' Meeting of 25 March 2014. Mr Luis Valero Artola has expressed his wish not to be re-elected for a further period of four years for professional and personal reasons and will present his resignation at the Board Meeting of 19 February 2018, with his resignation being effective from the day of the next General Ordinary Shareholders' Meeting of 21 March 2018 at first call, or 22 March 2018 at second call.

Hence, the Committee proposes that Mr Luis Valero Artola's re-election as Director not be included in the next General Shareholders' Meeting.

The Appointments, Remuneration and Corporate Social Responsibility Committee considers that Mr Valero has made an invaluable contribution to the company during the entire period in which he has been a Director and a member of the Audit and Compliance Committee. The Committee thanked Mr Luis Valero Artola for his dedication and efforts made in his duties.

### **3.6 Proposal to appoint Mr Ignacio Grangel Vicente as an Independent Director.**

In order to cover the vacancy left by Mr Luis Valero Artola, the Committee proposes that a new Independent Director be proposed for the period of four years.

When selecting this proposed candidate, the Committee has adopted the guidelines set out in the Director Selection Policy, approved by the Board of Directors at the behest of the Committee. As provided for under this Policy, at least the following criteria have been taken into account in the selection procedure for the new Director:

- Suitable professional knowledge and experience: the candidates appointed must have the necessary prestige and appropriate professional knowledge and experience to carry out their duties.

- Requirements derived from the Hydrocarbons Sector Law. Candidates must be able to satisfy the independence requirements demanded by Enagás' appointment as independent gas transmission network manager.
- Requirements for Independent Directors. In addition to the previous criteria, which shall be applied to all Directors, regardless of their category, the persons selected in the category of Independent Directors must meet the requirements for independence under the provisions of the applicable law at all times, and the additional conditions for independence, as the case may be, stipulated in the company's internal regulations.
- Commitment to fulfilling the duties and obligations of Directors. Proposals for re-election of current members of the Board of Directors shall take into account the commitment demonstrated by the Directors during the year in which they held office, in fulfilling the duty of diligence and the duty of loyalty, and all the regulations to which, in their condition of Directors and, where applicable, as shareholders or high-ranking member of the company, they are subject under the Internal Code of Conduct in Matters Relating to Securities Markets, the Enagás Group Code of Ethics, the Code of Conduct of the Technical Manager of the Spanish Gas System and other laws or procedures derived from their application. Likewise, it shall be considered that he/she has acted in good faith and in the best interests of the Company in discharging his/her duties (obviously this criterion has not been taken into consideration for this new appointment but for the above-mentioned re-elections).

Although the Committee considers that its proposal is the most suited to the company's interests, the Committee has also taken into account the fact that Director appointment or re-election proposals need to encourage diversity in the Board, and thus it should focus preferably on recruiting women to the Board, as well as persons who have an international professional profile due to their nationality and experience, in keeping with the company's strategy. The Director appointment or re-election proposals should pursue the goal of having at least 30% of total board places occupied by women directors by the year 2020.

In addition to the above requirements, other conditions which, if applicable, may be determined by the Appointments, Remuneration and Corporate Social Responsibility Committee of the company and applicable laws at any given time, have been taken into account in the Independent Director selection process.

As a result of the foregoing, and as provided for under article 529 decies.4 and 529 quidecies. 3 c) of the Consolidated Text of the Corporate Enterprises Act, the Committee proposes that Mr D. Ignacio Grangel Vicente be proposed as an Independent Director of the company.

### **Personal information.**

Current:

- Since November 2017, Mr Grangel has been Chairman of OMEL (Electricity Market Operator), Vice-Chairman of OMIE (Iberian Electricity Market Operator- Spanish Division), Vice-Chairman of OMIP (Iberian Electricity Market Operator- Portuguese Division) and Chairman of OMICLEAR (Iberian Market Clearing House). He is CEO of MIBGAS and MIBGAS Derivatives.

- Since July 2017, he has been a Member of the Energy Transition Scenarios Experts Committee created by the Resolution of the Council of Ministers of 7 July 2017.

He was previously:

- Director of Legal Counsel and Vice-Secretary General of REE (2015-2017);
- Director of the Cabinet of the Secretary of State for Energy. Ministry of Industry, Energy and Tourism (2012-2015).
- Member of the Management Board of the Oil Products Strategic Reserves Corporation (2012- 2015).
- Member of the Board of Directors of the National Radioactive Waste Company. Chairman of the Audit and Control Committee. (March 2012-2015).
- State Lawyer (2004), having completed the Higher Energy Law Programme at the Instituto de Empresa Business School (2011).

