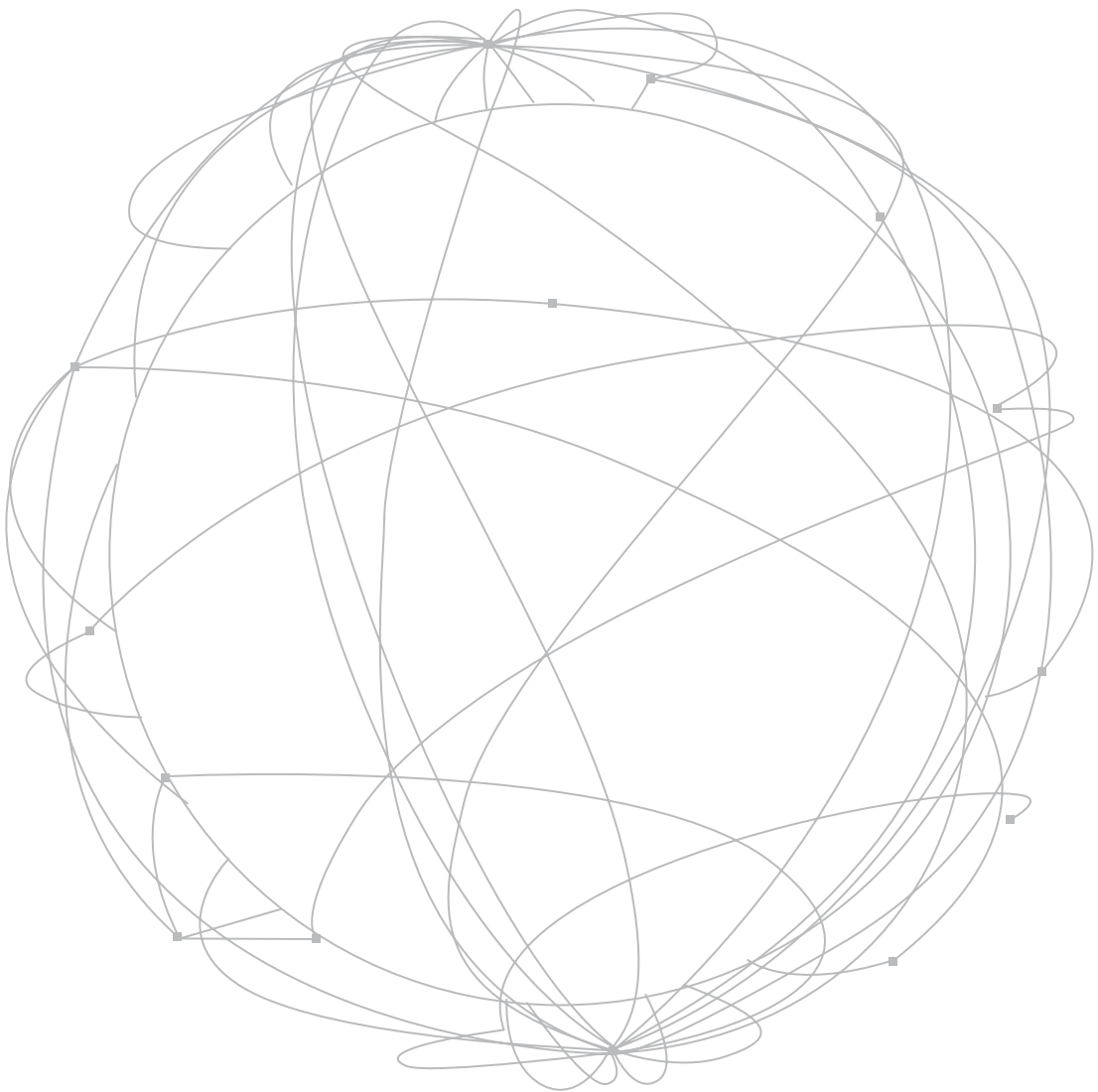


# 2014 Corporate Governance Report





# 2014 CORPORATE GOVERNANCE REPORT

## ■ Independent assurance report on the Annual Corporate Governance Report

- A. Ownership structure
- B. General Shareholders' Meeting
- C. Company management structure
- D. Related-party and intragroup transactions
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## ■ Explanatory Notes

## ■ Report on the Activities of the Enagás, S.A. Audit and Compliance Committee in 2014

## INDEPENDENT ASSURANCE REPORT ON THE ANNUAL CORPORATE GOVERNANCE REPORT

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*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

### INDEPENDENT ASSURANCE REPORT ON THE ANNUAL CORPORATE GOVERNANCE REPORT

To the Board of Directors of Enagás, S.A.:

#### Scope of the Report

We have performed an assurance engagement regarding the compliance of the content of the accompanying Annual Corporate Governance Report for 2014 of Enagás, S.A. with the minimum content of the Annual Corporate Governance Report provided for by Circular 5/2013, of 12 June, of the Spanish National Securities Market Commission (CNMV) and with the provisions of Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March.

#### Responsibility of the Board of Directors on the Annual Corporate Governance Report

The preparation of the Annual Corporate Governance Report and its content are the responsibility of the Board of Directors of Enagás, S.A., which is also responsible for the design, implementation and maintenance of the procedures through which the information is obtained.

#### Our responsibility

Our responsibility is to issue an independent report based on the procedures applied in our assurance engagement. We carried out our engagement in accordance with the applicable requirements of the Code of Ethics of the International Federation of Accountants (IFAC).

We carried out our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) on reasonable assurance engagements. That standard requires the performance of procedures and the obtainment of sufficient appropriate evidence to make it possible to reduce the assurance engagement risk to an acceptably low level in the circumstances of the engagement and to express a conclusion in a positive form. In this regard, our engagement included, inter alia, the following:

- Reading and understanding the information prepared by the Company contained in the Annual Corporate Governance Report and assessing whether said information encompasses all the information required by Circular 5/2013, of 12 June, of the Spanish National Securities Market Commission and by Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March.
- Holding meetings with and submitting queries to the Company's personnel, the members of the Board of Directors and other bodies responsible for the various areas of governance of the Company on which the report is issued for the purpose of analysing the information included in the Annual Corporate Governance Report.

- Evaluating internal control relevant to the internal compilation and validation of the data and information set out in the Annual Corporate Governance Report. This evaluation is part of our assessment of the engagement risk and is performed for the sole purpose of being able to design assurance procedures that are appropriate in the circumstances.
- Verifying, by means of selective tests, the criteria used in preparing the information included in the Annual Corporate Governance Report and its adequate compilation and consistency with the data furnished by management of the Company.
- Analysing the minutes of the Annual General Meeting, of the Board of Directors meetings, of the Audit and Compliance Committee meetings and of the Appointments, Remuneration and Corporate Social Responsibility Committee meetings of Enagás, S.A. for the purpose of assessing the compliance of the information included in the Annual Corporate Governance Report.
- Obtaining a representation letter on the work performed signed by the persons responsible for preparing the Annual Corporate Governance Report.

For the recommendations of the Unified Good Corporate Governance Code that have not been implemented by the Company, the directors of Enagás, S.A. offer the explanations that they consider appropriate. In relation to said explanations, we checked that the assertions contained in the Annual Corporate Governance Report do not contradict the evidence obtained from the application of the procedures described above.

Also, as regards the system of Internal Control over Financial Reporting (ICFR) (see section F of the accompanying Annual Corporate Governance Report), we verified the existence of the corresponding report issued by the Company's auditor. That report states that the work was performed in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

#### Conclusion

Based on the results of our work, in our opinion the content of the accompanying Annual Corporate Governance Report for 2014 of Enagás, S.A. has been prepared, in all material respects, in accordance with Circular 5/2013, of 12 June, of the Spanish National Securities Market Commission (CNMV) and with Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, and its content complies with the provisions of those regulations.

DELOITTE, S.L.

Ana Sánchez Palacios

24 February 2015



## ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

### A. OWNERSHIP STRUCTURE

#### A.1 Complete the following table on the Company's share capital.

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
3/5/02	358,101,390.00	238,734,260	238,734,260

Indicate whether different types of shares exist with different associated rights.

Yes  No

#### A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors.

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
FIDELITY INTERNATIONAL LIMITED	0	4,710,880	1.97%
RETAIL OEICS AGGREGATE	0	2,410,274	1.01%
OMAN OIL COMPANY, S.A.O.C.	0	11,936,702	5.00%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
FIDELITY INTERNATIONAL LIMITED	FIDELITY INTERNATIONAL LIMITED	4,710,880
RETAIL OEICS AGGREGATE	RETAIL OEICS AGGREGATE	2,410,274
OMAN OIL COMPANY, S.A.O.C.	OMAN OIL HOLDINGS SPAIN S.L.U.	11,936,702

Indicate the most significant movements in the shareholder structure during the year.

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
KUTXABANK,S.A.	10/3/14	Decrease of 5% of share capital
KUTXABANK,S.A.	16/6/14	Decrease of 3% of share capital

#### A.3 Complete the following tables on company directors holding voting rights through company shares.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.02%
MARCELINO OREJA ARBURÚA	1,260	0	0.00%
SULTAN HAMED KHAMIS AL BURTAMANI	1	0	0.00%
RAMÓN PÉREZ SIMARRO	100	0	0.00%
MARTÍ PARELLADA SABATA	910	0	0.00%

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
LUIS JAVIER NAVARRO VIGIL	1,405	7,075	0.00%
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5.00%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
LUIS JAVIER NAVARRO VIGIL	NEWCOMER 2000, S.L.U.	7,075
% of total voting rights held by the Board of Directors		5.02%

Complete the following tables on share options held by Directors.

**A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the Company, unless they are insignificant or arise from ordinary trading or exchange activities.**

**A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the Company and/or its Group, unless they are insignificant or arise from ordinary trading or exchange activities.**

**Related-party name or corporate name**

OMAN OIL HOLDINGS SPAIN S.L.U.  
ENAGÁS, S.A.

Type of relationship: Corporate

Brief description

Dividends and other benefits paid €15,322 thousand.

**Related-party name or corporate name**

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)  
ENAGÁS, S.A.

Type of relationship: Corporate

Brief description

Dividends and other benefits paid: €15,322 thousand.

**Related-party name or corporate name**

FIDELITY INTERNATIONAL LIMITED  
ENAGÁS, S.A.

Type of relationship: Corporate

Brief description

Dividends and other benefits paid: €6,047 thousand.

**Related-party name or corporate name**

RETAIL OEICS AGGREGATE  
ENAGÁS, S.A.

Type of relationship: Corporate

Brief description

Dividends and other benefits paid: €3,094 thousand.

**A.6 Indicate whether the Company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable.**

Yes  No

Indicate whether the Company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable.

Yes  No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

The Company has not been notified of any shareholders' agreements affecting it and is not aware of the existence of any concerted actions among its shareholders.

**A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the Company in accordance with article 4 of the Securities' Market Act. If so, identify.**

Yes  No

Remarks

**A.8 Complete the following tables on the Company's treasury stock.**

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

(\*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.**

The Ordinary General Shareholders' Meeting held 30 April 2010 adopted the following resolution:

In accordance with the provisions of articles 75 et seq. of the Spanish Companies Act, to authorise and empower the Board of Directors with the faculty of substitution, to use derivatives to acquire treasury shares, either directly or via any of the Group companies, in the following terms:

- 1.- The acquisition may be performed via sale-purchase or any other business method for consideration.
- 2.- The authorisation pertains to shares which, together with those already held, do not exceed 10% of the Company's share capital.
- 3.- The purchase price shall not exceed by 50% or fall short by 50% of the average trading price of the seven sessions previous to the purchase date.
- 4.- The authorisation is extended for a five-year period, as from the date of this agreement.

Acquisition of treasury shares must enable the Company, at all events, to provision the reserve stipulated in article 79.3 of the Companies Act, without diminishing either the share capital or the unavailable reserves. The shares to be acquired must be fully paid in.

The shares acquired may be conveyed, entirely or in part, to employees, management or Directors of the Company, or of Group companies, in accordance with the provisions of article 75.1 of the Spanish Companies Act.

This authorisation for the acquisition of treasury shares shall, as appropriate, replace all authorisations previously granted by the General Shareholders' Meeting.

**A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the Company by means of share purchases on the market.**

Yes  No

**Description of restrictions**

**Restrictions under law:**

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No natural person or corporate body may hold, directly or indirectly, an interest in the parent company (ENAGÁS, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights". Such shares may in no event be syndicated. Any party operating within the gas sector, including natural persons or bodies corporate that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions will not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40% (...)" (continues in Section H. OTHER INFORMATION OF INTEREST: EXPLANATORY NOTE ON SECTION A.10).

**A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.**

Yes  No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

**A.12 Indicate whether the Company has issued securities not traded in a regulated market of the European Union.**

Yes  No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

**B. GENERAL SHAREHOLDERS' MEETING**

**B.1 Indicate whether the quorum required for constitution of the General Shareholders' Meeting differs from the system of minimum quorums established in the LSC and specify any such difference.**

Yes  No

**B.2 Indicate and, as applicable, describe any differences between the Company's system of adopting corporate resolutions and the framework established in the LSC.**

Yes  No

Describe how they differ from the rules established in the LSC.

**B.3 Indicate the rules governing amendments to the Company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.**

Article 18 of the Articles of Association states that:

"The shareholders, when constituted as a duly summoned General Meeting, shall by a majority of votes decide upon the matters that fall within the powers of the General Meeting. The General Meeting is responsible for addressing and agreeing upon the following issues: (...) and states in section c) Amendments to the Articles of Association".

Likewise, article 26 states that:

"An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the Articles of Association, issue bonds, remove or restrict the pre-emptive subscription right for new shares, and restructure, merge or split the Company, transfer all the assets and liabilities thereof, or move the registered office to outside Spain, if, at the original date and time specified in the notice of meeting, there are present, in person or by proxy, shareholders representing at least fifty percent of voting subscribed capital.

At second call, the attendance or representation of shareholders holding at least twenty-five percent of subscribed capital with voting rights shall be sufficient".

Likewise, article 13.3 of the Regulations of the General Shareholders' Meeting states that:

Notwithstanding the above, in the case of capital increases or decreases, any other modification to the Articles of Association, bonds issues, elimination or restriction of the pre-emptive subscription right over new shares, the transformation, merger or spin-off of the Company, the transfer of all the assets and liabilities thereof and the decision to move the registered office to outside Spain, at the adjourned meeting, and when the Meeting is attended by shareholders representing less than fifty percent of the subscribed voting capital, two-thirds of the subscribed voting capital present in person or by proxy must vote for the resolution in order for it to be adopted.

#### B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year.

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
24/04/13	6.62%	44.40%	0.00%	2.04%	53.06%
25/3/14	5.58%	42.23%	0.00%	5.14%	52.95%

#### B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes  No

#### B.6 Indicate whether decisions involving a fundamental corporate change ("subsidiarisation", acquisitions/disposals of key operating assets, operations that effectively entail the Company's liquidation) must be submitted to the General Shareholders' Meeting for approval or ratification even when not expressly required under company law.

Yes  No

#### B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

All information on Enagás, S.A.'s Corporate Governance is available to the public on its website ([www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com)).

The links to this information can be found easily through a web browser and are as follows:

##### In Spanish:

Página principal / Accionistas e Inversores / Gobierno Corporativo/ (<http://www.enagas.es/enagas/es/AccionistasInversores/GobiernoCorporativo/>).

Página principal / Responsabilidad Corporativa / Gobierno Corporativo/ ([http://www.enagas.es/enagas/es/Responsabilidad\\_Corporativa/Gobierno\\_Corporativo](http://www.enagas.es/enagas/es/Responsabilidad_Corporativa/Gobierno_Corporativo)).

##### In English:

Home / Investors Relations / Corporate Governance/ (<http://www.enagas.es/enagas/en/AccionistasInversores/GobiernoCorporativo/>).

Home / Corporate Responsibility / Corporate Governance/ ([http://www.enagas.es/enagas/en/Responsabilidad\\_Corporativa/Gobierno\\_Corporativo](http://www.enagas.es/enagas/en/Responsabilidad_Corporativa/Gobierno_Corporativo)).

## C. COMPANY MANAGEMENT STRUCTURE

### C.1 Board of Directors

#### C.1.1 List the maximum and minimum number of Directors included in the Bylaws.

Maximum number of Directors	15
Minimum number of Directors	6

#### C.1.2 Complete the following table with Board members' details.

Name or corporate name of Director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
ANTONIO LLARDÉN CARRATALÁ		CHAIRMAN	22/4/06	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
MARCELINO OREJA ARBURÚA		CHIEF EXECUTIVE OFFICER	17/9/12	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
SULTAN HAMED KHAMIS AL BURTAMANI		DIRECTOR	20/12/10	25/3/11	VOTE AT GENERAL SHAREHOLDERS' MEETING
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ		DIRECTOR	25/4/03	25/3/11	VOTE AT GENERAL SHAREHOLDERS' MEETING
JESÚS MÁXIMO PEDROSA ORTEGA		DIRECTOR	24/04/13	24/04/13	VOTE AT GENERAL SHAREHOLDERS' MEETING
RAMÓN PÉREZ SIMARRO		DIRECTOR	17/6/04	24/04/13	VOTE AT GENERAL SHAREHOLDERS' MEETING

Name or corporate name of Director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MARTÍ PARELLADA SABATA		DIRECTOR	17/3/05	24/04/13	VOTE AT GENERAL SHAREHOLDERS' MEETING
ROSA RODRÍGUEZ DÍAZ		DIRECTOR	24/04/13	24/04/13	VOTE AT GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER NAVARRO VIGIL		DIRECTOR	9/7/02	25/3/11	VOTE AT GENERAL SHAREHOLDERS' MEETING
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	FEDERICO FERRER DELSO	DIRECTOR	25/4/08	30/3/12	VOTE AT GENERAL SHAREHOLDERS' MEETING
ANA PALACIO VALLELERSUNDI		DIRECTOR	25/3/14	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING

ISABEL TOCINO BISCAROLASAGA	DIRECTOR	25/3/14	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
ANTONIO HERNÁNDEZ MANCHA	DIRECTOR	25/3/14	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
GONZALO SOLANA GONZÁLEZ	DIRECTOR	25/3/14	25/3/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER ARTOLA	DIRECTOR	28/4/14	28/4/14	VOTE AT GENERAL SHAREHOLDERS' MEETING
Total number of Directors		15		

Indicate any board members who left during this period.

Name or corporate name of Director	Status of the Director at the time	Leaving date
DIONISIO MARTÍNEZ MARTÍNEZ	Independent	25/3/14
ISABEL SÁNCHEZ GARCÍA	Independent	25/3/14
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	Independent	25/3/14
JOSÉ RIVA FRANCOS	Independent	25/3/14
MIGUEL ÁNGEL LASHERAS MERINO	Independent	25/3/14

C.1.3 Complete the following tables on board members and their respective categories.

#### EXECUTIVE DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Position held in the Company
ANTONIO LLARDÉN CARRATALÁ	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	CHAIRMAN
MARCELINO OREJA ARBURÚA	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	CHIEF EXECUTIVE OFFICER
Total number of Executive Directors		2
% of the board		13.33%

#### EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
SULTAN HAMED KHAMIS AL BURTAMANI	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	OMAN OIL HOLDINGS SPAIN S.L.U.
JESÚS MÁXIMO PEDROSA ORTEGA	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

Total number of Proprietary Directors	3
% of the board	20.00%

#### INDEPENDENT EXTERNAL DIRECTORS

##### > Name or corporate name of Director

JESÚS DAVID ÁLVAREZ MEZQUÍRIZ

##### Profile

- Chairman of Biocarburantes Peninsulares, S.L.
- Director of EULEN S.A.

##### > Name or corporate name of Director

RAMÓN PÉREZ SIMARRO

##### Profile

- Former Director General of Energy.
- Former General Secretary of Energy and Mineral Resources.
- Former General Technical Secretary of the Ministry of Industry.
- Former lecturer, Universidad Autónoma de Madrid.

##### > Name or corporate name of Director

MARTÍ PARELLADA SABATA

##### Profile

- Professor at the University of Barcelona.
- Member of the Board of Trustees and Standing Committee of Hospital Clinic de Barcelona.
- Deputy Chairman and Director of the Barcelona Economic Institute Foundation.
- Trustee of the Energy and Environmental Sustainability Foundation.

##### > Name or corporate name of Director

ROSA RODRÍGUEZ DÍAZ

##### Profile

- Doctorate in Economics and Business Administration.
- Lecturer at the Las Palmas de Gran Canaria University's Economics and Business Administration Faculty.
- Former Vice-Secretary of Tax Administration and Planning for the government of the Canary Islands.
- Former Vice-President of Gran Canaria's "Cabildo" Council.



> **Name or corporate name of Director**

ANA PALACIO VALLELERSUNDI

**Profile**

- Founding partner of the Palacio & Asociados law firm.
- Elected member of the Spanish Council of State.
- Coordinator for the Rhine-Alpine Corridor of the Trans-European Transport Network.
- Arbitrator in the Spanish Court of Arbitration, in the Court of Madrid, and a member of the "Panel of Arbitrators of the Centre for Settlement of Investment Disputes (ICSID)".
- Member of the "International Advisory Board" of Invescorp.
- Member of the Board of Directors of Pharmamar, S.A.
- Member of "Le Conseil d'Orientation et de Réflexion de l'Assurance (CORA)".
- Board Member of several research centres and public bodies including: the "Atlantic Council" of the United States, the European Council on Foreign Relations (ECFR), the "Institute for Strategic Dialogue" and the Foundation for Social Studies and Analysis (FAES).
- Member of the Global Agenda Council of the World Economic Forum.
- Former member of the Advisory Group on Foreign Affairs and Security established by the President of the European Union (2013-2014).
- Former member of the panel responsible for vetting judges and advocates general for the EU/Luxembourg court system (2010-2013).
- Former Senior Vice-President for International Affairs of Areva.
- Former Senior Vice-President and General Counsel of the World Bank Group.
- Former Minister of Foreign Affairs of Spain.
- Former member of the European Parliament (1994-2002): Chair of the Committee on Legal Affairs and the Internal Market and of the Committee on Justice and Home Affairs.

> **Name or corporate name of Director**

ISABEL TOCINO BISCAROLASAGA

**Profile**

- Elected member of the Spanish Council of State.
- Independent Director of Banco Santander.
- Independent Director of ENCE.
- Former Spanish Minister for the Environment (1996-2000).
- Former Chairwoman for Spain and Portugal and former Vice-Chairwoman of Siebel (subsequently acquired by Oracle).
- Former legal advisor to the Nuclear Energy Board (currently CIEMAT).
- Vice President of the International Association of Women Lawyers.
- Member of the Spanish Royal Academy of Doctors.
- Vice-President of the Federal Council of the European Movement.

> **Name or corporate name of Director**

ANTONIO HERNÁNDEZ MANCHA

**Profile**

- Public prosecutor.
- Member of the Court of Arbitration of Madrid's Chamber of Commerce and Industry.
- Founding President and Sole Director of Apple Energy Group Iberia, S.L.
- Member of the Board of Directors of Isolux Corsán, S.A.
- Member of the Advisory Committee of M&A Arcano.
- Former Vice President of NAP de las Américas Madrid, S.A.
- Former Chief Executive Officer of NAP de África Occidental e Islas Canarias, S.A.

> **Name or corporate name of Director**

GONZALO SOLANA GONZÁLEZ

**Profile**

- Director of the Nebrija Santander Chair in International Business Management.
- Founding partner of the law firm Huerta&Solana specialising in competition law and regulations.
- Independent Director of OMIClear.
- Member of the Advisory Board of Centro Atlántico de Pensamiento Estratégico.
- Former President of the Tribunal for the Defence of Competition (2000-2005).
- Former Board Member of the National Institute of Statistics (INE).
- Former technical advisor to the Spanish Committee of the International Chamber of Commerce (ICC).

> **Name or corporate name of Director**

LUIS VALERO ARTOLA

**Profile**

- Trade Technical Expert and State Economist.
- Former General Secretary of the Ministry of Industry, Energy and Tourism.
- Former General Manager of the Spanish Association of Automobile and Truck Manufacturer's (ANFAC).
- Former member of the Management Committee of the Spanish Confederation of Employers' Organisations (CEOE).
- Former Director of Operadora del Mercado Eléctrico (OMEL).
- Former Business Director of Banco Saudí Español.
- Former Manager of Spanish Foreign Investment Services.
- Former Commercial Director in the Republic of South Africa.

Total number of Independent Directors	9
% of the board	60.00%

List any Independent Directors who receive from the Company or Group any amount or payment other than standard Director remuneration or who maintain or have maintained during the period in question a business relationship with the Company or any group company, either in their own name or as a significant shareholder, Director or senior manager of an entity which maintains or has maintained the said relationship.

JESÚS DAVID ÁLVAREZ MEZQUÍRIZ, as Director of EULEN, S.A., is party to service level agreements for building and facility security and maintenance and, therefore, has a business relationship that is not substantial with ENAGÁS TRANSPORTE S.A.U., an Enagás Group subsidiary.

The Board of Directors of Enagás considered it appropriate to include JESÚS DAVID ÁLVAREZ MEZQUÍRIZ as an "Independent Director" after verifying that he met all the conditions of articles 5 and 9 of the Regulations of the Board of Enagás for Independent Directors; i.e.:

He enjoys a solid reputation and, therefore, can contribute his experience and know-how to the Company's corporate governance and does not meet the requirements for inclusion in the category of Proprietary Director or Executive Director. Moreover, he can perform his duties without being affected by dealings with the Company, its significant shareholders or its executives. Although JESÚS DAVID ÁLVAREZ MEZQUÍRIZ maintains, or has maintained in the past year, a business relationship with Enagás, S.A. or any other Group company, as joint and several director of GRUPO EULEN, this business relationship was not considered to be significant and in no case prevents the performance of his duties as Independent Director of Enagás with impartiality and transparency.

This statement from the Board of Directors of Enagás complies with article 5 of Order ECC/461/2013, of 20 March, with respect to the situations set out in article 8.4. b) and e) therein.

If applicable, include a statement from the board detailing the reasons why the said Director may carry on their duties as an Independent Director.

**OTHER EXTERNAL DIRECTORS**

Name or corporate name of Director	Committee notifying or proposing appointment
LUIS JAVIER NAVARRO VIGIL	APPOINTMENTS, REMUNERATION AND CSR COMMITTEE

Total number of Other External Directors	1
% of the board	6.67%

List the reasons why these cannot be considered Proprietary or Independent Directors and detail their relationships with the Company, its executives or shareholders.

**> Name or corporate name of Director**

LUIS JAVIER NAVARRO VIGIL

**Company, executive or shareholder with whom the relationship is maintained**

TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.

**Reasons**

LUIS JAVIER NAVARRO VIGIL is a Director of Enagás and has a business relationship with TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE CV (abbreviated to "TLA, S. DE R.L.- MÉXICO"), a subsidiary of the Enagás Group; i.e. LUIS JAVIER, representing NEWCOMER, S.L.U., has a business relationship with TLA, S. DE R.L. - MÉXICO, as he has entered into an agreement to provide consultancy services to TLA, S. DE R.L.- MÉXICO and TLA Servicios S. de R.L. de C.V. (abbreviated to "TLA Servicios").

This is why it has been considered appropriate to include LUIS JAVIER NAVARRO VIGIL as an "Other External Director" pursuant to the definition laid down in the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás.

List any changes in the category of each Director which have occurred during the year.

**C.1.4 Complete the following table on the number of female Directors over the past four years and their category.**

	Number of female Directors				% of total Directors of each type			
	Year 2014	Year 2013	Year 2012	Year 2011	Year 2014	Year 2013	Year 2012	Year 2011
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	3	3	2	2	33.33%	33.33%	25.00%	25.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>20.00%</b>	<b>20.00%</b>	<b>15.38%</b>	<b>13.33%</b>

**C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female Directors on the board to guarantee an even balance between men and women.**

**Explanation of measures**

At the date of call of the General Shareholders' Meeting for 24 and 25 March 2014, there were five vacancies on the Board of Directors. The Appointments, Remuneration and CSR Committee established a number of re-election criteria in order to present to the Board and General Shareholders' Meeting the corresponding proposed candidates for appointment as Independent Directors, including the following: "It must be sought that the proposals encourage diversity within the Board, whereby they must focus on preferably incorporating women and people who due to their nationality or experience have an international professional profile, in accordance with the Company's new strategy.

Shareholders at the General Shareholders' Meeting of 25 March 2014 voted to appoint ANA PALACIO VALLELERSUNDI and ISABEL TOCINO BISCAROLASAGA as Independent Directors of Enagás. As a result, there were still three (3) women directors.

**C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female Directors, and whether the Company makes a conscious effort to search for female candidates who have the required profile.**

**Explanation of measures**

To fill the five vacancies by the 2014 General Shareholders' Meeting, the Appointments, Remuneration and CSR Committee agreed that the proposed candidates for appointment as Independent Directors should meet the following criteria:

- Without prejudice to any legal and statutory requirements of the post, candidates must have acknowledged prestige and appropriate professional knowledge and experience to perform their tasks.
- Candidates must meet all the conditions to qualify as Independent Directors.
- Candidates must be able to satisfy the independence requirements demanded by Enagás' appointment as independent gas transmission network operator.
- It must be sought that the proposals encourage diversity within the Board, whereby they must focus on preferably incorporating women and people who due to their nationality or experience have an international professional profile, in accordance with the Company's new strategy.
- An independent expert must be involved in the selection process, who can bring a more objective perspective to the process.

In addition, for the presentation of the proposed candidates, the Appointments, Remuneration and CSR Committee received support by from an executive recruitment and development firm of recognised renown.

When, despite the measures taken, there are few or no female Directors, explain the reasons.

**Explanation of the reasons**

Enagás is aware that it must continue to encourage and facilitate the presence of women in the event of any vacancy arising on the Board, particularly for Independent Directorships. In this regard, Enagás complies with article 8 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors, which prescribes that selection procedures must be free of any implied bias against women candidates, and that the Company shall seek out and include women with the target profile among the candidates for Board places.

At present, THREE (3) of the FIFTEEN (15) members of the Board of Directors of Enagás are women: ROSA RODRÍGUEZ DÍAZ, ANA PALACIO VALLELERSUNDI and ISABEL TOCINO BISCAROLASAGA. ROSA RODRÍGUEZ DÍAZ is also a member of the Audit and Compliance Committee, while ISABEL TOCINO BISCAROLASAGA is a member of the Appointments, Remuneration and CSR Committee. ANA PALACIO VALLELERSUNDI is currently Lead Independent Director.

### C.1.7 Explain how shareholders with significant holdings are represented on the board.

At present two of the four shareholders with significant holdings are represented on the Board of Directors.

The shareholder OMAN OIL HOLDINGS SPAIN S.L.U. is represented by the Director SULTAN HAMED KHAMIS AL BURTAMANI.

In addition to being a legal person Director represented by FEDERICO FERRER DELSO, the shareholder SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) is also represented on the Board by JESÚS MÁXIMO PEDROSA ORTEGA.

### C.1.8 Explain, if applicable, the reasons why Proprietary Directors have been appointed upon the request of shareholders who hold less than 5% of the share capital.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors. If so, explain why these requests have not been entertained.

Yes  No

### C.1.9 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that Director.

#### > Name of Director

DIONISIO MARTÍNEZ MARTÍNEZ

#### Reasons for resignation

At the April 2010 Ordinary General Meeting, it was resolved to re-elect the Independent Director Dionisio Martínez Martínez. Since the 2014 Ordinary General Meeting was held a few days before the date on which the statutory four-year term of his appointment elapsed, to achieve the greatest possible degree of legal certainty with regard to the appointment of the new Director at the subsequent General Meeting, the aforementioned Director stood down from his post at the Board Meeting held on 17 February 2014 with effect from the date of the next Ordinary General Shareholders' Meeting: 24 March 2014 at the first call or 25 March 2014 at the second call.

#### > Name of Director

JOSÉ RIVA FRANCOS

#### Reasons for resignation

At the April 2010 Ordinary General Meeting, it was resolved to re-elect the Independent Director JOSÉ RIVA FRANCOS. Since the 2014 Ordinary General Meeting was held a few days before the date on which the statutory four-year term of his appointment elapsed, to achieve the greatest possible degree of legal certainty with regard to the appointment of the new Director at the subsequent General Meeting, the aforementioned Director stood down from his post at the Board Meeting held on 17 February 2014 with effect from the date of the next Ordinary General Shareholders' Meeting: 24 March 2014 at the first call or 25 March 2014 at the second call.

#### > Name of Director

MIGUEL ÁNGEL LASHERAS MERINO

#### Reasons for resignation

At the April 2010 Ordinary General Meeting, it was resolved to re-elect the Independent Director MIGUEL ÁNGEL LASHERAS MERINO. Since the 2014 Ordinary General Meeting was held a few days before the date on which the statutory four-year term of his appointment elapsed, to achieve the greatest possible degree of legal certainty with regard to the appointment of the new Director at the subsequent General Meeting, the aforementioned Director stood down from his post at the Board Meeting held on 17 February 2014 with effect from the date of the next Ordinary General Shareholders' Meeting: 24 March 2014 at the first call or 25 March 2014 at the second call.

#### > Name of Director

ISABEL SÁNCHEZ GARCÍA

#### Reasons for resignation

At the April 2010 Ordinary General Meeting, it was resolved to re-elect the Independent Director ISABEL SÁNCHEZ GARCÍA. Since the 2014 Ordinary General Meeting was held a few days before the date on which the statutory four-year term of his appointment elapsed, to achieve the greatest possible degree of legal certainty with regard to the appointment of the new Director at the subsequent General Meeting, the aforementioned Director stood down from her post at the Board Meeting held on 17 February 2014 with effect from the date of the next Ordinary General Shareholders' Meeting: 24 March 2014 at the first call or 25 March 2014 at the second call.

#### > Name of director

MARÍA TERESA GARCÍA-MILÁ LLOVERAS

#### Reasons for resignation

At the April 2010 Ordinary General Meeting, it was resolved to re-elect the Independent Director MARÍA TERESA GARCÍA-MILÁ LLOVERAS. Since the 2014 Ordinary General Meeting was held a few days before the date on which the statutory four-year term of his appointment elapsed, to achieve the greatest possible degree of legal certainty with regard to the appointment of the new Director at the subsequent General Meeting, the aforementioned Director stood down from her post at the Board Meeting held on 17 February 2014 with effect from the date of the next Ordinary General Shareholders' Meeting: 24 March 2014 at the first call or 25 March 2014 at the second call.

### C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

#### > Name or corporate name of Director

MARCELINO OREJA ARBURÚA

#### Brief description

Pursuant to the resolution passed by the Board of Directors of Enagás, S.A. on 25 March 2014, Marcelino Oreja Arburúa was delegated 34 joint and several powers and 13 joint powers. These powers are those which the Board of Directors considered had to be delegated to the Chief Executive Officer within statutory limits, in accordance with article 43 of the Company's Articles of Association and article 19 of the Board Regulations. These powers delegated to the Chief Executive Officer, MARCELINO OREJA ARBURÚA, by Enagás' Board of Directors, were granted in the public instrument dated 28 May 2014 and executed before the Notary Public of Madrid Pedro de la Herrán Matorras, with number 1,306 in his notarial archive and is recorded in Volume 32,018, Book 0, File 5, Section 8; Sheet M-6113; Entry 777 of the Madrid Companies Register.

For more information on the powers delegated by the Board of Directors see section H. OTHER INFORMATION OF INTEREST (EXPLANATORY NOTE ON SECTION C.1.10 below).

**C.1.11 List the Directors, if any, who hold office as Directors or executives in other companies belonging to the listed company's Group.**

Name or corporate name of Director	Corporate name of the Group entity	Position
ANTONIO LLARDÉN CARRATALÁ	ENAGÁS GTS, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR
ANTONIO LLARDÉN CARRATALÁ	ENAGÁS TRANSPORTE, S.A.U.	REPRESENTATIVE OF SOLE DIRECTOR
MARCELINO OREJA ARBURÚA	ENAGÁS CHILE, S.P.A.	BOARD DELEGATE
MARCELINO OREJA ARBURÚA	ENAGÁS TRANSPORTE DEL NORTE, S.L.	CHAIRMAN
LUIS JAVIER NAVARRO VIGIL	TERMINAL DE LNG DE ALTAMIRA, S. DE R.L. DE C.V.	DIRECTOR
LUIS JAVIER NAVARRO VIGIL	TLA SERVICIOS, S. DE R.L. DE C.V.	DIRECTOR
SULTAN HAMED KHAMIS AL BURTAMANI	TERMINAL DE VALPARAÍSO, S.A.	DIRECTOR
SULTAN HAMED KHAMIS AL BURTAMANI	GNL QUINTERO	DIRECTOR

**C.1.12 List any Company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the Company.**

Name or corporate name of Director	Corporate name of the Group entity	Position
ANA PALACIO VALLELERSUNDI	PHARMAMAR, S.A.	DIRECTOR
ISABEL TOCINO BISCAROLASAGA	BANCO SANTANDER, S.A.	DIRECTOR
ISABEL TOCINO BISCAROLASAGA	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR

**C.1.13 Indicate and, where appropriate, explain whether the Company has established rules about the number of boards on which its Directors may sit.**

Yes  No

**Explanation of rules**

Pursuant to article 35 of the Articles of Association, the following must not be Directors or, if applicable, natural person representatives of a legal person Director:

- Natural or legal persons who hold the post of Director in more than five (5) companies whose shares are admitted to trading on domestic or foreign markets.
- Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

**C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session.**

	YES	NO
Investment and financing policy	X	
Design of the structure of the corporate Group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plans, management targets and annual budgets	X	
Remuneration and evaluation of senior officers	X	
Risk control and management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock	X	

**C.1.15 List the total remuneration paid to the Board of Directors in the year.**

Board remuneration (thousands of euros)	3,244
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	1,797
Total board remuneration (thousands of euros)	5,041

**C.1.16 List any members of senior management who are not Executive Directors and indicate total remuneration paid to them during the year.**

Name or corporate name	Position
DIEGO ANTONIO VELA LLANES	General Manager Technical System
CLAUDIO PEDRO RODRÍGUEZ SUÁREZ	General Manager Gas Assets
JESÚS LUIS SALDAÑA FERNÁNDEZ	General Manager Business Development
JUAN ANDRÉS DÍEZ DE ULZURRUN MORENO	General Manager Engineering
JOSÉ MANUEL CASTRO DEL REAL	Head of Internal Audit
FRANCISCO BORJA GARCÍA-ALARCÓN ALTAMIRANO	Chief Financial Officer
FELISA MARTÍN VILLAN	General Manager Communications and Institutional Relations
RAFAEL PIQUERAS BAUTISTA	General Secretary
JAVIER PERERA DE GREGORIO	General Manager Corporate Resources
Total remuneration received by senior management (thousands of euros)	2,861

**C.1.17 List, if applicable, the identity of those Directors who are likewise members of the Boards of Directors of companies that own significant holdings and/or group companies.**

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

**> Name or corporate name of related-party Director**

SULTAN HAMED KHAMIS AL BURTAMANI

**Name or corporate name of related-party significant shareholder**

OMAN OIL HOLDINGS SPAIN S.L.U.

**Relationship**

MANAGER BUSINESS DEVELOPMENT

**C.1.18 Indicate whether any changes have been made to the board regulations during the year.**

Yes  No

**C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies and the processes and criteria to be followed for each of these procedures.**

**APPOINTMENT OF DIRECTORS**

Pursuant to article 8 of Enagás' Board Regulations, Directors shall be appointed by the General Meeting or by the Board of Directors in conformity with the provisions of the Corporate Enterprises Act ("LSC") and the Company's Articles of Association.

Candidates must be persons who, in addition to satisfying the requirements of the post under the law and under the Articles of Association, have a solid reputation and possess the professional know-how and experience required to discharge their duties. Any nomination for a Directorship which the Board lays before the General Meeting and any appointment made by the Board in the exercise of its statutory powers of co-option must be preceded by an appropriate proposal from the Appointments, Remuneration and CSR Committee. Following corporate governance recommendations, when the Board of Directors departs from the Committee's recommendations it must explain its reasons, and such reasons must be duly recorded in the minutes. Selection procedures must be free of any implied bias against women candidates. The company shall seek out and include women with the target profile among the candidates for Board places. Special mention should be made to the specific requirements that have been established to ensure the independence and impartiality of Independent Directors which are set out in article 9 of the Board Regulations. Independent Directors are defined as those who, appointed based on their personal and professional aptitudes, may perform their duties without being affected by dealings with the Company, its significant shareholders or its executives.