**Contribution to the Board that the Appointments, Remuneration and Corporate Social Responsibility Committee expects from Mr. Ignacio Granjel.**

In relation to its proposal to appoint a new Independent Director to the Board of Directors, the Appointments, Remuneration and Corporate Social Responsibility Committee has carefully evaluated the challenges the Company must face in the following years and the Board's capacity to deal with such challenges. The capacity of the Board as a whole is determined by the capacities and aptitudes that each of its members are willing to contribute to it.

The Committee is aware that the main challenge facing the Company in the coming years is to embark on a process of international development as an alternative to the maturity of the Spanish gas market. Hence the changes in the Board taking place in recent years have been aimed at strengthening the capacities and aptitudes of the Board in different facets of the international setting.

However the Committee is well aware that most of the Company's activities are carried out in Spain and, as occurs in other countries, within the framework of an intensive sector-based administrative regulation to ensure, for the benefit of consumers, the operation of the gas system with sufficient guarantees of regularity, transparency and unrestricted competition.

On the other hand, the Company is facing other new challenges apart from its internationalisation.

- In the first instance, a process is under way for the creation and structuring of a regional gas market (Iberian Gas Market) similar to the Iberian Electricity Market. Enagás forms part of this process by legal mandate and must be fully able to take on the role that corresponds to it in this respect. The establishment of an Organised Gas Market in the Iberian Peninsula is one step further towards creating a single energy market - like other European countries in which this type of hub functions -, considering as a

benchmark framework the *European Target Model*, present in the design of the Iberian Gas Market (MIBGAS). The key factors of the Organised Gas Market design are transparency, operator neutrality and the publishing of prices.

Through Act 8/2015 of 21 May, modifying Act 34/1998 of 7 October on the Hydrocarbon Sector, MIBGAS, S.A. has been designated an Organised Gas Market Operator. This Act is implemented through the subsequent Royal Decree 984/2015 of 30 October, assigning the main functions of the Organised Market Operator to the company MIBGAS, implementing its functions and its role in the gas market. This Act envisages the participation of Enagás in MIBGAS.

The objectives of MIBGAS include the following, among others: to increase competitiveness in the sector; contribute to the harmonisation and rationalisation of the Iberian gas market; promote liquidity and transparency through negotiation in conditions of equality, transparency and objectivity for all agents taking part; and contribute to increasing safety in supply and strengthening Iberian interconnections with Europe (Juncker Plan).

- On the other hand, the energy system as a whole is undergoing, both in Spain and in other countries, a process of medium- and long-term analysis and planning. In this respect, the European Parliament Regulation Proposal related to Governance of the Energy Union makes it necessary to prepare a strategy to enable European commitments in relation to energy and climate to be tackled more efficiently, contributing to economic growth and the well-being of citizens, with a view to setting this out in an Integrated Energy and Climate Plan in 2030 that will include the objectives, goals and paths for each of the five dimensions of the Energy Union: decarbonisation, energy efficiency, energy security, interior energy market and innovation and competitiveness. The role of natural gas in the above integrated scenario, its value as an energy transition to new scenarios and its potential alternative uses in future scenarios.

This had led the Committee to identify three challenges that the Board of Directors must be in a position to address:

- That affecting the regulated activities of the Company.
- The creation and implementation of an Iberian Gas Market.
- The “energy transition” process and the role of natural gas in that process.

The Committee understands that the incorporation of Mr Grangel to the Board of Directors would strengthen the Board's capacity to deal with these three challenges.

- Mr Grangel's previous professional training and experience guarantee he can help the Board of Directors as a whole, and make it better able to deal with the regulatory aspects that affect most of the Company's activities and revenues today.
- His responsibilities as Chairman of the Iberian Electricity Market Operator (OMEL/OMIE...) which in turn participates in the creation and implementation of an Iberian Gas Market (MIBGAS) make him able to ensure that the Board will correctly carry out its function in relation to the role of Enagás in the Iberian gas market.