Under no circumstances may the following be classified as Independent Directors:

- a) Persons who have been employed by, or served as, Executive Directors, of Group companies, unless three or five years, respectively, have elapsed since the termination of that relationship.
- b) Persons who receive any sum or benefit other than Director's remuneration from the Company or its Group, unless such benefit is negligible. Dividends and pension supplements received by a Director on account of his/her prior professional or employment relationship shall not be taken into account for the purposes of this section provided that such supplements are unconditional and, consequently, the company providing them may not, on a discretionary basis, suspend, modify or revoke any accrual thereof, without incurring a breach of obligations.
- c) Persons who are, or have been during the past three (3) years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for that period.

d) Persons who are executive directors or senior managers of another company where an Executive Director or Senior Manager of Enagás, S.A. is an External Director.

e) Persons who maintain, or have maintained in the past year, a significant business relationship with Enagás or any other Group company, whether on their own behalf or as a significant shareholder, director or senior manager of any company that maintains or has maintained such relationship. Business relationships shall be defined as relationships whereby the company serves as a provider of goods or services, including those of a financial nature, and as an advisor or consultant.

f) Persons who are significant shareholders, executive directors or senior managers of any entity that receives, or has received during the past three (3) years, significant donations from Enagás or its Group. Patrons or trustees of any foundation that receives donations shall not be included under this section.

g) Spouses, partners or relatives maintaining up to the second degree of any of the Company's Executive Directors or senior managers.

h) Persons who have not been nominated, whether for appointment or renewal, by the Appointments, Remuneration and CSR Committee.

i) Persons who, in respect of a significant shareholder or one represented on the Board, find themselves in any of the circumstances described under sections a), e), f) or g).

In the event of kinship as described under letter g), this limitation shall apply not only in respect of the shareholder, but also in respect of its proprietary directors at the investee. Proprietary Directors who lose their status as such as a result of the sale of their interest by the shareholder that they represented may only be re-elected as Independent Directors if the shareholder that they represented until that time has sold all of its shares in the Company. Any Director holding an interest in the Company may hold the status of Independent Director provided that he/she meets all of the conditions established under this article and, further, that his/her interest is not significant. (Continues in section H: OTHER INFORMATION OF INTEREST.- EXPLANATORY NOTE ON SECTION C.1.19).

**C.1.20 Indicate whether the board has evaluated its performance during the year.**

Yes  No

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

**Description of amendments**

The evaluation of the Board's performance in 2014 was carried out by SODALI. It was designed and carried out based on interviews with the Company's Directors, who gave their opinion on a series of issues related to the quality and effectiveness of the Board of Director's functioning and performance, and of the Company's other management bodies, including the Chairman, the Board committees, the Lead Independent Director and the Secretary to the Board.

A highlight of SODALI's evaluation is the specific section on the evaluation of the performance of the Company's chief executive. As a result, the Chairman of the Board of Directors was evaluated twice: on the one hand, the Directors evaluated his performance as the person in charge of the governing body, and on the other, as the Company's chief executive. The Executive Chairman's performance was rated satisfactory in both cases.

The evaluation also included a section on the performance of the five new Independent Directors who joined the Board in 2014. The evaluation of their performance was highly positive.

Lastly, the evaluation focused on issues in which the Directors showed an interest or concern in the 2013 evaluation, with few comments by Directors on them, largely because of the new initiatives undertaken in 2014 to improve the preparation and development of the Board and Board Committee meetings. Certain individual areas of improvement were identified. The results showed an interest in having specific information on the development of new international projects involving the Company. Special attention will be paid in this respect in 2015.

### C.1.21 Indicate the cases in which Directors must resign.

In accordance with corporate governance recommendations, articles 12.2 and 12.4 of the Rules Regulations of the Organisation and Functioning of the Board of Directors stipulate that:

2. Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:
  - a) When they are affected by instances of incompatibility or prohibitions laid down in Law, in the Articles of Association, and in these Regulations.
  - b) When they are in serious breach of their duties as Directors.
  - c) When they may put the interests of the Company at risk or damage its credibility and reputation. The moment a Director is indicted or tried for any of the crimes stated in article 213 of the LSC, the Board shall examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not the Director shall be called on to resign.
  - d) When the reason for which they were appointed as Directors no longer holds.
  - e) When Independent Directors cease to meet the conditions established under article 9.
  - f) When the shareholder represented by a Proprietary Director sells its entire interest. They shall also do so, in the appropriate number, when that shareholder reduces its stake to a level requiring a reduction in the number of its Proprietary Directors. If the Board of Directors does not deem it advisable to have a Director tender his/her resignation in the cases specified in points d), e) and f), the Director must be included in the category that, in accordance with these Rules and Regulations, is most appropriate based on his/her new circumstances.
4. After a Director resigns from his/her post, he/she may not work for a competitor for a period of two years, unless exempted from this duty or the duration of the duty is shortened by the Board of Directors.

### C.1.22 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person.

Yes  No

#### Measures for limiting risk

The duties of the Company's chief executive officer fall upon the Chairman of the Board, ANTONIO LLARDÉN CARRATALÁ, who is responsible of managing the Company's business, always in accordance with the decisions and criteria laid down by the General Meeting and the Board of Directors in their respective spheres of authority. Therefore, he is vested with the powers and duties set forth in article 46 of the Articles of Association and those vested in him in general by the Board of Directors at its meeting on 24 January 2007, and any other general or specific powers and duties vested in him since then.

Measures taken to limit the risk of powers being concentrated in a single person:

- i) Appointment of the Chief Executive Officer: at its meeting on 17 September 2012, the Board of Directors appointed MARCELINO OREJA ARBURÚA as its Chief Executive Officer for the first time. MARCELINO OREJA ARBURÚA was re-elected as Chief Executive Officer at the General Shareholders Meeting of 25 March 2014. The Chief Executive Officer is responsible for managing the Company's business, under the supervision of the Chairman, who is responsible for the driving the Company forward and ongoing coordination of its activities. The appointment of a Chief Executive Officer does not affect the duties of the Chairman to the Board of Directors as laid down in the Articles of Association and the Rules and Regulations on the Organisation and Functioning of the Board of Directors.
- ii) Lead Independent Director: article 18 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors provides for the Coordinating (Lead) Independent Director post, which has been held since 2010.
- iii) In addition, the Board of Directors' Regulations contain a detailed list of issues which must be presented to the Board; in general terms, the Board retains sole authority on transactions valued at over €3 million (€3,000,000). Similarly, Enagás' internal regulations on investment and tendering also reserve decision making powers for the Board for sums of over €3 million (€3,000,000).

Indicate, and if necessary, explain whether rules have been established that enable any of the Independent Directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of External Directors and oversee the evaluation by the Board of Directors.

Yes  No

#### Explanation of rules

Article 18 of the Board Regulations stipulates that the Board of Directors may appoint an Independent Director, on the proposal of the Appointments, Remuneration and CSR Committee, to perform the following duties, under the title of Lead Independent Director:

- a) To request the Chairman of the Board of Directors to convene that body when said Lead Independent Director deems it appropriate.
- a) To request that items be included on the Agenda of the meetings of the Board of Directors.
- a) To coordinate and voice the opinions of External Directors.
- d) To oversee the Board's evaluation of its Chairman and, where appropriate, the Managing Director.
- e) To perform as a Deputy Chairman the functions of the Chairman as regards the Board of Directors if the Chairman is absent, ill or unable to act as Chairman for whatever reason. In the absence of a Lead Independent Director, for the purposes of this section the most senior Director in age shall act as Chairman.

ANA PALACIO VALLELERSUNDI has held the post of Lead Independent Director since 2010.

### C.1.23 Are qualified majorities other than those prescribed by law required for any type of decisions?

Yes  No

If applicable, describe the differences.

**C.1.24** Indicate whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman.

Yes  No

**C.1.25** Indicate whether the Chairman has the casting vote:

Yes  No

**C.1.26** Indicate whether the Bylaws or the board regulations set any age limit for Directors.

Yes  No

**C.1.27** Indicate whether the Bylaws or the board regulations set a limited term of office for Independent Directors.

Yes  No

Maximum number of years in office	12
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**C.1.28** Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether only one Director of the same category may be appointed as a proxy. If so, give brief details.

Article 39 of the Articles of Association establishes that each Director may grant a proxy to another Director, but no Director present at a meeting may hold more than two proxies.

Furthermore, in accordance with article 7.3 of the Regulations of the Board, proxies for the representation of absent Directors may be granted by any means, with a telegram or facsimile addressed to the Chairman or Secretary of the Board being valid.

**C.1.29** Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	12
Number of board meetings held without the Chairman's attendance	0

Indicate the number of meetings of the various board committees held during the year.

Committee	No. meetings
AUDIT AND COMPLIANCE COMMITTEE	4
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	4

**C.1.30** Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Directors' attendance	6
% of attendances of the total votes cast during the year	96.67%

**C.1.31** Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes  No

Identify, where applicable, the person(s) who certified the Company's individual and consolidated financial statements prior to their authorisation for issue by the board.

Name	Position
ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN
FRANCISCO BORJA GARCÍA-ALARCÓN ALTAMIRANO	GENERAL MANAGER FINANCE

**C.1.32** Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The Board of Directors and Audit and Compliance Committee are required to ensure that the annual financial statements are published without qualifications.

Article 5, paragraph C) of the Board Regulations states the following powers and duties relating to financial statements and external audit:

1.- To authorise for issue, in clear and precise terms facilitating comprehension of their contents, the individual and consolidated financial statements and the Directors' report, after obtaining the report issued by the finance department and the relevant report issued by the Audit and Compliance Committee, all appropriate clarifications having been made.

The Board of Directors shall see to it that the financial statements provide a true and fair view of the Company's equity, financial position and results of operations, in accordance with the law.

2.- To lay before the General Meeting a nomination for the role of accounts auditor of the Company on the proposal of the Audit and Compliance Committee and in fulfilment of these Rules and Regulations.

Except if otherwise indicated expressly in the minutes of proceedings, there shall operate a presumption that, before setting their hands to the authorisation for issue of the financial statements as required by law, the Directors have availed themselves of the information necessary for the

performance of that act, whether directly or via the Audit and Compliance Committee. The Board may place on record any reservation it thinks fit with respect to the foregoing.

Upon authorising the financial statements for issue, the Board shall attend to any comments or recommendations submitted by the Audit and Compliance Committee in its prior report. If the financial statements depart from the prior report issued by the Audit and Compliance Committee, the Board of Directors shall provide an adequate explanation of the reasons for the discrepancy.

The Board of Directors shall endeavour to present the financial statements in such a way that there are no grounds for qualification from the Company's Accounts Auditor. However, if the Board of Directors determines that it must stand by a contrary view, it shall publicly explain the content and extent of the discrepancy.

3.- To frame policy on risk control and management, and the periodic monitoring of internal information and control systems.

Equally, article 7, paragraph c) of the Audit and Compliance Committee Regulations states that said Committee shall serve as a channel for communications between the Auditors and the Board of Directors, evaluating the results of each audit and the management team's responses to its recommendations, and mediating and arbitrating in the event of disagreement between the two concerning the principles and criteria to be applied in the preparation of the financial statements. It also attributes to this Committee the duty of overseeing the execution of contracted audit work and ensuring that the Auditor's opinion on the financial statements and the main contents of the Auditors' Report are written clearly and accurately.

Enagás has established quarterly reviews of its financial statements to detect any possible risks that could affect these and any qualifications which may arise. It consequently carries out suitable measures to resolve any qualifications.

**C.1.33. Is the Secretary of the board also a director?**

Yes  No

**C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board in plenary session.**

**Appointment and removal procedure**

Article 20 of the Regulations of the Board of Directors details the procedures for the appointment and dismissal of the Secretary of the Board. The Secretary of the Board of Directors shall be appointed by the Board and need not be a Director. The Secretary shall exercise the functions conferred upon such position under commercial law and in these Rules and Regulations. To ensure the independence, impartiality and professionalism of the Secretary, his/her appointment and removal shall be the subject of a prior report from the Appointments, Remuneration and CSR Committee and must be approved by the Board in plenary session. Also, article 25 of the Regulations establishes that the functions of the Appointments, Remuneration and CSR Committee shall include responsibility for reporting on the appointment and dismissal of the Secretary of the Board of Directors.

	YES	NO
Does the Nomination Committee propose appointments?	X	
Does the Nomination Committee advise on dismissals?	X	
Do appointments have to be approved by the board in plenary session?	X	
Do dismissals have to be approved by the board in plenary session?	X	

Is the Secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes  No

**Remarks**

In accordance with article 20.3 of the Regulations of the Board, the Secretary shall also be responsible for the formal and substantive legality of the Board of Directors' actions and ensure that its governing procedures and rules are respected and regularly revised. In particular he/she shall ensure that the actions of the Board:

- a) adhere to the spirit and letter of primary enactments and their implementing regulations, including those issued by regulatory agencies;
- b) comply with the Company's Articles of Association and Rules and Regulations of the Board and others of the Company;
- c) incorporate the good governance recommendations that the Company has accepted.

**C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.**

**1. Measures to preserve the independence of the auditor:**

The chief purposes of the Audit and Compliance Committee are to evaluate the Company's accounting verification system, review the internal control system, ensure the independence of the External Auditor, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct.

In addition, it is responsible for making proposals to the Board of Directors for submission to shareholders at the General Meeting, in accordance with applicable laws and regulations, and providing information on the remuneration payable to the External Accounts Auditor, and liaising with the latter to obtain information on any issues that could compromise their independence.

Where appropriate, the Audit and Compliance Committee shall invite the External Auditors to attend its quarterly meetings in order to:

- Obtain information on the quarterly reviews of the financial statements.
- Analyse any incidents encountered.
- Ask the Directors to come up with a plan of action to resolve the incidents encountered.

**2. Measures in aid of preserving the independence of financial analysts, rating agencies and investment banks:**

In accordance with article 5, section D of the Rules and Regulations on the Organisation and Functioning of the Board of Directors, the Board shall adopt and execute all acts and measures required to ensure transparency of the Company with regard to the financial markets, uphold the proper formation of prices for the Company's and its subsidiaries' shares, and perform all functions attending the Company's status as a listed company pursuant to current laws and regulations.

Likewise, article 7 section e) of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás states that the Audit and Compliance Committee is entrusted with assessing compliance with the Internal Code of Conduct in Matters Relating to Stock Markets, the Company's governance regulations in general, and making the proposals necessary for their improvement. In fulfilling this duty, the Audit and Compliance Committee shall liaise with the Appointments, Remuneration and CSR Committee in considering Company Directors' and managers' compliance with the Code.

It assists with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

The Audit and Compliance Committee also provides information on issues within the scope of its duties at the General Meeting.

The Investor Relations Department manages communications with financial analysts, investors and rating agencies to assure that relations with all parties remain objective, fair and non-discriminatory.

In addition, within the scope of its activities the Finance Department provides investment banks with the information they need.

Shareholders, investors and analysts can avail themselves of full and updated information via the following channels: the Investor Relations Department and the Shareholder Information Office.



Finally, Enagás presentations to financial analysts, investors and other parties are published on the Company's website (www.enagas.es or www.enagas.com).

**C.1.36 Indicate whether the Company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.**

Yes  No

Explain any disagreements with the outgoing auditor and the reasons for the same.

**C.1.37 Indicate whether the audit firm performs non-audit work for the Company and/or its Group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the Company and/or its Group.**

Yes  No

	Company	Group	Total
Amount of non-audit work (in thousands euros)	45	0	45
Amount of non-audit work as a % of the total amount billed by the audit firm	6.40%	0.00%	3.40%

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.**

Yes  No

**C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the Company and/or its Group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.**

	Company	Group
Number of consecutive years	11	11
Number of years audited by current audit firm/Number of years the Company's financial statements have been audited (%)	26.19%	26.19%

**C.1.40 Indicate and give details of any procedures through which directors may receive external advice.**

Yes  No

**Procedures**

Article 15 of the Regulations of the Board stipulates that Directors shall further be entitled to propose to the Board of Directors the engagement, at the Company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the Company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to such performance.

The proposal must be communicated to the Chairman of the Board via the Secretary of the Board. The Board of Directors may withhold its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost (disproportionate in relation to the problem and assets and revenues of the Company) or believes that such technical assistance can be adequately provided by experts and technicians from within the Company.

The Company shall organise induction programmes for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. It shall also offer Directors refresher courses when circumstances so dictate.

**C.1.41 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.**

Yes  No

**Procedures**

Article 6 of the Board Regulations governs the procedure to ensure that Directors have the necessary information to prepare meetings of the Board of Directors with sufficient time. It states that:

- Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any channel, and shall specify the meeting venue and agenda.
- The notice of meeting, which other than in exceptional circumstances shall be issued at least three days in advance of the intended date of the meeting, shall contain all information and documents thought appropriate or relevant for Directors to be properly informed. Directors shall further be furnished with the minutes of the previous meeting, whether or not such minutes have been adopted.
- The power to set the agenda of a meeting rests with the Chairman, but any Director may request in advance of the calling of such meeting that there be added to the agenda any items which in his/her view ought to be addressed by the Board.

In practice, the convening notice shall be issued a week before the meeting and, in addition to the meeting venue and the agenda, shall include all documentation considered appropriate or relevant.

**C.1.42 Indicate and, where appropriate, give details of whether the Company has established rules obliging Directors to inform the board of any circumstances that might harm the Organisation's name or reputation, tendering their resignation as the case may be.**

Yes  No

**Details of rules**

Pursuant to Corporate Governance recommendations, article 12 of the Board Regulations establishes that Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, when, inter alia, they may put the interests of the Company at risk or damage its credibility and reputation. The moment a Director is indicted or tried for any of the crimes stated in article 213 of the LSC, the Board shall examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not the Director shall be called on to resign.

**C.1.43 Indicate whether any Director has notified the Company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.**

Yes  No

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

**C.1.44 List the significant agreements entered into by the Company which come into force, are amended or terminate in the event of a change of control of the Company due to a takeover bid, and their effects.**

Enagás does not have any such significant agreements.

**C.1.45 Identify in aggregate form and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other transaction.**

**> Number of beneficiaries 10**

**Type of beneficiary**

EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT

**Description of the resolution:**

The Company has an agreement with the Executive Chairman, the Chief Executive Officer and EIGHT (8) of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute provided the resolution is certified by means of conciliation between the parties, court judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

The termination benefits envisaged for the Chairman are equivalent to three years' pay (both fixed and variable), while those provided for the Chief Executive Officer are equivalent to two years' pay (both fixed and variable).

The termination benefits to which the EIGHT (8) officers are entitled depend on their length of service at the Company and their age.

All such contracts have been approved by the Board of Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the Company or its Group.

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	Yes	No
	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		X

**C.2 Board committees**

**C.2.1 Give details of all the board committees, their members and the proportion of Proprietary and Independent Directors.**

**AUDIT AND COMPLIANCE COMMITTEE**

Name	Position	Type
MARTÍ PARELLADA SABATA	CHAIRMAN	Independent
ROSA RODRÍGUEZ DÍAZ	MEMBER	Independent
GONZALO SOLANA GONZÁLEZ	MEMBER	Independent
LUIS VALERO ARTOLA	MEMBER	Independent
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	MEMBER	Proprietary

% of Executive Directors	0.00%
% of Proprietary Directors	20.00%
% of Independent Directors	80.00%
% of Other External Directors	0.00%

**APPOINTMENTS, REMUNERATION AND CSR COMMITTEE**

Name	Position	Type
ISABEL TOCINO BISCAROLASAGA	CHAIRMAN	Independent
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	MEMBER	Independent
RAMÓN PÉREZ SIMARRO	MEMBER	Independent
ANTONIO HERNÁNDEZ MANCHA	MEMBER	Independent
JESÚS MÁXIMO PEDROSA ORTEGA	MEMBER	Proprietary
LUIS JAVIER NAVARRO VIGIL	MEMBER	Other External

% of Executive Directors	0.00%
% of Proprietary Directors	17.00%
% of Independent Directors	67.00%
% of Other External Directors	17.00%

**C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.**

	Number of female Directors							
	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	20.00%	1	20.00%	1	20.00%	1	20.00%
APPOINTMENTS, REMUNERATION AND CSR COMMITTEE	1	16.66%	1	16.66%	1	20.00%	1	20.00%

**C.2.3 Indicate whether the Audit Committee is responsible for the following:**

	Yes	No
To supervise the preparation process and monitoring the integrity of financial information on the company and, if applicable, the group, and revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	X	
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	X	
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	X	
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	

	YES	NO
To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	X	
To receive regular information from the external auditor on the progress and findings of the audit programme and check that senior management are acting on its recommendations.	X	
To ensure the independence of the external auditor.	X	

**C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.**

**AUDIT AND COMPLIANCE COMMITTEE**

The Audit and Compliance Committee comprises five (5) members, which is within the limits established in article 44 of the Articles of Association, article 26 of the Board Regulations, and article 3 of the Audit and Compliance Committee Regulations, which set a minimum of three (3) and maximum of five (5) members, appointed by the Board of Directors. Four (4) of the Committee's members, including the Chairman, are Independent Directors, and one (1) is a Proprietary Director. The Chairman of the Audit and Compliance Committee, MARTÍ PARELLADA SABATA, is an Independent Director, pursuant to article 44 of the Articles of Association and article 26 of the Board Regulations.

As per article 3 of the Audit and Compliance Committee Regulations, Executive Directors may not sit on this Committee and at least one of its members must be an Independent Director. The article also stipulates that the Chairman of the Board of Directors and members of other committees may not sit on the Audit and Compliance Committee.

As established in article 4 of the Committee Regulations, the term of a Committee member shall be the same as the term of office for a Directorship. A member of the Audit and Compliance Committee shall vacate that office if he vacates his Directorship or, while remaining a Director, if so decided by the Board of Directors. The foregoing notwithstanding the Committee Chairman shall be replaced every four (4) years. A former Chairman may be re-elected after the lapse of one (1) year from his vacating office. The foregoing shall be without prejudice to an outgoing Chairman remaining on the Committee if so resolved by the Board of Directors on adequately reasoned grounds.

The remuneration of Committee members, as provided for in article 5 of the Committee Regulations, will be approved as established in the Articles of Association and the Board Regulations for the setting of remuneration to Directors, subject to the same requirements of public disclosure.

In the exercise of his office, a member of this Committee shall, according to article 6 of the Committee regulations, be under the same duties and subject to the same principles of action as those prescribed for Directors in the Articles of Association, the Board Regulations and current legislation.

In keeping with article 8 of the Committee Regulations, this Committee must meet at least four (4) times a year and the Chairman shall call as many further meetings as he/she believes are required for the Committee to discharge its duties. In 2014, the Committee met four (4) times.

The duties of the Audit and Compliance Committee are set out in article 44 of the Articles of Association, article 26 of the Board Regulations and article 7 of the Committee Regulations:

The chief purposes of the Committee are to evaluate the Company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct.

To fulfil these objectives, in addition to the functions established by law, this Committee shall have the following duties: (continues in H. OTHER INFORMATION OF INTEREST, SECTION C.2.4 of APPENDIX 1. EXPLANATORY NOTES).

**C.2.5** Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. In addition, indicate whether on a voluntary basis any of the board committees has produced an activity report.

The Regulations of the Audit and Compliance Committee are available for consultation at the headquarters of Enagás and on its website at [www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com). The Audit and Compliance Committee has drafted a report on its activities in 2014, available both at the headquarters of Enagás and on its corporate website.

The Nomination, Remuneration and Corporate Social Responsibility Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Articles of Association and article 25 of the Board Regulations. The Articles of Association and the Board Regulations are available for consultation at the headquarters of Enagás and on its website ([www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com)).

**C.2.6** Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of Directors.

Yes  No

If the answer is no, explain the composition of the Executive or Delegate Committee.

Enagás does not have a Delegate or Executive Committee.

## D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

**D.1** Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

### Competent body

Board of Directors

### Procedures

Article 14A. of the Board Regulations stipulates that:

"1. "The Board of Directors shall know the transactions that the Company enters into, either directly or indirectly, with Directors, with significant shareholders or with persons related to these as defined in law. The execution of said transactions shall require authorisation from the Board, on the basis of a favourable report from the Appointments, Remuneration and CSR Committee.

The aforementioned transactions shall be assessed from the point of view of equal treatment and on an arm's length basis, and shall be disclosed in the annual corporate governance report and in the Company's regular public reporting as provided in applicable laws and regulations.

2. The authorisation provided in the previous paragraph shall not be necessary, however, for transactions that simultaneously comply with the three following conditions:

- a) they are undertaken by virtue of contracts whose conditions are basically standardised and are usually applied to the customers who contract the type of product or service in question;
- b) they go through at market prices, generally set by the person supplying the goods or services or, when the transactions are goods or services that have no set prices, at normal market rates, similar to those applied in commercial relations with customers with similar characteristics; and; and c) their amount is no more than 1% of the Company's annual revenues.

3. If the conditions provided in the paragraph above are met, the affected parties shall not be under a duty to report said transactions.

4. Exceptionally, when grounds of urgency make it advisable, related-party transactions may be authorised, if appropriate, by the Executive Committee, and later ratified by the Board.

Explain if the authority to approve related-party transactions has been delegated to another body or person.

At the date of preparation of this report, the Board of Enagás has not delegated the approval of related-party transactions.

However, article 14A 4.- of the Board Regulations states that exceptionally, when grounds of urgency make it advisable, related-party transactions may be authorised, if appropriate, by the Executive Committee, and later ratified by the board.

At present, Enagás does not have an Executive Committee.

## D.2 List any relevant transactions, by virtue of their amount or importance, between the Company or its group of companies and the Company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the Company or its Group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
OMAN OIL HOLDINGS SPAIN S.L.U.	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	15,322
FIDELITY INTERNATIONAL LIMITED	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	6,047
RETAIL OEICS AGGREGATE	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	3,094

## D.3 List any relevant transactions, by virtue of their amount or importance, between the Company or its group of companies and the Company's managers or Directors.

Name or corporate name of significant shareholder	Name or corporate name of the Company or its Group company	Relationship	Nature of the relationship	Amount (in thousands of euros)
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	ENAGÁS, S.A.	Director	Dividends and other benefits paid	15,322

## D.4 List any relevant transactions undertaken by the Company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the Company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

### > Corporate name of the Group company

GASODUCTO DE MORELOS SAPI DE CV

**Amount (in thousands of euros):** 3,115

**Brief description of the transaction:** Financial revenue on loan to Morelos

### > Corporate name of the Group company

ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

**Amount (in thousands of euros):** 55,989

**Brief description of the transaction:** Loan to Soto La Marina

### > Corporate name of the Group company

GASODUCTO DE MORELOS SAPI DE CV

**Amount (in thousands of euros):** 16,655

**Brief description of the transaction:** Morelos loan and capitalised interest

### > Corporate name of the Group company

GASODUCTO DE MORELOS SAPI DE CV

**Amount (in thousands of euros):** 1,130

**Brief description of the transaction:** Financial interest on loan to Morelos

### > Corporate name of the Group company

COMPAÑÍA TRANSPORTISTA DE GAS CANARIAS, S.A.

**Amount (in thousands of euros):** 998

**Brief description of the transaction:** Loan to GASCAN

### > Corporate name of the Group company

ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

**Amount (in thousands of euros):** 275

**Brief description of the transaction:** Financial interest on loan to Soto La Marina

### > Corporate name of the Group company

ESTACIÓN DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

**Amount (in thousands of euros):** 1,145

**Brief description of the transaction:** Financial interest on loan to Soto La Marina

### > Corporate name of the Group company

COMPAÑÍA TRANSPORTISTA DE GAS CANARIAS, S.A.

**Amount (in thousands of euros):** 33

**Brief description of the transaction:** Financial interest on loan to GASCAN

### > Corporate name of the Group company

TRANS ADRIATIC PIPELINE AG

**Amount (in thousands of euros):** 29,191

**Brief description of the transaction:** Loan to TAP

### > Corporate name of the Group company

TRANS ADRIATIC PIPELINE AG

**Amount (in thousands of euros):** 208

**Brief description of the transaction:** Financial interest on loan to TAP

### > Corporate name of the Group company

GASODUCTO SUR PERUANO, S.A.

**Amount (in thousands of euros):** 8,961

**Brief description of the transaction:** Loan to GSP

### > Corporate name of the Group company

COMPAÑÍA TRANSPORTISTA DE GAS CANARIAS, S.A.

**Amount (in thousands of euros):** 53

**Brief description of the transaction:** Financial interest on loan to GASCAN

### > Corporate name of the Group company

GASODUCTO SUR PERUANO, S.A.

**Amount (in thousands of euros):** 223

**Brief description of the transaction:** Financial interest on loan to GSP

› Corporate name of the Group company

BAHÍA DE BIZKAIA DE GAS, S.L.

**Amount (in thousands of euros):** 60,207

**Brief description of the transaction:** Guarantees and sureties extended to BBG

› Corporate name of the Group company

COMPAÑÍA TRANSPORTISTA DE GAS CANARIAS, S.A.

**Amount (in thousands of euros):** 3,555

**Brief description of the transaction:** Guarantees and sureties extended to GASCAN

› Corporate name of the Group company

GASODUCTO DE MORELOS SAPI DE CV

**Amount (in thousands of euros):** 16,489

**Brief description of the transaction:** Guarantees and sureties extended to Morelos

› Corporate name of the Group company

GASODUCTO SUR PERUANO, S.A.

**Amount (in thousands of euros):** 146,343

**Brief description of the transaction:** Guarantees and sureties extended to GSP

› Corporate name of the Group company

ESTACION DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

**Amount (in thousands of euros):** 7,309

**Brief description of the transaction:** Guarantees and sureties extended to Soto La Marina

› Corporate name of the Group company

GASODUCTO SUR PERUANO, S.A.

**Amount (in thousands of euros):** 38,907

**Brief description of the transaction:** Investment commitments acquired

› Corporate name of the Group company

TRANS ADRIATIC PIPELINES AG

**Amount (in thousands of euros):** 16,000

**Brief description of the transaction:** Investment commitments acquired

› Corporate name of the Group company

BAHÍA DE BIZKAIA DE GAS, S.L.

**Amount (in thousands of euros):** 12

**Brief description of the transaction:** Gains on sales of assets

› Corporate name of the Group company

ESTACION DE COMPRESIÓN SOTO LA MARINA SAPI DE CV

**Amount (in thousands of euros):** 26

**Brief description of the transaction:** Gains on sales of assets

› Corporate name of the Group company

MORELOS EPC SAPI DE CV

**Amount (in thousands of euros):** 68

**Brief description of the transaction:** Gains on sales of assets

## D.5 Indicate the amount of related-party transactions.

156,157 (in thousands of euros)

## D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the Company and/or its Group, and its Directors, management or significant shareholders.

Mechanisms for detecting and resolving any possible conflicts of interest between Enagás and/or its Group, and its Directors, managers or shareholders are primarily set out in Enagás' Internal Code of Conduct in Matters Relating to the Securities Markets.

The Internal Code of Conduct is applicable to the following persons:

- Members of the Board of Directors.
- Managing Directors and members of the Management Committee.
- Board members and, in the appropriate cases, members of the Management Committee of subsidiary or partially owned companies in which Enagás has operational control.
- In general, everyone who has access to the Company's privileged or reserved information.

Concerning transactions carried out with related parties, the Company must adopt the following measures:

- a) Report them twice a year to the CNMV and include them in the Annual Report in the Corporate Governance section.
- b) Submit them in draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Appointments, Remuneration and CSR Committee, and assess whether they satisfy market criteria.

All those described as being subject to this Internal Code of Conduct must:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal assets and liabilities or any other reason. Communications must be made within fifteen (15) days and, in any case, before the decision that may be affected by the potential conflict of interest is taken.
- Keep the information updated, taking into account any modification or cessation of previously reported situations as well as the emergence of new conflicts of interest.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the Company.

The Appointments, Remuneration and CSR Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 25 of the Board Regulations, is assigned the following duties:

- a) To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
- b) To report to the Board of Directors on any related-parties transactions before authorisation thereof. Under no circumstances shall the Board of Directors authorise any transaction which has not been issued with a favourable report from the Appointments, Remuneration and CSR Committee as outlined in article 14A of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., except for those transactions which meet the three conditions stipulated in article 14A.
- c) To report to the Board of Directors on measures to be taken in the event of breach of these Rules and 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 CSR Committee shall work in conjunction with the Audit and Compliance Committee whenever appropriate.

### D.7 Is more than one Group company listed in Spain?

Yes  No

Identify the listed subsidiaries in Spain

#### Listed subsidiary

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies;

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Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other Group companies

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Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other Group companies.

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Mechanisms

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## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Describe the risk management system in place at the Company.

Enagás has an Integrated Risk Management Model that ensures coordination of a series of strategic, operational and organisational activities in order to achieve the objectives set by the Company with a certain degree of certainty, thereby improving its ability to create value and offer both shareholders and other stakeholders a higher standard of assurance as regards profitability and environmental and social impact.

The Enagás Risk Policy and Integrated Risk Management Procedure provide a integrated risk management framework, establishing the basic principles governing the risk function and identifying the roles of the various decision-making bodies and the constituent parts of the risk management system.

Integrated Risk Management is a dynamic, multi-directional and interactive process that allows for ongoing monitoring of risks, in which the following activities are carried out:

- Risks and the factors that can affect the achievement of objectives are identified regularly and systematically.
- These risks are assessed and measured by following the established measurement methodologies.
- A risk management strategy is defined that, according to the case, can be designed to mitigate, transfer or assume the risk.
- Risk monitoring and control are established to ensure that the risks are at the appropriate levels.

According to the nature of the triggering events and factors, the monitored risks are classified as being: strategic and business risks, operational and technological risks, credit and counterparty risks, financial risks, criminal liability risks and pure reputational risks. The assessment includes the possible associated economic loss, as well as the possible impact on reputation that each of the events considered would have if it occurred.

In 2014, Enagás embarked on a project to review and redesign the risk function. Given the complexity of the business operations amid a globally competitive environment, the economic context, the materialisation of the risks (quicker and with an increasingly evident knock-on effect), the risk management and control systems must evolve accordingly. The new design is aimed at turning "risk management" into a competitive advantage for the business.

### E.2 Identify the bodies responsible for preparing and implementing the risk management system.

The main bodies responsible for the Risk Management System and their main functions are:

#### Audit and Compliance Committee:

- Identifying and analysing the main risks to which the Company is exposed, and, in particular, those affecting its financial position.
- Informing the Board of Directors of the risks detected and the assessment of them;
- Proposing to the Board of Directors the measures required to manage, mitigate or prevent the risks detected.
- Overseeing the effectiveness of the risk management systems in place.

#### Sustainability Committee:

- Establishing a general policy on risk management, defining the Company's stance in the short, medium and long term.
- Nurturing, across all company levels and activities, a common risk culture aligned with the strategies and objectives laid down by Senior Management.
- Proposing the inclusion of risk management criteria in the Company's strategy and decision-making.
- Reporting to the Audit and Compliance Committee on progress made in risk management and proposing actions in response to breaches of risk policy or internal regulations and/or conflicts arising in connection with risk management.
- Promoting and overseeing the implementation of department-level control activities to allow for integrated risk management.
- Monitoring the implementation of risk management action plans by each depart in order to ensure their effective management.

**Risks and Asset Management Department:**

- Proposing the risk management strategy to the Sustainability Committee
- Developing specific risk management policies and rules and proposing them to the Sustainability Committee for approval
- Designing and reviewing the existing identification and measurement methodologies
- Supporting and advising individual departments on risk identification, assessment and measurement
- Reporting on key risk issues to Senior Management, the Sustainability Committee and the Audit and Compliance Committee

**Business and Corporate Units (Risk Operations Managers):**

- Managing the risks inherent to their activity, as owners of the risks, through the establishment of adequate action plans and control measures
- Identifying risks, and the factors that can affect the achievement of objectives, regularly and systematically, with the assistance of the Risks and Asset Management Department
- Evaluating risks in accordance with the methodologies defined from the perspective of probability and impact, with the assistance of the Risks and Asset Management Department
- Defining the thresholds for the risks identified in accordance with the objectives set by the Company and the strategic plan
- Identifying the control activities as necessary to ensure that risk exposures are implemented properly and on time.

**E.3 Indicate the main risks which may prevent the Company from achieving its targets.**

The main risks affecting the Enagás Group in the development of its business can be classified as follows:

**Strategic and Business Risks:**

Strategic and business risks relate to potential losses in earnings or value for the Company caused by external factors such as regulation, economic growth patterns, competition levels, demand trends, structural industry factors, etc., as well as to potential losses resulting from incorrect decision-making in relation to the Company's business plans and strategies.

Similarly, uncertainties could arise from legal actions or different actions of governments, such as obtaining licenses, permits and authorisation. Any change in existing legislation could have a negative impact on the Company.

**Operational and Technological Risks:**

During the performance of the activities carried out by the Enagás Group there may be direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events, that could have a negative impact on the earnings or value of the Company.

**Credit and Counterparty Risks:**

Credit and counterparty risks consist of possible losses deriving from failure to comply with financial obligations by a counterparty (due to insolvency, receivership, bankruptcy, etc.) to the Enagás Group.

**Financial Risks:**

The Enagás Group is subject to the risks deriving from the volatility of interest and exchange rates, as well as movements in other financial variables that could affect the Company's liquidity.

**Reputational Risks:**

Reputational risk refers to any action, event or circumstance that could have a harmful effect on the Company's reputation among its stakeholders.

**E.4 Identify if the Company has a risk tolerance level.**

The Integrated Risk Management Model includes a risk tolerance level. The departments define thresholds or the level of risk accepted for the issues or risks identified, in accordance with the objectives set by the Company and the strategic plan. This enables risk to be classified by its degree of severity, in a scale with four "ranges": acceptable, manageable, serious and critical.

**E.5 Identify any risks which have occurred during the year.**

In 2014, regulatory reforms were implemented in Spain establishing the new regulatory framework for the remuneration of natural gas transport, regasification and underground storage. This resulted in a significant reduction in uncertainty and the level of regulatory risk identified by the Company previously.

Similarly, certain operational and technological risks were recorded in respect of incidents with infrastructures and systems for minor sums caused by circumstances inherent in operations and business.

**E.6 Explain the response and monitoring plans for the main risks the Company is exposed to.**

A series of control activities defined by each of the business units and corporate areas are associated with the main risks identified by the Company to ensure that it can respond adequately and in a timely manner. The Sustainability Committee oversees the implementation of these control activities and monitors the action plans.

The type of controls in place vary considerably depending on the nature of the risk. For instance:

- Regarding regulatory risks, controls and mitigating actions include, inter alia, ongoing cooperation with (domestic and European) regulators and public administrations.
- Regarding risks of infrastructures and system obsolescence, controls include plans to implement new systems (SL-ATR 2.0), monitoring in the SIOM Programme Management and Operating Committee and the implementation of new European codes, etc.
- Regarding business risks related to international asset management, controls include monthly monitoring of planning for international assets and returns on investments, etc.
- Regarding risk of criminal liability, the Enagás Group has designed a plan for training and dissemination of the Criminal Liability Risk Model entailing a number of training sessions for Enagás Group employees and governing bodies to prevent crime and encourage appropriate behaviour.

Where limits or thresholds are exceeded, management strategy is reviewed to set a new risk level at a level considered acceptable.



## F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the Company.

### F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

#### F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

As part of the ICFR responsibilities at Enagás, S.A. and Subsidiaries (hereinafter the "Group"), the following bodies and/or functions develop, maintain and oversee the preparation of Group financial information:

##### Board of Directors

Pursuant to article 5 c) of the Rules and Regulations of the Organisation and Functioning of the Board of Directors, the board shall "frame policy on risk control and management, and the periodic monitoring of internal information and control systems" and is ultimately responsible for guaranteeing an internal control environment conducive to complete, reliable and timely financial reporting.

Pursuant to article 26 of the same regulations, the Audit and Compliance Committee has been delegated these duties.

##### Audit and Compliance Committee of the Board of Directors

In compliance with article 7 of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, the Audit and Compliance Committee's duties and competencies include "monitoring the preparation and integrity of financial information prepared on the Company and, where relevant, the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and the correct application of accounting principles".

Likewise, article 44 of the Articles of Association states that the Audit and Compliance Committee is responsible for seeing to the proper operation of the Company's internal control, its internal audit function, if applicable, and risk management systems, and discussing with the auditors any significant weaknesses in the internal control system detected in the course of audit.