- Lastly, his vast knowledge and experience in the energy sector and its different sub-sectors will allow the Board to be in a better position to relate the role of natural gas to those of other forms of energy, and electricity in particular. All the above is aimed at allowing natural gas to take its proper place in the energy transition process. In fact, as his personal information indicates, Mr Grangel is a member of the Energy Transition Experts Committee created by the Resolution of the Council of Ministers, formed by fourteen independent experts (including Mr Grangel) who must analyse potential energy transition scenarios that guarantee the competitiveness of the economy, the creation of employment and environmental sustainability.

As a result of the above and based on the needs of the capacity of the Board of Directors and the available capacities of its current members, the Appointments, Remuneration and Corporate Social Responsibility Committee considers that Mr Ignacio Grangel Vicente is an ideal candidate to join the Board as an Independent Director. The Committee has obtained the necessary external counselling in order to be certain that Mr Grangel 's ties with the energy sector imply no permanent conflict of interest with the Company and do not put at risk the condition of Enagás as an independent operator or the qualification of Mr Grangel as an Independent Director.

#### **Committee proposal.**

The Appointments, Remuneration and Corporate Social Responsibility Committee proposes the appointment of Mr Ignacio Grangel Vicente as Independent Director.

#### **4. Board structure.**

The Committee considers that thirteen members is an adequate number for the Board of Directors, and thus it proposes that this number be maintained.

After the proposed appointments and re-elections, most of the Board members are Independent Directors. Of its thirteen members, seven are independent, while the number of women on the Board will remain at three, and these women will moreover exercise important functions within the Board: Ms Ana Palacio Vallelersundi, who is now proposed for re-election, is an Independent Director and Coordinator and Chairwoman of the Appointments, Remuneration and Corporate Social Responsibility Committee. Ms Isabel Tocino Biscalorasaga, who is now proposed for re-election, is Chairwoman of the Audit and Compliance Committee; and Ms Rosa Rodríguez Díaz is a Member of the Audit and Compliance Committee.

Since 2012, the company has separated the posts of Chairman of the Board of Directors and Chief Executive Officer, and since 2010, it has had a Lead Independent Director, the post held by Ms Ana Palacio Vallelersundi, providing an additional guarantee that the Board is functioning properly. The internal structure guarantees that all the functions (Internal Audit, Legal Counsel and Regulatory Compliance, etc.) promoting the control that must be exercised by the Board of Directors in relation to the executive and business functions that fall to the Chief Executive Officer maintain the necessary independence, and are organically and functionally assigned to the Chairman of the Board of Directors and to the Board itself through the Secretary to the Board.

The extent of the implication of the Directors in exercising their functions is very high. The attendance of the Directors at Board meetings in 2017 was as follows:

- Mr Antonio Llardén Carratalá (Chairman) attended all the Board meetings.
- Mr Marcelino Oreja Arburúa (Chief Executive Officer) attended all the Board meetings.
- Ms Ana Palacio Vallelersundi has attended all the meetings of the Board and of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- Ms Isabel Tocino Biscalorasaga apologised for not attending one Board meeting for justified reasons and delegated her voting power to another Independent Director. She has attended all the meetings of the Appointments, Remuneration and Corporate Social Responsibility Committee and of the Audit and Compliance Committee during her time as a member of each one.
- Mr Antonio Hernández Mancha has attended all the meetings of the Board and of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- Mr Jesús Máximo Pedrosa Ortega has attended all the meetings of the Board and of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- Mr Luis Javier Navarro Vigil has attended all the meetings of the Board and of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- Mr Luis García del Río has attended all the meetings of the Board and of the Appointments, Remuneration and Corporate Social Responsibility Committee.
- Mr Gonzalo Solana González has attended all the meetings of the Appointments, Remuneration and Corporate Social Responsibility Committee and of the Audit and Compliance Committee during his time as a member of each one.
- Mr Martí Parellada Sabata has attended all the meetings of the Board and of the Audit and Compliance Committee.
- Ms Rosa Rodríguez Díaz has attended all the meetings of the Board and of the Audit and Compliance Committee.
- Mr Luis Valero Artola has attended all the meetings of the Board and of the Audit and Compliance Committee.
- Sociedad Estatal de Participaciones Industriales (SEPI) has apologised for not attending one Board meeting and one Audit and Compliance Committee meeting due to the removal and replacement of its Vice-Chairman, the natural person representing the Director and legal entity SEPI.

For all appropriate legal reasons, it is hereby stated that the Appointments, Remuneration and Corporate Responsibility Committee drafted this report at its meeting on 19 February 2018.

The Secretary to the Board of Directors



Rafael Piqueras Bautista  
**Enagás, S.A**