To carry out its duty of oversight of the effectiveness of internal control, the Audit and Compliance Committee has an Internal Audit Unit, as established in the General Internal Audit Regulations.

##### Finance Department

The Finance Department is responsible for designing, implementing and ensuring there is a suitable and efficient ICFR system. The ICFR Unit assists it in these duties.

##### Internal Audit Department

Reporting to the Audit and Compliance Committee as per the Internal Audit General Regulations, this function is responsible for "assessing and improving the efficiency of the risk management processes and internal control within the Company".

Its main duties, which are coordinated by, overseen and supervised by the Audit and Compliance Committee, include:

- Carrying out periodic reviews, on a selective basis, to guarantee that all information is up-to-date in accordance with the Annual Audit Plan.
- Designing and carrying out a Test Plan on: (i) general controls; (ii) controls for the area, cycle and sub cycle; and (iii) established procedures which complement the self-assessments carried out by the

people in charge.

- Verifying, on a selective basis, compliance with the flow charts designed.
- Drawing up and issuing reports on ICFR system audits in accordance with the Annual Audit Plan.
- Verifying the correct implementation of corrective action concerning the ICFR system in accordance with the Annual Audit Plan.

##### Internal Control over Financial Reporting Unit

Reporting to the Finance Department, this unit is key in managing ICFR and has the following tasks:

- Guaranteeing coherence of ICFR.
- Monitoring the updating and documentation of the sub-cycles/processes which affect the preparation of financial information (carried out by the people in charge of the sub-cycles/processes).
- Overseeing the updating and maintenance of the tools used to manage the model.
- Managing the self-assessment of the ICFR system and monitoring the results.
- Coordinating the ICFR risk assessment and periodically updating the risk map.
- Carrying out an annual evaluation of the requirements to update the document attributing the accounts to ICFR areas, in order to maintain the required standard of financial information.
- Drawing up and updating the Enagás Group Internal Control over Financial Reporting system Manual ("ICFR system Manual").
- Updating and disseminating applicable ICFR system regulations, both internal and external.
- Identifying the training needs and organisational/execution needs for courses relating to ICFR or other related issues (these are channelled via the "Training School" programme included in the Training Plan and "Training Programme").
- Monitoring and updating the model for defining scopes.
- Collaborating with Internal Audit concerning clarifications, ensuring independence at all times.
- Collaborating in classifying any deficiencies detected during reviews of the ICFR system (material weaknesses, significant deficiencies, insignificant deficiencies).
- Collaborating in implementing corrective measures detected in the external audit.

##### Departments and Business Units involved in preparing financial information

The people in charge of the subcycles/processes involved in the preparation of financial information perform the following main duties:

- Supervising the actions and evaluations carried out for each of the processes for the cycles in the Areas, with the possibility of eventually carrying out tests to confirm the results of specific controls.
- Establishing, monitoring and evaluating the effectiveness of the control activities within the cycles/sub-cycles, mainly concerning communication, allocating responsibilities, delegating competences, segregating duties and managing access to information and other critical resources, developing and modifying the processes (both operational and control) and support systems.
- Coordinating the design, documentation and implementation of ICFR system processes, ensuring objectives to manage all processes in question are met.
- Ensuring that all documentation concerning the process is kept up-to-date (who, what, how, rules, proof, etc.) as well as that concerning the ICFR system control and risk objectives.
- In the case of amendments or updates to regulations, procedures, instructions etc., the owner of the process shall notify the ICFR Unit.
- Reporting, formally and periodically on the outcome of the self-assessments carried out.
- Collaborating in identifying qualitative factors which may affect the inclusion of this process in the general ICFR model.
- Implementing and promoting the implementation of corrective action in the area of ICFR.

#### F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- › Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the Company.

The design and review of the organisational structure as well as defining clear lines of responsibility falls to the Appointments, Remuneration and Corporate Responsibility Committee as stipulated in article 25 of the Enagás, S.A. board regulations. The Appointments, Remuneration and CSR Committee "under

article 45 of the Articles of Association, has the following duties and powers [...]: To formulate proposals to the Board of Directors regarding the Company's organisational structure, including the creation of senior management posts in order to achieve improved and more efficient Company administration [...]."

Likewise, the Corporate Resources department is responsible for designing, implementing and updating the organisational structure. The internal mechanisms used by this department to clearly define the lines of responsibility are enumerated in:

- The General Regulations governing Management-by-Objectives
- The job analysis and description sheets
- The Human Resources Development Procedure
- The Development Procedure and Processes

which, among other issues, establish and develop, in accordance with the Company's strategy and business and operating needs, the organisational structure of the departments/units, the overall management model for processes and job descriptions.

The particular features of the ICFR lines of responsibility and authority are regulated by the "ICFR system Manual" as well as various rules and regulations concerning the key governing bodies and senior management.

The organisational structure is available to all employees on the intranet in the form of an organigram (by company and department) and is regularly updated.

› **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The following documents are available to all employees as part of the Group's corporate governance policy and other corporate policies:

Internal Code of Conduct in Matters Relating to Stock Markets:

As stipulated in article 5 of the Rules and Regulations of the Organisation and Functioning of the Board of Directors of Enagás, S.A., the Company has an Internal Code of Conduct in Matters Relating to Stock Markets which was drawn up and approved by the board. These regulations establish the rules for acting in securities markets and mandatory filings, in particular concerning the following:

- Conduct in situations of Privileged Information and Relevant Information, and the handling of such information;
- The trading of Affected Securities of Enagás or companies in its business group,
- Detecting and dealing with conflicts of interest;
- Company relations with related parties;
- The treasury share policy of Enagás and its subsidiaries;
- Generally, compliance with securities market regulations.

These regulations are applicable to the members of the Board of Directors, members of the Management Committee, executives and other staff involved in stock market operations or with access to privileged information as stipulated in articles 2, 3 and 4. In this regard, upon receiving a copy of the regulations covered persons must sign a statement acknowledging receipt and declaring that they are aware of their obligations. These regulations are also available on the internet and intranet.

The Audit and Compliance Committee is responsible for ensuring compliance with the regulations and the Company's general governance rules, and makes suggestions, as necessary, to improve these (article 7 of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.).

**Enagás Group Code of Ethics:**

The Company recently revised the contents of the "Our Business Principles. Enagás Code of Ethics" and changed the name to "Enagás Group Code of Ethics". The update was approved by the Board of Directors.

As set out in the Code, its purpose is to formalise "[...] the Company's model of ethics and compliance, laying down the conduct it expects of its employees, managers and directors ("persons") regardless of their responsibility and geographic or functional location [...]."

Moreover, the Company "[...] undertakes to inform and train appropriately both the persons at Enagás and third parties so that they are aware of and comply with this Code of Ethics, as well as the regulations, commitments and procedures that implement it. All these receive this Code and expressly confirm their commitment to knowing, complying with and enforcing it [...].". The Code is available on

the external website and the Intranet.

The conduct guidelines contained in the document, which are listed below, address issues related to financial reporting:

- Be trustworthy and transparent: "[...] The persons at Enagás ensure the reliability and rigour (they provide accurate, complete, understandable and timely information) of the financial and non-financial information both for internal use and provided to the market, and the accounting policies, control systems and supervisory mechanisms defined are applied so that the relevant information is identified, prepared and communicated in due time and form [...]."
- Express rejection of fraud, corruption and bribery: "In their relationships with third parties, including public authorities, the persons at Enagás can neither offer nor accept gifts or preferential treatment that is of more than a purely symbolic nature or that could be interpreted as an attempt to gain undue influence [...]."

In this regard, in 2013 the Company approved procedures for managing the offering and acceptance of gifts.

The Code states that the Audit and Compliance Committee "[...] is responsible for supervising due execution of the ethics and compliance model, which includes measures for supervision and monitoring to prevent irregularities and offences. Enagás has an Ethical Compliance Committee which reports directly to the Audit and Compliance Committee and which will be responsible for supervising the operation of the ethics and compliance model [...]."

**Code of Conduct of the Technical System Manager of Spain's Gas System:**

A Code of Conduct of the Technical System Manager of Spain's Gas System has been drawn up to: "[...] guarantee that the functions of the Technical Manager of Spain's Gas System are carried out independently from the rest of the activities of the Enagás Group, in compliance with the legally established criteria in the Hydrocarbons Sector Law, Law 34/1998 of 7 October [...].". It has been approved by the Board of Directors.

As set out in the Code: "It is the obligation of Enagás GTS to keep the list of the individuals subject to this Code of Conduct updated at all times and to send each of these a copy of the Code, requiring them to furnish a letter in which they confirm they have received the Code and declare that they know and accept compliance with the obligations they are subject to".

It also provides that: "...The Ethical Compliance Committee is entrusted with ensuring compliance with this Code of Conduct and the effectiveness hereof. It will therefore periodically report to the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. on the results of its assessment and on any deficiencies detected. However, the Managing Director of the Technical Manager of the System will address any queries that may be raised by the employees of Enagás GTS regarding the Code of Conduct. [...]"

The Ethical Compliance Committee, pursuant to pursuant to Article 63.4 d) of the Hydrocarbons Sector Law, shall prepare a report containing the following information:

- The measures adopted to guarantee the segregation of activities.
- The conflicts of interest reported and the measures adopted to resolve them. [...]"

This report will be submitted to the Ministry of Industry, Energy and Tourism and to the National Markets and Competition Commission. Moreover, both this report and the Code of Conduct of the Technical System Manager of Spain's Gas System are available on the external website.

**Internal Audit Code of Ethics:**

A Code of Ethics for Internal Audit was approved in 2013 laying down the ethical culture in the function as an independent activity. It includes:

1. The Principles which are relevant to the profession and practice of internal audit, namely:

- Integrity
- Objectivity
- Confidentiality
- Competence

2. The rules of conduct which describe the behaviour expect from all internal auditors. These rules help interpret the Principles when applied in practical situations and are intended to guide the ethical conduct of all internal auditors.

Once a year all internal auditors must sign a declaration stating that they are cognisant of, understand and uphold these rules. This Code of Ethics is available on the intranet.

- › 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the Organisation, stating whether reports made through this channel are confidential.

The Company has a whistle-blowing channel, the "Ethics Channel", for consultation and reporting of irregularities or breaches of the Enagás Group Code of Ethics and the Code of Conduct of the Technical System Manager of Spain's Gas System.

The Ethical Compliance Committee is responsible for processing consultations and notifications. This Committee shall respond to all reports and periodically prepare a report to be submitted to the Audit and Compliance Committee. However, according to the "Business Principles Management Procedures (Ethical Channel)" (recently revised and renamed "Procedure for the management of consultations and reporting regarding irregularities or breaches of the Code of Ethics"), if the consultation or notification is of a financial or accounting nature or concerns internal control or fraud, the BPSC shall forward these directly to the Audit and Compliance Committee.

- › Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Human Resources Development Division, which reports to the Corporate Resources Department, has a "Training School" which manages and plans all the training programmes and other instruction initiatives for all employees which is included in the Training Plan and "Training Programme".

The Resources Department, in coordination with the Finance Department and the Internal Audit Department, identifies and analyses the specific training needs of all personnel involved in preparing and reviewing financial reporting, including issues concerning accounting, internal control and risk management.

In 2014, the Finance Department and the Internal Audit Department took part in various training programmes, including: Combined Assurance From Theory to Practice, Analysis of Financial Control and Reporting in the Energy Sector, Update of VAT on Invoices Issued and Received, Analysis and Measurement of Investment Projects, Risk of Criminal Liability, Remuneration Model and Regulatory Development, among others.

## F.2 Risk assessment in financial reporting

Report at least:

### F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- › The process exists and is documented.

Identifying risk is one of the core fundamentals in risk analysis with regards to the preparation of financial information.

The "Enagás Risk Policy" document acts as a reference in the area of risk identification, as it states the Company's policies on how to deal effectively with uncertainty, risks and the associated opportunities, thereby improving its capacity to generate value in order to achieve the aims of the Organisation, which include reliable financial reporting.

Risks related to the Company's Internal Control over Financial Reporting System are classified under the Group's operational risk. The identification and measurement of these risks are performed as set out in the Internal Control over Financial Reporting System Manual.

- › The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

Pursuant to the "ICFR System Manual", the risk identification process covers all financial reporting objectives to ensure the accuracy and completeness of the same. The manual describes the risks related to the financial reporting process as follows:

- Completeness: the risk that all transactions, and other circumstances and events are recorded.
- Rights and obligations: the risk that all financial information at any given date does not reflect the rights and obligations through the corresponding assets and liabilities in accordance with applicable standards.
- Existence and occurrence: the risk that not all transactions, circumstances and events exist and are not all recorded at the appropriate time.
- Valuation: the risk that not all transactions, circumstances and events are recorded and valued in conformity with applicable standards.
- Presentation, disclosure and comparability: the risk that not all transactions, circumstances and events are classified, presented and disclosed in the financial information in accordance with applicable standards.
- Internal fraud: includes the risk of manipulation of files, software and information, and the risk of unauthorised activities (involving employees) leading to intentional financial statement misstatements; and misappropriation of funds and assets due to inappropriate use of corporate assets.

At least once a quarter the ICFR Unit fully evaluates all control processes and corresponding specific risks mitigation measures in place, and at the same time, assesses whether new risks need to be added.

- › A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

The Finance Department operates a management and updating process to identify those companies which should be included in the scope of consolidation. This process is detailed in the "Period-end procedures for the Consolidated Financial Statements and Annual Accounts".

In compliance with article 7 of the Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee, the Committee's duties and competencies include "Overseeing the preparation process and monitoring the integrity of financial information on the Company and, where relevant, the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles".

- › The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

In the process of identifying risks associated with achieving the financial reporting objectives, the possible effects of other kinds of risks identified in the risk map, whose risk control and management system is described in section E) of this Report, are taken into account. The risks which may affect this include strategic and business, operational and technological, financial, credit and counterparty, reputational, etc.

- › Finally, which of the Company's governing bodies is responsible for overseeing the process.

The Audit and Compliance Committee is responsible for overseeing the preparation process and monitoring the integrity of financial information on the Company and overseeing the risk management systems, including the risks related to the treatment of financial information, according to article 44 of the Articles of Association.

## F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

### F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

**Procedures for reviewing and authorising the financial information to be disclosed to the markets.**

The Organisation has the following documents to ensure the reliability of the financial information to be disclosed to the securities markets:

- The "Manual of Accounting Policies (PGC)" and the "Manual of Accounting Policies (IFRS)", which establish and provide clear information on the accounting policies required for performing accounting estimates and preparing the Company's Separate and Consolidated Financial Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows.

- "Period-end procedures for the Separate Financial Statements and Annual Accounts" and "Period-end procedures for the Consolidated Financial Statements and Annual Accounts" approved by the Chief Financial Officer establishing the process of preparing, processing, reviewing and authorising the financial information at the closing of accounts by the persons in charge. These also establish the controls of judgements, estimates and evaluations which may materially affect the financial statements.

- "Procedure on the provision of Regular Reports to Securities Market Regulators"

which establishes the process to be followed when preparing periodic financial information to be disclosed to the regulated markets regarding interim financial reports, intermediate management reports and, if applicable, quarterly financial reports. This also establishes the people in charge of approving this financial information.

With regard to the preparation and subsequent disclosure of financial reporting, the Investor Relations Department, the Finance Department, the General Secretariat, the Board of Directors and the Chairman of the Board all play a key role at the various levels within the Organisation in the validation and approval of all financial information.

**Description of ICFR: Control and Activities**

The Group's ICFR control structure is based on the COSO Model (The Committee of Sponsoring Organizations of the Treadway Commission) established to create a framework for internal control (1992).

Likewise, the recommendations of the report on "Internal Control over Financial Reporting at Listed Companies" prepared by the CNMV's Internal Control Working Group (ICWG) (2010) are taken into consideration.

In this regard, the ICFR model states a number of key control objectives which, if fully implemented, allow reliability and transparency in preparing financial reporting. Implementation of these objectives is intrinsically tied to the effectiveness of "Control activities" at each stage of their execution.

In this context, the control structure defined is based on two classes of control:

- General controls
- Process controls

**General controls**

The General Controls, or tags, form the basis of the ICFR model. These are interlinked controls that directly affect the Enagás organisational structure and procedures. These are known as the "control environment" in the CNMV and COSO's recommendations.

At the end of 2014, there were 35 ICFR general controls in operation. Senior Management is responsible for overseeing these controls, which are split between the following divisions:

- Finance Department
- Resources Department
- General Secretariat
- Investor Relations Department

These controls are assessed once a year to incorporate any updates and to identify new control components.

**Process controls**

Process controls (control activities) are controls over an organisation's operating processes that are more specific than general controls. These are part of each of the main cycles and sub-cycles comprising the ICFR procedures, guaranteeing the reliability and transparency of Enagás financial reporting. These are factors which mitigate the risks inherent in the financial reporting procedure mentioned above to ensure the established control objectives are met.

These control activities are used throughout all the ICFR model and the eight areas which affect financial reporting:

- Acquisitions
- Fixed assets
- Inventories
- Revenue
- Payroll and personnel
- Financial management
- Support services
- Financial reporting

These areas in turn affect a further 28 cycles and 67 subcycles and are formally documented in a corporate IT tool.

**These process controls can be classified with the following different characteristic attributes:**

- According to their nature:

- Preventative: Preventing errors or any irregularities which may affect the information, i.e. preventing the impact of financial risks.
- Detective: Identifying errors or irregularities which may affect the financial information, i.e. identifying errors when they arise.
- Corrective: Correcting errors or irregularities which may affect the financial information, i.e. rectifying errors when they arise.
- Directive (Policy): controls based on the corporate policies procedures/instructions; such controls normally require an authorised signature or formal approval.

- According to level of automation:

- Manual: control mechanisms directly executed by people.
- Semi-automated: control mechanisms executed by people and validated by "IT support" or vice-versa.
- Automated: control mechanisms with "IT support".

The quarterly self-assessment process carried out by the ICFR unit allows the Organisation to confirm the validity of the description of these controls by the people responsible, identifying any updates (new process controls, elimination, automation, etc.).

At the end of 2014, there were 357 ICFR process controls, approximately 11% of which were automated.

**Operating activities:**

In addition to the controls we have mentioned above, when designing the ICFR subcycles a series of operating activities are defined to establish a flow chart showing how these impact financial reporting. Likewise, these activities are included in a corporate IT tool which establishes the models for the ICFR subcycles.

At 31 December 2014, there were 826 operating activities, approximately 12% of which were automated.

**F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

IT systems play an important role and are configured to support the preparation, processing and extraction of the financial information to be disclosed. This is why they are included in the ICFR actions and configuration.

All actions concerning information systems are regulated in the "Information Security Policy" which defines the principles to effectively manage information security in the IT systems, as well as the assets involved in the processes.

Based on the principles of this policy, Enagás has designed the "General Rules for Management of IT Systems" establishing the responsibilities and the relationship between the requesting units and the Information Systems Department.

We also have General Computer Controls ("GCCs"). These provide a control framework designed to offer a reasonable level of security in IT systems used for financial reports, guaranteeing, to the greatest degree possible, that the information is confidential, available and complete. At 31 December 2014,

there were 46 General Computer Controls covering five control areas:

- Management and Planning
- Physical and logical security
- Application development and maintenance
- Infrastructure development and maintenance
- Fraud prevention and detection

Here we would note that within the Infrastructure Development and Maintenance area is the GCC relating to the Business Continuity and Disaster Recovery Plan.

The objectives established within the framework of General Computer Controls help achieve control objectives related to the processing of computer generated information, through the defining, development, implementation and reviewing of control activities such as user and authorisation management, administrator management, access control, incident management, change management, business continuity, information storage and recovery, operations monitoring, etc.

Integral to the objectives of control of IT systems, is the need to establish an appropriate segregation of duties, which is a prerequisite for an ICFR system to function efficiently and effectively. It is therefore of vital importance that there is a clear distinction between who has to execute actions related to the treatment of financial information, and who has to review and/or approve them. For this reason, correctly allocating profiles, both in IT systems and in terms of positions and functions, is critical to the success of the process.

### F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Enagás is particularly vigilant about any activities carried out by third parties which may significantly impact the financial statements to ensure maximum control over key procedures that may be outsourced, and that the activities are carried out to a standard that the Group demands.

The internal rules regulating this can be found in "Identification and Treatment Procedures for Service Organisations".

The Group also has the following regulations and internal procedures regulating the contracting process and ensuring quality control of third parties:

- The "General Management Regulations pertaining to Supplier Selection and Contracting"
- The "Purchase Management Procedures"
- The "Supplier Accreditation Procedure"
- The "Procedure for Ensuring Supplier Reliability"

When the Organisation hires the services of independent experts for appraisal, calculation or valuation services, we request that they certify they are reputable firms in their field and are independent. This helps ensure that the Group's management is able to supervise and take the ultimate decisions on the estimate processes which may impact accounting records.

## F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

### F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the Company's operating units.

The Accounting and Tax Department which reports to the Finance Department is responsible for keeping all accounting policies regularly updated and communicating these to all personnel involved in the financial reporting process.

It has therefore drawn up the "Accounting Policy Manual (PGC)" and the "Accounting Policy Manual (IFRS)", internal documents which outline all procedures and the accounting policies required for performing accounting estimates and preparing the Company's Separate and Consolidated Financial

Statements and accompanying notes, to ensure that these provide a true and fair view of its equity, financial position, results of operations, changes in net equity and changes in cash flows. Those employees involved in the process are informed of any updates to the policies via the intranet.

### F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the Entity or Group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The preparation, review and approval of all financial information in standard format is regulated by the "Period-end procedures for the Individual Financial Statements and Annual Accounts" and the "Period-end procedures for the Consolidated Financial Statements and Annual Accounts", as well as the "Accounting Policy Manual (PGC)" and the "Accounting Policy Manual (IFRS)", which serve as guides to carrying out these tasks.

Furthermore there is a specific mechanism for the process of preparing the financial statements and accompanying notes, where the Audit and Compliance Committee, as a board committee, takes on a special relevance, overseeing this process (e.g. monitoring the supervision work of the Internal Audit unit, being cognisant of the internal control systems as well monitoring the work performed by the external auditor) before the financial statements are certified by the Board of Directors. The functions of the Audit and Compliance Committee in this regard are detailed in article 7 of the "Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.".

The Group has an IT tool to record and treat all financial information which satisfies the needs of both individual and consolidated reporting.

## F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

### F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the Company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

In this context, one of Enagás top priorities is to take a proactive, and thereby preventative role during a phase of constantly overseeing the model, to ensure that the model is updated and aligned with both the business and the best regulatory practices.

Constant analysis of and following up of ICFR, detecting possible flaws and making the corresponding improvements and adjustments are achieved by taking the following measures:

- A periodic evaluation of the design and effectiveness of current anti-fraud programmes and controls. Its scope and frequency depends on the importance of the associated risk and the demonstrated efficacy of the controls in place.
- The participation of the Internal Audit Department, through the supervision functions attributed by the ICFR model through the "General Internal Audit Regulations", the "Enagás Group ICFR Manual" and the "Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.".
- Effective supervision by the Audit and Compliance Committee, as to overall control of the ICFR model, delegated by the Board of Directors, and implemented by Internal Audit.
- Reporting on flaws found, taking corrective measures to solve them, establishing mechanisms to track them and assigning the necessary resources to achieve them, according to the instructions in the "ICFR Manual".
- In the last instance, once finalised, and subsequent to the implementation of the proposed measures, a design and final validation process will be undertaken, which will eventually be incorporated into the ICFR model.

The role of Internal Audit is crucial in the supervision process with its main objectives being:

- To ensure and improve the Group's established internal control system.
- To monitor that work schemes and business activities are consistent with the Organisation's values.

In order to ensure that these objectives are met, there is an "Annual Internal Audit Plan", which is overseen and approved by the Audit and Compliance Committee, and includes a review of the ICFR system.

The Group's management conducted an internal assessment of the ICFR system and concluded that the system in place for Enagás, S.A. and Subsidiaries at 31 December 2014 is effective and contains no significant deficiencies.

**F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the Company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

Article 7 of the Regulations of the Audit and Compliance Committee of the Enagás, S.A. Board of Directors details the objectives and functions of the Committee, including ensuring that the auditor, the Internal Audit function and other experts can inform Senior Management and the Board of Directors of any significant internal control weaknesses encountered during their review of the financial statements or other assignments. These reports are made after each review task has been completed. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Committee is also in charge of supervising compliance with internal Codes of Conduct with relation to Stock Market matters. The reports on the activities of the Audit and Compliance Committee contain important information about communication procedures and the conclusions reached at the end of each year.

## F.6 Other relevant information

There is no other relevant information regarding ICFR at the Group to add to that which we have provided above.

## F.7 External auditor review

State whether:

**F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

The Group has voluntarily subjected its ICFR to review since 2008. All reviews have been carried out by Deloitte, S.L., auditor of Enagás, S.A. and Subsidiaries.

The report for 2014 is attached.



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*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

**AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

To the Board of Directors of Enagás, S.A.:

We have examined the accompanying information relating to the system of Internal Control over Financial Reporting (ICFR) of Enagás, S.A. and Subsidiaries ("the Group") contained in Note F of the accompanying Annual Corporate Governance Report for the year ended 31 December 2014. This examination includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements at 31 December 2014, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. The objective of this system is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements. The aforementioned system is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework" (1992).

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are only performed in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, uses or sales of assets of a company which could have a material effect on the financial information. The limitations inherent to any system of internal control over financial reporting might give rise to errors, irregularities or fraud that might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that the internal controls are rendered inadequate as a result of future changes in the applicable conditions or that there is a reduction in the future in the degree of compliance with the policies or procedures established.

Group management is responsible for maintaining the system of internal control over the financial information included in the consolidated financial statements and for evaluating its effectiveness. Our responsibility is limited to expressing an opinion on its effectiveness, based on the work performed by us in accordance with the requirements established in Standard ISAE 3000: "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

Deloitte, S.L. inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.  
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

A reasonable assurance engagement includes understanding the system of internal control over the financial information contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

In our opinion, at 31 December 2014, the Group maintained, in all material respects, an effective system of internal control over the financial information contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by Group management in accordance with the guidance established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework" (1992). Also, the disclosures contained in the information relating to the system of ICFR which is included in Note F of the Group's Annual Corporate Governance Report at 31 December 2014 are in accordance, in all material respects, with the requirements established by Securities Market Law 24/1988, of 28 July, as amended by Sustainable Economy Law 2/2011, of 4 March, and as established in CNMV Circular 5/2013, of 12 June, and all other legislation in force.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion under the terms of the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Enagás, S.A. and Subsidiaries prepared by the Directors of Enagás, S.A. in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group, and our report dated 24 February 2015 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.



Oliverio Alvarez Alonso

24 February 2015

## G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the Company's compliance with Corporate Governance recommendations.

Should the Company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the Company's behaviour. General explanations are not acceptable.

### 1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24

Compliant  Explain

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

"No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the parent company (ENAGÁS, S.A.) nor may they exercise voting rights in such Company of over 3%.

Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the said parent company of over 1%. These restrictions do not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

In addition, the sum of direct and indirect shareholdings held by individuals and legal entities operating in the natural gas industry may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, dated 28 July, on the Securities Market, stakes shall be attributed to one and the same individual or body corporate when they are owned by:

a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.

b) Partners in conjunction with whom any such person exercises control over a subsidiary company in accordance with article 4 of Securities Market Law 24/1988.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limitation on a stake in the capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Act. Responsibility shall lie with the individuals or bodies corporate that end up as owners of the securities or whoever the excess stake in the capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties." Meanwhile, section 3 of Additional Provision 31 of this law states that:

"The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by article 66 of law 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system".

Meanwhile, article 6 *bis* of the Company's Articles of Association ("Limitations on holdings in share capital") establishes that:

No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights in such company of over 3%. Under no circumstances may such share holdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System Technical Manager of over 1%. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation."

### 2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
- The mechanisms in place to resolve possible conflicts of interest.

See sections: D.4 and D.7

Compliant  Partially compliant  Explain  Not applicable

### 3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

- The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
- Any acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;
- Operations that are effectively equivalent to the Company's liquidation.

See section: B.6

Compliant  Partially compliant  Explain

### 4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the Meeting notice.

Compliant  Explain

### 5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each



**case. This rule shall apply in particular to:**

- a) The appointment or ratification of directors, with separate voting on each candidate;  
 b) Amendments to the Bylaws with votes taken on all articles or group of articles that are materially different.

Compliant  Partially compliant  Explain

**6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

Compliant  Explain

**7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its value over time.**

It should likewise ensure that the Company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant  Partially compliant  Explain

**8. The board should see the core components of its mission as to approve the Company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the Company's interests and corporate purpose. As such, the board in full should reserve the right to approve:**

- a) The Company's general policies and strategies, and, in particular:
- i) The strategic or business plans, management targets and annual budgets;
  - ii) Investment and financing policy;
  - iii) Design of the structure of the corporate Group;
  - iv) Corporate governance policy;
  - v) Corporate social responsibility policy;
  - vi) Remuneration and evaluation of senior officers;
  - vii) Risk control and management, and the periodic monitoring of internal information and control systems;
  - viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: C.1.14, C.1.16 and E.2

b) The following decisions:

- i) On the proposal of the Company's chief executive, the appointment and removal of senior officers, and their compensation clauses.
- ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.
- iii) The financial information that all listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting.
- v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Group.

c) Transactions which the Company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;
2. They go through at market prices, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the Company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the Directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant  Partially compliant  Explain

**9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.**

See section: C.1.2

Compliant  Explain

**10. External Directors, Proprietary and Independent, should occupy an ample majority of board places, while the number of Executive Directors should be the minimum practical bearing in mind the complexity of the corporate Group and the ownership interests they control.**

See sections: A.3 and C.1.3.

Compliant  Partially compliant  Explain

**11. That among External Directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by Proprietary Directors and the remainder of the Company's capital.**

This proportional criterion can be relaxed so the weight of Proprietary Directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: A.2, A.3 and C.1.3

Compliant  Explain

**12. The number of Independent Directors should represent at least one third of all board members.**

See section: C.1.3

Compliant  Explain

**13. The nature of each Director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of Proprietary Directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See sections: C.1.3 and C.1.8

Compliant  Partially compliant  Explain

**14. When women Directors are few or non existent, the Nomination Committee should take steps to ensure that:**

a) The process of filling board vacancies has no implicit bias against women candidates;

b) The Company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant  Partially compliant  Explain  Not applicable

**15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that Directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the Company's chief executive, along with the chairmen of the relevant board committees.**

See sections: C.1.19 and C.1.41

Compliant  Partially compliant  Explain

**16. When a company's Chairman is also its chief executive, an Independent Director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.**

See section: C.1.22

Compliant  Partially compliant  Explain  Not applicable

**17. The Secretary should take care to ensure that the board's actions:**

a) Adhere to the spirit and letter of primary enactments and their implementing regulations, including those issued by regulatory agencies;

b) Comply with the company Bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others;

c) Are informed by those good governance recommendations of the Unified Code that the Company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.

See section: C.1.34

Compliant  Partially compliant  Explain

**18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items.**

See section: C.1.29

Compliant  Partially compliant  Explain

**19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When Directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: C.1.28, C.1.29 and C.1.30

Compliant  Partially compliant  Explain

The Board of Directors met 12 times during 2014. There were 13 absentees, 7 of whom delegated their votes and 6 of whom did not.

The Appointments, Remuneration and CSR Committee met four times. All members attended all meetings, except one, who delegated their vote to another Director. In all, there was one absence, with delegation of their vote.

The Audit and Compliance Committee met four times. All members attended all meetings.

**20. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the Company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.**

Compliant  Partially compliant  Explain  Not applicable

**21. The board in full should evaluate the following points on a yearly basis:**

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See sections: C.1.19 and C.1.20

Compliant  Partially compliant  Explain

**22. All Directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the Bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.**

See section: C.1.41

Compliant  Explain

**23. All directors should be entitled to call on the Company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.**

See section: C.1.40

Compliant  Explain

**24. Companies should organise induction programmes for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.**

Compliant  Partially compliant  Explain

**25. Companies should require their Directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: C.1.12, C.1.13 and C.1.17

Compliant  Partially compliant  Explain

**26. The proposal for the appointment or renewal of Directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:**

- a) On the proposal of the Nomination Committee, in the case of Independent Directors.
- b) Subject to a report from the Nomination Committee in all other cases.

See section: C.1.3

Compliant  Partially compliant  Explain

**27. Companies should post the following Director particulars on their websites, and keep them permanently updated:**

- a) Professional experience and background;
- b) Directorships held in other companies, listed or otherwise;
- a) An indication of the Director's classification as executive, proprietary or independent; in the case of Proprietary Directors, stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments as a company Director; and
- e) Shares held in the Company and any options on the same.

Compliant  Partially compliant  Explain

**28. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.**

See sections: A.2, A.3 and C.1.2

Compliant  Partially compliant  Explain

**29. The Board of Directors should not propose the removal of Independent Directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a Director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in Ministerial Order ECC/461/2013.**

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant  Explain

**30. Companies should establish rules obliging Directors to inform the board of any circumstance that might harm the Organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

The moment a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43

Compliant  Partially compliant  Explain

**31. All Directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other Directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.**

When the board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board, Director or otherwise.

Compliant  Partially compliant  Explain  Not applicable

**32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.**

See section: C.1.9

Compliant  Partially compliant  Explain  Not applicable

**33. Remuneration comprising the delivery of shares in the Company or other companies in the Group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to Executive Directors.**

The delivery of shares is excluded from this limitation when Directors are obliged to retain them until the end of their tenure.

Compliant  Partially compliant  Explain  Not applicable

**34. External Directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Compliant  Explain  Not applicable

**35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report that detract from reported earnings.**

Compliant  Explain  Not applicable

**36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector, atypical or exceptional transactions or circumstances of this kind.**

Compliant  Explain  Not applicable

**37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.**

See sections: C.2.1 and C.2.6

Compliant  Partially compliant  Explain  Not applicable

**38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.**

Compliant  Explain  Not applicable

**39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.**

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;

- b) These committees should be formed exclusively of External Directors and have a minimum of three members. Executive Directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
- c) Committees should be chaired by an Independent Director.
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Meeting proceedings should be minuted and a copy of the minutes sent to all board members.

See sections: C.2.1 and C.2.4

Compliant  Partially compliant  Explain

**40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.**

See sections: C.2.3 and C.2.4

Compliant  Explain

**41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.**

Compliant  Explain

**42. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.**

See section: C.2.3

Compliant  Explain

**43. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.**

Compliant  Partially compliant  Explain

**44. Control and risk management policy should specify at least:**

- a) The different types of risk (operational, technological, financial, legal, reputational...) the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;
- b) The determination of the risk level the Company sees as acceptable;
- c) Measures in place to mitigate the impact of risk events should they occur;

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: E

Compliant  Partially compliant  Explain

#### 45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

- a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.
- b) Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect of the external auditor:

- a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
- b) Monitor the independence of the external auditor, to which end:
  - i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant  Partially compliant  Explain

#### 46. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant  Explain

#### 47. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Group.
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: C.2.3 and C.2.4

Compliant  Partially compliant  Explain

#### 48. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: C.1.38

Compliant  Partially compliant  Explain

#### 49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See section: C.2.1

Compliant  Explain  Not applicable

#### 50. The Nomination Committee should have the following functions in addition to those stated in earlier Recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals which the chief executive proposes to the board.
- d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4

Compliant  Partially compliant  Explain  Not applicable

**51. The Nomination Committee should consult with the Company's Chairman and chief executive, especially on matters relating to Executive Directors.**

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Compliant  Partially compliant  Explain  Not applicable

**52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:**

a) Make proposals to the Board of Directors regarding:

- i) The remuneration policy for Directors and senior officers;
- ii) The individual remuneration and other contractual conditions of Executive Directors;
- iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the Company.

See sections: C.2.4

Compliant  Partially compliant  Explain  Not applicable

**53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to Executive Directors and senior officers.**

Compliant  Explain  Not applicable

**H. OTHER INFORMATION OF INTEREST**

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the Company or Group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report. Specifically indicate whether the Company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.
3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This report includes the following Appendices in an attached document.

APPENDIX I.- Explanatory notes.

APPENDIX II.- Report on the Activities of the Audit and Compliance Committee, 2014.

APPENDIX III.- Audit opinion on the Internal Control over Financial Reporting system ("ICFR"), 2014.

APPENDIX IV.- Audit opinion on the Annual Corporate Governance Report, 2014.

This annual corporate governance report was adopted by the Company's Board of Directors at its meeting held on 23/2/15.

List whether any Directors voted against or abstained from voting on the approval of this Report.

Yes  No

# APPENDIX I

## EXPLANATORY NOTES

### EXPLANATORY NOTE ON SECTION A.2.-

The list of direct and indirect holders of significant stakes set out in section A.2 of this Report includes those significant shareholders who at 31 December 2014 qualified as such in the relevant official register of the CNMV. The foregoing is independent of the question of whether or not the issuer received timely notice from any relevant shareholder in pursuance of article 23 of Royal Decree 1362/2007 of 19 October.

Among the most significant changes in the shareholder structure in 2014, KUTXABANK, S.A. ceased to hold a significant interest in Enagás (indirect, KUTXABANK, S.A., and direct, KARTERA 1, S.L.) from 16 June 2014. Specifically, on 10 March 2014 KUTXABANK, S.A. reported to the CNMV the sale of 0.020% of the share capital of Enagás, and its ownership interest fell from 5%. KUTXABANK, S.A. then reported to the CNMV the sale of 4.962% of the share capital of Enagás on 16 June 2004, and ceased to be a significant shareholder in Enagás at that time. KUTXABANK, S.A. retains a 0.018% stake in the share capital of Enagás.

### EXPLANATORY NOTE ON SECTION A.5.-

Regarding dividends paid by Enagás to the significant shareholders referred to in section A.5 of this Report, note:

On 3 July 2014, Enagás paid **OMAN OIL HOLDINGS SPAIN, S.L.U.** a final dividend for 2013 of €9,115 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €6,207 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €15,322 thousand.

On 3 July 2014, Enagás paid **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES ("SEPI")** a final dividend for 2013 of €9,115 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €6,207 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €15,322 thousand.

On 3 July 2014, Enagás paid **FIDELITY INTERNATIONAL LIMITED** a final dividend for 2013 of €3,597 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €2,450 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €6,047 thousand.

On 3 July 2014, Enagás paid **RETAIL OEICS AGGREGATE** a final dividend for 2013 of €1,841 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €1,253 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €3,094 thousand.

Meanwhile, the Company considered it appropriate to disclose the trade transaction consisting of the guarantees and deposits received from **KUTXABANK, S.A.**, amounting to €279 thousand, even though **KUTXABANK, S.A.** was not a significant shareholder of Enagás at 31 December 2014.

### EXPLANATORY NOTE ON SECTION A.7.-

At the date of preparation of this Report, **OMAN OIL HOLDING SPAIN, S.L.U** and **SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)** are significant shareholders of Enagás, with stakes of 5% of its share capital; SEPI is not only a significant shareholder, but also has a seat on the Enagás Board.

Neither of them may exercise control over ENAGÁS as they are not in the circumstances set out in article 4 of Act 24/1988, dated 28 July, on the Securities Market ("LMV").

Accordingly, no individual or body corporate exercises or could exercise control over Enagás in accordance with article 4 of the LMV.

### EXPLANATORY NOTE ON SECTION A.10.-

Further text of section 2 of the thirty-first additional provision of Law 34/1998, of 7 October, on the Hydrocarbons Sector ("LSH"):

(...) For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of the Securities Markets Act [*Ley 24/1988*], stakes shall be attributed to one and the same individual or body corporate when they are owned by:

- a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, it shall be deemed that the members of the Board of Directors of a body corporate act on its behalf or in a concerted fashion with it.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of the LMV".

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Non-compliance with the limitation on a stake in the capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Law. Responsibility shall lie with the individuals or bodies corporate that end up as owners of the securities or whoever the excess stake in the capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Enagás, S.A. may not transfer the shares of the subsidiaries carrying out regulated activities to third parties."

Meanwhile, section 3 of Additional Provision 31 of this law states that:

"The restrictions of shareholding percentages and non transfer of the shares referred to in this provision are not applicable to other subsidiaries that ENAGÁS, S.A. may constitute for business activities other than transmission regulated by article 66 of law 34/ 1998, of 7 October, on the hydrocarbons sector, management of the transmission network and technical management of the national gas system.



› **Restrictions under the company's Bylaws**

In accordance with the aforementioned legal provision, article 6a bis of Enagás, S.A.'s Articles of Association ("Limitations on holdings in share capital") establishes that:

No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights in such company of over 3%. Such shares may in no event be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System Technical Manager of over 1%. These restrictions will not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

In addition, the sum of direct and indirect shareholdings held by individuals and legal entities operating in the natural gas industry may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation".

**EXPLANATORY NOTE ON SECTION B.6.-**

Article 4 (i) of the Rules and Regulation of the General Meeting of Enagás attributes among other powers to the General Meeting the power to decide on transactions involving a structural change to the Company, such as the assumption of membership of entities, engaging in core activities carried on by the Company; acquisition or alienation of essential operating assets, where such transaction effectively involves changing the objects of the Company; or any transactions the effect of which is equivalent to the liquidation of the Company.

**EXPLANATORY NOTE ON SECTION C.1.10.-**

The Chief Executive Officer, Marcelino Oreja Arburúa, has been delegated the following powers:

› **A) Jointly and severally.**

1. Collect whatever is payable to him for any reason, in bills, cheques, promissory notes, or by deposit in a bank account, by public or private bodies in the European Union, other international organisations, by central, regional, provincial, local government authorities, executive agencies, government depositaries and, in general, by any private individual or legal entity in the public or private sectors; establish and settle balances, determine the form of payment of amounts owed to the Company, grant extensions of deadlines, set payment terms and conditions; cash orders of payment from the central, regional or local government tax authorities, including receiving from central government tax offices or other agencies money in cash or any means that represents it and accept the refund of amounts paid in tax.
2. Represent the Company in dealings with third parties, whether natural or juristic, public or private, and before all kinds of authorities, public officials, boards and collegiate bodies, chambers, committees, associations, public property registers, companies registers, or public registers of any other kind, trade unions, mutual insurance companies, executive or non-executive agencies, whether autonomous or otherwise, directorates, regional offices of any kind of central, regional,

provincial or local government authorities and any other public entities of any level or jurisdiction, whether Spanish or otherwise, whatever their name or nature; exercise any rights, remedies, claims and defences relating to the Company; formulate petitions and in connection with all types of proceedings, file claims and appeals of any kind, including motions for reconsideration and appeals for review, in which the Company has an interest, either in proceedings initiated by the Company or in those of others that directly or indirectly affect the Company; file them, take part in the processing of them; formulate and respond to representations, propose and examine evidence; apply for stays and adjournments; discontinue and abandon or in any other way withdraw from them, at any stage of the proceedings; execute and enforce agreements, detachments and return of documents; request and respond to certificates and summonses, be they governmental, notarial or of any other nature; request certificates, depositions and authentic copies; take delivery from public authorities, including post and telegraph offices and customs officers, of all kinds of papers, objects, goods and consignments in general addressed to the Company, executing any notarial instruments or documents under hand required for such withdrawal or dispatch.

3. Make formal appearances in representation of the Company before courts and tribunals of any branch or level, whether in the civil, criminal, administrative, social or labour or any other jurisdiction, and before any arbitrator or arbitration body, of all levels, both domestic and foreign, whatever their territorial scope, and before any other authority, justice system, prosecutor's office, boards, centres, offices, departments, panels, bodies and officers belonging to the judiciary and the administration of justice, of any branch and level, and before them make sworn or ordinary statements and respond to interrogatories in court under non-determinative oath; initiate, pursue and complete as principal, defendant, partner in joinder of parties, coadjutor or in any other capacity, all types of judicial proceedings before any jurisdiction; file, pursue and waive appeals of any kind, including governmental and administrative appeals, and motions for reconsideration, rehearing, appeals for review to the same or a higher court, applications to the Supreme Court on the ground of manifest injustice of a previous decision, appeals against refusal of leave to appeal, actions to have decisions declared void, appeals on the ground on lack of jurisdiction, actions for enforcement of rights or any other legally permitted ordinary or extraordinary appeals, and the abandonment, discontinuance or any other form of withdrawal from proceedings in which the Company has an interest, as well as all kinds of proceedings, including conciliation proceedings, with or without a pre-trial settlement, proceedings of voluntary jurisdiction, governmental, notarial, mortgage and tax proceedings and, accordingly, to bring, respond to and pursue through all their formalities and levels until their conclusion all kinds of actions, claims, complaints, criminal actions, accusations, pleas and defences, and exercise any other causes of action, ratifying them whenever personal ratification is required; choose venues and submit implicitly or explicitly to jurisdictions; give evidence as a legal representative at any of the aforementioned proceedings, petition for stays of proceedings; make, request, receive and comply with summonses, notifications, citations and service of process; apply for joinders, attachments, cancellations, enforcements, dispossessions, filings, auctions of assets, statements and assessments of costs; raise issues of jurisdiction and preliminary issues; challenge witnesses; furnish and challenge evidence, waive evidence and the transfer of proceedings to another court; agree to favourable rulings; provide and withdraw payment bonds and deposits as and when required by the court; provide sureties, make judicial deposits and, in both cases, request they be refunded as and when appropriate, and execute and enforce court rulings.
4. Attend, speak and vote at meetings that are held in bankruptcy proceedings, whether fault-based or otherwise, and in temporary receivership proceedings and arrangements with creditors while they remain in force, approve and challenge creditors' claims and their ranking, appoint and accept appointments as receivers and administrators, appoint representatives; accept and reject debtors' proposals and appoint members of conciliation bodies.
5. Confer powers on court representatives and counsel, freely chosen by him, with general powers for litigation and special powers freely established in each case, including those of responding to interrogatories in court, reaffirming positions, withdrawing and abandoning actions, signing such

public or private documents as may be necessary for the exercise of such powers.

6. Enter into contracts of any kind with central, regional, provincial and local government authorities and executive agencies and, in general, with any private individual or legal entity in the public or private sectors, including contracts for works, supplies and services (excluding regasification, gas transmission and storage, and gas supply contracts); arrange auctions, calls for bids, competitive tendering, direct procurement or any other legal form of procurement; sign proposals and procurement specifications, award contracts and accept contract awards, sign the related contracts and any public and private documents that may be required for their formalisation, fulfilment or performance and discharge.
7. Take the necessary steps to establish arrangements with central, regional, provincial and local government authorities and their agencies concerning all kinds of public prices, levies, whether they be charges, taxes or rates, that affect the Company, agree to such arrangements and for this purpose approve, agree to and sign any covenant, contract or accord referring thereto.
8. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of goods and real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel, fully or partially, payment bonds, pledges and other security interests in favour of third parties.
9. Lease property as the lessor or lessee thereof.
10. Enter into finance lease agreements, subject to such terms and conditions as he may freely determine.
11. Buy, sell, lease, purchase under a preferential right, assign, subrogate, contribute, encumber, exchange unconditionally or subject to conditions, at a declared price, deferred or paid in cash, all kinds of real estate; establish, accept, modify, acquire, dispose of, defer, terminate and cancel mortgages, easements and other rights in rem over real estate, whether of common law or foral law [administrative law particular to the Basque Country and Navarre], and also prohibitions, conditions and all kinds of restrictions on real estate; provide real estate collateral guarantees in favour of third parties.
12. File declarations of construction and cultivation, definition and demarcation of boundaries, grouping together, aggregation, segregation and division of property, and organise buildings under condominium arrangements.
13. Apply for official franchises and authorisations, permits and licences, and complete all the formalities to obtain them, and to renew, amend or cancel them as may be necessary or appropriate.
14. Negotiate and establish with owners affected by future gas installations, whether or not there are compulsory purchase proceedings pending, the imposition of rights of way for pipelines and ancillary components and the purchase of land on which to install gas distribution and regulation chambers or other components that depend on or belong to the networks of the Company granting the power of attorney, arranging for this purpose such mutually agreed transactions, clauses and prices that he considers to be fair, and signing public and private documents of any kind, regardless of the amount involved, and cancel rights of way fully or partially.
15. Initiate any proceedings for compulsory purchase in which the Company has an interest, make formal appearances thereat and make the representations that he considers appropriate, request and conduct expert appraisals, request and receive compensation and, in general, participate in

such proceedings in all formalities and appeals related thereto without limitation, executing and signing for the purpose public or private documents of any kind.

16. With regard to proceedings for compulsory purchase, imposition of rights of way and temporary occupation governed by the Law and Regulations on Compulsory Purchase that are instituted by the Company granting power of attorney for the construction of gas pipelines, networks and branches and ancillary installations, they may:
  - a) Formulate requests and petitions, request and respond to certificates and summonses of all kinds, request affidavits, certificates and certified copies in which the Company has an interest, in dealings with private individuals and legal entities in the public or private sectors, without any exception.
  - b) Make and withdraw deposits of any kind, including cash, at public entity depositaries of any kind and those held by private individuals or legal entities, at any of their offices and agencies.
  - c) Attend the drawing up of official records of facts and events prior to and after the completion of compulsory purchase actions.
  - d) Group together, aggregate, segregate and divide real estate, making the filings relating thereto with the relevant Property Registers.
  - e) Arrange for the imposition of rights of way and title restrictions and for the acquisition and occupation by mutual agreement of property and rights affected by the laying of gas pipelines, their networks and branches and ancillary installations, fixing prices and conditions.
  - f) Discharge or redeem any charges or liens affecting the properties, fixing the price and conditions of such redemption.
  - g) Authorise and as appropriate empower by granting power of attorney to such persons as he considers appropriate to represent the Company at the official recording of facts and events prior to and at the time of the occupation of properties affected by compulsory purchase proceedings.
17. Enter into contracts with any private individuals or legal entities in the public or private sectors for the long-term provision of services of regasification, transmission and storage, procurement of points of entry to the Company's gas system, gas supply and any other contract for the provision of services connected with the gas business and ancillary activities.
18. Enter into contracts with any private individuals or legal entities in the public or private sectors for the short-term provision of services of regasification, transmission and storage, procurement of points of entry to the Company's gas system, gas supply, connection to installations and any other contract for the provision of services connected with the gas business and ancillary activities.
19. Set up, merge, change the corporate form, dissolve and wind up, take part in the enlargement or modification, of any kind of companies, partnerships, consortia, European consortia and joint ventures, represent the Company in them, attend or take part in all kinds of meetings, holding office and appointing officers and representatives as he considers appropriate; contribute to commercial companies all kinds of assets, receiving in payment the relevant shares, equity interests, scrip certificates, convertible or non-convertible debentures, option rights or shares and, in the case of dissolution, the relevant assets. Establish share syndication agreements.
20. Apply for entries to be made at the Property and Companies Registers; send, receive and respond to summonses and notifications and request notarial certificates of all kinds, signing certificates of attendance and any other formality connected with them.
21. Apply for the registration of trademarks and trade names, patents of invention and introduction, utility models and other modalities of industrial property, or challenge and denounce any attempted or effective misappropriation of the name, trademarks and countersigns of Company products and counterfeits of them, initiating and pursuing the appropriate proceedings and making formal appearances in proceedings initiated by others, making statements, providing proof and

petitioning as appropriate.

22. Acquire and dispose of intellectual and industrial property rights.
23. Organise, direct and inspect all of the Company's services and installations and verify audits of company funds.
24. Hire and dismiss personnel employed by the Company, of whatever kind and category, appoint and remove them from their duties, stipulating their pay, duties and tasks, and the remuneration payable for extraordinary services.
25. Grant loans and credits to Company staff and agree subsequent renewals, alterations, subrogations and cancellations thereof.
26. Grant payment bonds and personal and in rem guarantees to Company staff as surety for the fulfilment of personal and mortgage loan contracts granted to Enagás personnel.
27. Negotiate and sign on behalf of the Company any kind of general or partial collective agreements and any other type of pact, agreement or arrangement with the Company staff, trade unions, or administrative or judicial authorities that are competent in matters of labour and social security.
28. Issue any kind of certificates, identity cards and other documents with the details of Company staff that are contained in the Company record books and files.
29. Sign all documentation to do with social security, accidents at work insurance, enrolments and dis-enrolments, filings and changes; initiate and pursue claims before the Spanish National Institute of Social Security and offices thereof, mutual insurance companies, benefit societies and insurance companies.
30. Make formal appearances and represent the Company in dealings with the regional traffic department and offices thereof, in order to register, transfer and scrap any type of vehicle belonging to the Company and to register and de-register them as appropriate.
31. Take delivery of letters, certificates, dispatches, parcels, postal orders and declared value items from communications offices, and of goods and property shipped from shipping companies, Customs and agencies. Receive, open, answer and sign any kind of correspondence and keep the company's books in accordance with the law.
32. Sign any public or private documents that may be necessary in order to jointly and severally exercise the powers granted hereunder as effectively as possible.
33. Request and obtain electronic signature certificates from authorised providers of certification services and use the electronic signature whenever he considers it appropriate in accordance at all times with the applicable rules on electronic signatures.
34. Grant such powers of attorney as he considers necessary, being able to confer each and every one of the aforementioned powers granted hereunder or part of them on such person or persons as he considers appropriate. He may also revoke the powers granted by the Board of Directors, by himself or by other Company bodies.

› **B) Jointly.**

1. Enter into all types of banking arrangements including: factoring, leasing, lease financing, reverse

factoring and any other similar banking arrangements with any Spanish or foreign bank, including the Bank of Spain and the branches thereof, the European Investment bank, the Spanish Official Credit Institute, registered savings banks, savings banks, post office savings banks, the Confederation of Spanish Savings Banks, the General Deposit Fund or any other similar Spanish or foreign trading, transfer, exchange or credit institution.

2. Open, monitor, cancel or drawn down from ordinary current accounts or credit, sight or fixed-term deposit accounts, secured through a security interest, personal guarantee, pledged securities or trade notes, with or without a guarantee.
3. With regard to ordinary current accounts or credit, sight or fixed-term deposit accounts opened on behalf of the Company, write personal cheques, issue bank drafts, issue bank cheques, perform bank transfers or use any other accepted payment system or mechanism; pay in or withdraw voluntary or required amounts and deposits of cash or securities, signing any documentation required to perform such transactions.
4. Issue, cash, accept, endorse, receive, sign, intervene, challenge, pay and negotiate any type of bills of exchange, letters of credit, non-credit or credit facilities, promissory notes, cheques and other bank bills, commercial bills, bank giros, or bills of exchange.
5. Obtain and award loans or credits, with or without collateral or personal guarantees, including the pledging of securities, and arrange subsequent renewals, amendments and subrogations. Acquire and extend credits.
6. Request, cancel and withdrawn personal and collateral-backed sureties, guarantees and payment bonds.
7. Enter into discounting arrangements for promissory notes issued by the Company with banks and financial institutions authorised to perform discounting, and enter into loan or other financing arrangements represented by promissory notes with these entities; contract agency services to facilitate such financing arrangements.
8. Buy and sell shares, debentures, bonds, stakes and any other type of security or instrument, and collect any yield from these.
9. Pay in bearer cheques paid to the Company, signing the reverse, for the sole purpose of paying them into the current accounts held with the Bank of Spain, and other banks, credit institutions and savings banks.
10. Arrange transfers between current and credit accounts or loan accounts set up in the Company's name through bank transfers, bank cheques or any other accepted payment system or mechanism in all types of banks, including the Bank of Spain, savings banks and other credit institutions, both Spanish and foreign.
11. Award and accept loans to/from subsidiaries and investees and the parent Company.
12. Make payments to settle invoices for gas purchases and settle taxes by personal cheque, bank giro or transfer, bank cheque or any other accepted payment system or mechanism from ordinary current accounts and credit, sight or fixed-term deposit accounts opened by the Company, to which end any type of document may be signed.
13. Sign any public or private documents that may be necessary in order to jointly exercise the powers granted hereunder as effectively as possible.

The powers described in this section can only be exercised jointly with one of the authorised signees stipulated in the deed of powers of attorney executed before the notary of Madrid Pedro de la Herrán Matorras on 13 June 2012 with number 1,291 of his notarial archive and registered as entry 278 in the record of Company M-6113. The terms of these powers of attorney are as follows:

- Jointly with another authorised signee from Group B or from Group A, up to a limit of €30,000 thousand, except for power of attorney 12, which can be jointly executed for any amount with another authorised signee from Group B or from Group C.
- Jointly with another authorised signee from Group C up to a limit of €20,000 thousand.

#### EXPLANATORY NOTE ON SECTION C.1.12.-

Director SEPI has representation on the Board of Directors of EBRO FOODS, S.A. through ALYCESA (a 91.96%-owned subsidiary of SEPI).

#### EXPLANATORY NOTE ON SECTION C.1.16.-

In 2014, a total of €2,861 thousand was paid to members of senior management. This amount includes the remuneration paid to a member of senior management, Juan Pons Guardia, who left his office of General Manager of Strategy and Regulation on 23 July 2014, and the remuneration paid in 2014 to the Head of Internal Audit.

#### EXPLANATORY NOTE ON SECTION C.1.17.-

Federico Ferrer Delso, natural person representative of SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES ("SEPI"), is the Deputy Chairman of SEPI.

SEPI has representation on the Board of Directors of the listed company EBRO FOODS, S.A. through ALYCESA (a 91.96%-owned subsidiary of SEPI).

#### EXPLANATORY NOTE ON C.1.19.-

##### › RE-ELECTION:

Article 10 of the Regulations of the Board of Directors stipulates that "Directors may hold office for a period of four years, and may be re-elected. Directors who are co-opted shall hold office until the date of the first subsequent General Meeting. Under article 11 of the Board Regulations, as a general rule, an appropriate rotation of Independent Directors shall be sought. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified. Independent Directors shall not remain as such for a period in excess of twelve (12) consecutive years.

##### › APPRAISAL:

Article 11 of the Regulations of the Board stipulates that the Appointments, Remuneration and CSR Committee, responsible for evaluating the quality of work and dedication to their offices of the Directors proposed during the previous term of office, shall provide information required to assess proposal for re-election of Directors presented by the Board of Directors to the General Meeting.

##### › REMOVAL AND DISMISSAL:

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Articles of Association and these Rules and Regulations (article 12.1 of the Regulations of the Board). The Board of Directors shall not propose the removal of Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a proposal from the Appointments Committee (article 12.3 of the Regulations of the Board).

#### EXPLANATORY NOTE ON SECTION C.1.37

To respond appropriately to the table included in section C.1.37, note that:

The amount of non-audit work as a % of the total amount billed by the audit firm amounted to 6.37%.

#### EXPLANATORY NOTE ON SECTION C.2.4.-

##### AUDIT AND COMPLIANCE COMMITTEE (Continued):

The duties of the Audit and Compliance Committee are:

##### › a) In relation to the financial statements:

- Overseeing the preparation process and monitoring the integrity of financial information on the Company and, where relevant, the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
- Providing information on the financial statements prior to their authorisation for issue by the Board of Directors.
- In its Report, the Committee shall include the information that it deems necessary on the application of accounting criteria, internal control systems and any other relevant facts.

The Board of Directors must properly explain any departure from the Audit and Compliance Committee's prior Report in the financial statements finally authorised for issue.

- Examining the information on the Company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.

##### › b) In relation to internal audits:

- Monitoring the independence of the internal audit unit.
- Supervising the Company's internal audit services and verifying the internal control systems, in order to achieve optimum monitoring of the execution of the annual internal audit.

In particular, the Committee shall monitor the quality of the work of the internal audit unit in areas including: accuracy and integrity of information, compliance with policies, plans, legislation and standards and asset protection measures.

The Committee shall have full access to internal audit systems and shall meet regularly, in plenary session or through its Chairman, with the Internal Audit Manager, from whom it may request all the information necessary for its work.

- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Internal Audit.

› **c) In relation to external audits:**

- Making proposals to the Board of Directors for submission to shareholders at the General Meeting concerning the appointment of the External Accounts Auditor, in accordance with applicable laws and regulations, and providing information on the remuneration payable to the External Accounts Auditor and other terms and conditions of their engagement.
- Liaising with the External Accounts Auditor to obtain information on any issues that could compromise the latter's independence or any other subjects related to the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in technical auditing standards.
- Receiving on an annual basis from the Auditors a written confirmation of their being independent from the Company and any entity directly or indirectly related to it, and a disclosure of any manner of additional services provided to such entities by the Auditors or persons or entities related to them in accordance with the *Ley 19/1988 de Auditoría de Cuentas* (Audit Act 1988).
- Issuing annually, prior to the issue of the audit report, a report giving an opinion on the independence of the auditors or audit firms. The report must at all events make reference to the provision of additional services referred to in the above sub-section.
- Taking receipt of the External Accounts Auditor's regular reports on the audit programme and results of its execution, and ensuring that senior management takes account of its recommendations.
- Serving as a channel for communications between the Auditors and the Board of Directors, evaluating the results of each audit and the management team's responses to its recommendations, and mediating and arbitrating in the event of disagreement between the two concerning the principles and criteria to be applied in the preparation of the financial statements.
- Overseeing the execution of contracted audit work and ensuring that the Auditor's opinion on the financial statements and the main contents of the Auditors' Report are written clearly and accurately.
- Providing information on non-auditing contracts between the Company and the Accounts Auditors.
- Ensuring that the External Accounts Auditor is provided with access to all the information necessary for the auditing work to be carried out.

› **d) In relation to the Company's risk map:**

- Identifying and analysing, in conjunction with internal auditors and the External Accounts Auditor, the main risks to which the Company is exposed, and, in particular, those affecting its financial position.
- Producing a risk assessment report for the Board of Directors;
- Proposing, where appropriate, to the Board of Directors measures required to manage, mitigate or prevent risks detected.
- Overseeing the effectiveness of the risk management systems in place.
- Establishing, if the Committee thinks fit for the purposes of risk detection, and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

› **e) In relation to corporate governance:**

- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Rules and Regulations of the Audit and Compliance Committee and the Company's governance regulations in general, and making the proposals necessary for their improvement. In

fulfilling this duty, the Audit and Compliance Committee shall liaise with the Appointments and Remuneration Committee in considering Company Directors' and managers' compliance with the Code.

- Preparing an annual report on the work of the Audit and Compliance Committee that shall form part of the Corporate Governance Report.
- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

› **f) In relation to shareholders:**

- Providing information on issues within the scope of its duties at the General Meeting.

The above functions, with the exception of those attributed directly to the Audit and Compliance Committee by law or the Articles of Association, shall be considered delegated functions and may accordingly be reclaimed and exercised directly by the Board of Directors itself. Resolutions adopted by the Committee in the exercise of delegated functions shall not be binding for the Board of Directors. However, the Board must provide due justification of any decision it adopts without taking account of the reports or recommendations of the Audit and Compliance Committee on issues within its purview.

## APPOINTMENTS, REMUNERATION AND CSR COMMITTEE

The Appointments, Remuneration and CSR Committee has no specific regulations, as it is sufficiently regulated under article 45 of the Company's Articles of Association, as amended by shareholders in General Meeting on 30 March 2012 and previously at the General Meeting of 30 April 2010, and also under article 25 of the Regulations of the Board of Directors, which was amended by the Board of Directors on 20 February 2012; amendments that the Company reported to the shareholders at the General Meeting of 30 March 2012.

The Appointments, Remunerations and CSR Committee is composed of six (6) Independent Directors, appointed by the Board of Directors, which is within the limits established in the Articles of Association and the Regulations of the Board, which set a minimum of three (3) and maximum of six (6) Directors. It consists of six (6) Directors, of which four (4) are Independent Directors, including the Chairman, one (1) is a Proprietary Director and one (1) is an Other External Director.

Article 45 of the Articles of Association and article 25 of the Regulations of the Board of Directors provide that the Chairman must be an Independent Director. As per these provisions, no Executive Director may sit on this Committee, which must comprise a majority of Independent Directors and its Chairman shall be an Independent Director.

- Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments, Remuneration and CSR Committee must meet at least four (4) times a year. In 2014, the Committee met four (4) times.
- Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments, Remuneration and CSR Committee must meet at least four (4) times a year. In 2014, the Committee met four (4) times.

The duties of the Appointments, Remuneration and CSR Committee are detailed in article 45 of the Articles of Association and article 25 of the Regulations of the Board of Directors, and are as follows:

- To propose remuneration criteria for the Directors of the Company and of Group companies, in accordance with the stipulations of the Articles of Association and in line with resolutions passed at the General Meeting, and to ensure that remuneration is transparent.
- To propose a general remuneration policy for Enagás management personnel, providing a rationale to the Board of Directors, and guidelines relating to the appointment, selection, promotion and

dismissal of senior managers of the Company and its Group, in order to ensure that the Company has appropriate highly-qualified staff for administering its business at all times.

- To review the structure of the Board of Directors of Enagás and the companies included in its Group, as well as the criteria for the renewal of Directors required under the Articles of Association, the addition of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that the Committee considers necessary.
- To report on the appointment and dismissal of the Secretary of the Board of Directors.
- To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
- To formulate and revise the criteria to be followed in the composition of the Board of Directors and for the selection of the candidates proposed for the office of Director.
- To provide information, objectively and in the Company's interest, concerning the proposals for appointment, re-election and ratification of Directors, as well as for the appointment of members of Board Committees.
- To formulate proposals to the Board of Directors regarding the Company's organisational structure, including the creation of senior management posts in order to achieve improved and more efficient Company administration.
- To produce reports on appointments and dismissals of senior management staff, and, where necessary, approve special terms in their contracts.
- To approve the remuneration of senior management, provided that this does not diverge from criteria established in the general remuneration policy for executives.
- To report to the Board of Directors on any related-party transactions before authorisation thereof. Under no circumstances shall the transaction be authorised if prior to this the report stipulated in article 14A of the Rules and Regulations has not been issued.
- Report to the Board on the general Corporate Social Responsibility and Corporate Governance policy, ensuring the adoption and effective application of best practices, both those which are compulsory and in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the Company releases to shareholders annually regarding these issues.
- To report to the Board of Directors on measures to be taken in the event of breach of these Rules and 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 CSR Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

#### EXPLANATORY NOTE ON SECTION D.2.-

Regarding dividends paid by Enagás to significant shareholders, excluding Directors, referred to in section D.2 of this Report, note:

On 3 July 2014, Enagás paid OMAN OIL HOLDINGS SPAIN, S.L.U. a final dividend for 2013 of €9,115 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €6,207 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €15,322 thousand.

On 3 July 2014, Enagás paid FIDELITY INTERNATIONAL LIMITED a final dividend for 2013 of €3,597 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €2,450 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €6,047 thousand.

On 3 July 2014, Enagás paid RETAIL OEICS AGGREGATE a final dividend for 2013 of €1,841 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €1,253 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €3,094 thousand.

Meanwhile, the Company considered it appropriate to disclose the trade transaction consisting of the guarantees and deposits received from KUTXABANK, S.A., amounting to €279 thousand, even though KUTXABANK, S.A. was not a significant shareholder of Enagás at 31 December 2014.

#### EXPLANATORY NOTE ON SECTION D.3.-

Regarding dividends paid by Enagás to Director whose are significant shareholders referred to in section D.3 of this Report, note:

On 3 July 2014, Enagás paid SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES ("SEPI") a final dividend for 2013 of €9,115 thousand, as approved by the shareholders in General Meeting. Additionally, in December 2014, a €6,207 thousand interim dividend against 2014 earnings was paid. The total dividend paid therefore stands at €15,322 thousand.

Meanwhile, attendance fees paid to the members of the Board of Directors de Enagás totalled €1,083 thousand at 31 December 2014.

The Board attendance fees have not risen since 2008. Changes between financial years correspond to actual attendance by Directors to the meetings.

#### EXPLANATORY NOTE ON SECTION D.4.-

The basis on which Enagás reports significant transactions between the Company and other group entities is set out below:

1. Any significant transaction with another group entity that is not eliminated in the process of accounting consolidation must be reported.
2. A transaction not eliminated in the accounting consolidation process must be reported unless it simultaneously satisfies the following three conditions:
  - a. The amount is no more than 1% of the Company's annual revenues(article 14A of the Rules and Regulations of the Board)
  - b. It forms part of the ordinary course of business of the Company,where "ordinary course of business" embraces all activities relating tottransport, storage and re-gasification.
  - c. It is concluded at arm's length (article 14A of the Rules and Regulations of the Board).

Services received generated billings in the amount of €10,098 thousand. Services rendered generated billings in the amount of €14,873 thousand.These figures are not mentioned in section D.4 of this Report because they reflect transactions that form part of the ordinary course of business of Enagás, S.A. and its group companies in terms of their purpose and contractual terms.

**EXPLANATORY NOTE ON SECTION D.5.-**

The amount of related-party transactions breaks down as follows:

Ref.	Group entity	Related party	Item	Amount (€ thousand)
D.5.1	Enagás S.A.	Banco Santander, S.A.	Finance cost	1,346
D.5.1	Enagás Internacional S.L.U.	Banco Santander, S.A.	Finance cost	101
D.5.1	Enagás Transporte, S.A.U.	Banco Santander, S.A.	Finance cost	29
D.5.1	Enagás GTS, S.A.U.	Banco Santander, S.A.	Finance cost	4
<b>Total finance cost, other related parties</b>				<b>1,480</b>
D.5.2	Enagás S.A.	Eulen, S.A.	Services received	964
D.5.2	Enagás Transporte S.A.U.	Eulen, S.A.	Services received	621
D.5.3	Enagás S.A.	Newcomer 2000	Services received	12
<b>Total services received, other related parties</b>				<b>1,597</b>
D.5.1	Enagás S.A.	Banco Santander, S.A.	Finance revenue	2
<b>Total finance revenue, other related parties</b>				<b>2</b>
D.5.1	Enagás S.A.	Banco Santander, S.A.	Guarantees	153,078
<b>Guarantees and sureties received, other related parties</b>				<b>153,078</b>
<b>TOTAL TRANSACTIONS WITH OTHER RELATED PARTIES</b>				<b>156,157</b>

**D.5.1 Transactions with BANCO SANTANDER, S.A.-**

- **Finance costs:** In 2014, finance costs payable to Santander, S.A. amounted to €1,480 thousand (€1,346 thousand payable by Enagás, S.A., €101 thousand payable by Enagás Internacional, S.L.U., €29 thousand payable by Enagás Transporte, S.A.U. and €4 thousand payable by Enagás GTS, S.A.U).
- **Finance revenue:** Finance revenue in 2014 amounted to €2 thousand, related to revenue from short-term investments made by Enagás S.A. with Santander.
- **Guarantees and sureties received:** Guarantees extended by Banco Santander, S.A. in 2014 amounted to €153,078 thousand, all of which were granted to Enagás, S.A.

**D.5.2 Transactions with EULEN, S.A.-**

- **Services received:** Enagás, S.A. incurred expenses of €964 thousand, as follows:

Services received from Eulen, S.A.				
Item	Amount	Price policy	Payment terms	Guarantees
Building/installations maintenance	964	-	-	-

- **Provision of services:** Enagás Transporte, S.A.U. incurred expenses of €621 thousand, broken down as follows:

Services received from Eulen, S.A.				
Item	Amount	Price policy	Payment terms	Guarantees
Building/installations maintenance	344	-	-	-
Security	277	-	-	-

**D.5.3 Transactions with NEWCOMER 2000, S.L.U.**

- **Services received:** Enagás, S.A. incurred expenses of €12 thousand, as follows:

Services received from Newcomer 2000				
Item	Amount	Price policy	Payment terms	Guarantees
Advisory services	12	-	-	-

# APPENDIX II

## REPORT ON THE ACTIVITIES OF THE ENAGÁS, S.A. AUDIT AND COMPLIANCE COMMITTEE IN 2014

Until the holding of the General Shareholders' Meeting on 25 March 2014, the Committee had the following composition:

### > Chairman

José Riva Francos, Independent Director

### > Members

Martí Parellada Sabata, Independent Director  
Luis Javier Navarro Vigil, "Other External" Director  
Sociedad Estatal de Participaciones Estatales (SEPI), Proprietary Director, represented by its Deputy Chairman, Federico Ferrer Delso  
Isabel Sanchez García, Independent Director

### > Secretary

Rafael Piqueras Bautista

At the aforementioned General Meeting, José Riva Francos and Isabel Sánchez García were removed from their positions as Directors of the Company and therefore as members of the Committee.

The Board of Directors, at its 19 May 2014 meeting, agreed to appoint new members of the Committee, which since then has had the following makeup:

### > Chairman

Martí Parellada Sabata, Independent Director

### > Members

Sociedad Estatal de Participaciones Industriales (SEPI), Proprietary Director, represented by its Deputy Chairman, Federico Ferrer Delso.  
Rosa Rodríguez Díaz, Independent Director.  
Gonzalo Solana González, Independent Director.  
Luis Valero Artola, Independent Director.

### > Secretary

Rafael Piqueras Bautista

As provided in the Company's constitutional documents, the Committee called on a number of persons related to matters under its competence for consultation. Accordingly, committee meetings were regularly attended by Enagás's Chief Executive Officer, Marcelino Oreja Arburúa; Chief Financial Officer, Borja García-Alarcón Altamirano; and Director of Internal Audit, José Manuel Castro del Real. External

Auditors from Deloitte also attended committee meetings.

### ACTIVITIES OF THE COMMITTEE

The Audit and Compliance Committee met four (4) times in 2014.

The main areas on which it focused its activity during the year are summarised below.

#### 1.-Committee activities relating to the formulation and approval of the Enagás Financial Statements for 2013

As in previous years, the Audit Committee was entrusted with the task of discussing and analysing the financial statements prior to their authorisation for issue by the Board of Directors. To this end the members of the Committee met with the Company's External Auditors (Deloitte S.L.) on 17 February 2014, and also with Enagás' Chief Financial Officer and Director of Internal Audit.

Both the External Auditors and the financial officers of the Company offered the Committee their views on the financial statements. Differences in accounting criteria in no case exceeded the materiality threshold above which Deloitte's opinion on the financial statements could be affected. Deloitte informed the Audit Committee that its report would be without reservations or qualifications.

The following conclusions emerged from the Audit Committee's examination of the 2013 financial statements:

- That the financial statements of Enagás and its Consolidated Group, as submitted to the Committee, gave a true and fair view of the Company's equity and results of operations for the year.
- That the financial statements contained sufficient information to be clearly understood, in addition to a sufficient description of the risks faced by the Company.
- That the statements followed generally accepted accounting principles and regulations, on the same terms applied in previous years.
- That the principles of parity of treatment for shareholders and transparency of information reported to the markets had been upheld.

Pursuant to the provisions of Additional Provision 18 section 4-6 of Securities Market Act 24/1988 of 24 July, the Committee issued a report prior to issuance by Deloitte S.L. of its audit report on the individual and consolidated financial statements of Enagás, S.A. and its Group for the year ended 31 December 2013, stating as follows:

- There has again been appropriate liaison with the auditors to obtain information on any issues that could compromise their independence for appraisal by the Audit and Compliance Committee or any other subjects related to the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in technical auditing standards.
- The Audit and Compliance Committee has received from the auditors written confirmation of their independence with regard to Enagás and any entity directly or indirectly related to it, and information on any kind of additional services provided to such entities by the auditors or persons or entities related to the auditors, pursuant to the provisions of the 19/1988 Audit Act of 12 July.

The Committee accordingly resolved to recommend that the Board of Directors of Enagás authorise the financial statements for issue. At a meeting held on 17 February 2014, the Board of Directors



adopted the Committee's recommendation and authorised the financial statements for issue in line with the terms indicated by the Committee. The financial statements and directors' report for 2013 were approved at the General Meeting held on 25 March 2014.

In addition to the above task, as in previous years, the then Chairman of the Audit Committee, Mr. Riva, intervened at the Ordinary General Meeting held on 25 March 2014, at which he explained the most important elements of the financial statements to the Company's shareholders, thus ensuring that they had all the information they needed to be able to vote on the financial statements, which were adopted as proposed by the Board of Directors.

## 2.- Monitoring of relationships between Enagás and its significant shareholders

The Committee continued to supervise relationships between Enagás and its significant shareholders, and no noteworthy incidents emerged.

## 3.- External auditor. Internal audit plan

Concerning external auditors, the Committee produced a favourable report on the proposal at the General Shareholders' Meeting to renew Deloitte S.L. as the Auditor of Enagás, S.A. and its Consolidated Group for 2014. The proposal was approved by the General Meeting held on 25 March 2014.

It is the Company's intention that remuneration paid to the Auditor or the companies in the Auditor's group for services other than auditing should not exceed 10% of the remuneration for audit services. In 2012, backed by the Committee, the Company introduced an internal procedure to award the various audit services to the External Auditor in order to ensure such outsourcing is strictly kept to the necessary minimum.

Pursuant to the Audit Act, Deloitte rotated the engagement partner in charge of the audit of Enagás and its Consolidated Group in 2012.

All meetings of the Audit Committee have included as items of business on the agenda both a general review of progress in the implementation of the audit plan for 2014, and a specific analysis of the main audit processes underway at a given time.

## 4.- Risk control in 2014

The Audit Committee considers the work on risk control to be particularly important. In 2003, with the assistance of external consultants, the Company carried out an exhaustive review of business and related risks, pinpointing the internal processes that might be affected by each of these risks. On the basis of the results obtained, processes that should be given the most urgent attention by the Internal Audit Unit and Audit Committee were identified. However, the Committee deemed it necessary to review the Company's Risk Model and, as a result, with appropriate external assistance, the Company's risk services drew up a new model which was approved by the Committee on 30 January 2009.

In 2013, the Committee examined the model used for measuring risks in greater depth. In response to the concerns of the Committee, the Company's Management adopted organisational measures that the Chief Executive Officer reported to the Committee at its meeting held on 21 July 2014, consisting of risk control functions being taken over by a department reporting directly, from an

organic and functional standpoint, to the Committee. This organisational model corresponds to best practices and enables the work of Internal Audit to help the Committee in its role of ultimately ensuring appropriate risk control by the Company.

Once the role of risk control has been organisationally restructured, in 2014 work was begun on updating the Company Risk Model. These efforts will continue in 2015.

In 2014, the Company carried out various actions to deploy the Criminal Liability Risk Management Model, as has been reported to the Committee at several of its meetings.

## 5.- Internal Control over Financial Reporting System

The Committee also supervised the Internal Control of Financial Reporting system deployed by the Company with appropriate assistance by external consultants. This reporting system is intended to guarantee that the financial information prepared and published by the Company is complete and accurate. And, although such a review of the financial reporting system is not compulsory for companies such as Enagás, it is considered to be a "good practice". The consultants taking part in the review stated that "in general, Enagás has an appropriate level of internal control over financial reporting". A review of the corresponding level of compliance of this system was performed in 2014.

## 6.- Quarterly accounting reviews

Throughout 2014 the Committee continued to review the limited quarterly report issued by the auditors, as in previous years.

Specifically it analysed, in conjunction with Deloitte, the reports issued by the latter for the first, second and third quarters, respectively. Performing these reviews enables the Committee to minimise the impact of any accounts issues arising in the course of the year, and the members of the Committee and Board of Directors to keep abreast of the opinions of the Company's external auditors on annual developments in the balance sheet and income statement.

The Audit Committee considers that both the quarterly reviews carried out by the External Auditor and the Committee's own analysis of these reports are essential to ensure strict control over the Company's accounting, and they also facilitate the issue of an unqualified audit report at year-end.

The Committee also reviews and approves financial information disclosed by the Company each quarter, in line with the good corporate governance recommendations it has adopted.

The Committee prepared a specific report on the financial statements for the first half-year which, on its recommendation, were approved by the Board of Directors in July 2014.

## 7.- Report on the activities of the Business Principles Supervisory Committee (Ethics Channel)

The Committee examined the activities of the Business Principles Supervisory Committee (Ethics Channel), and approved its report for 2014. The Committee has been informed in a timely fashion and in detail regarding the incidents arising in relation to the "Ethics Channel" that have been adequately resolved.

### **8.-Activities after year-end**

In the opening months of 2015, the Committee continued with its usual activities, in particular assisting the Board of Directors in preparing the financial statements. As in the previous financial year, at a meeting on 23 February 2015 the Audit and Compliance Committee issued a prior favourable report on the 2014 financial statements which will be submitted to the 2015 General Meeting for adoption.

This report was drawn up and approved by the Audit and Compliance Committee at the meeting held on 23 February 2015, and was approved by the Board of Directors at a meeting on the same day.

The Secretary of the Enagás, S.A. Audit and Compliance Committee  
Rafael Piqueras Bautista