

This version is a free translation of the original, which was prepared in Spanish. If you find any discrepancy between the English and the Spanish version of this document, please note that the Spanish version will prevail.

**ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL YEAR

2016

C.I.F. A-08015497

Registered name:

GAS NATURAL SDG, S.A.

Registered address:

Plaça del Gas, nº 1 – 08003 BARCELONA

A OWNERSHIP STRUCTURE**A.1 Complete the following table on the Company's share capital:**

Date of last change	Share capital (€)	Number of shares	Number of voting rights
22/06/12	1.000.689.341	1.000.689.341	1.000.689.341

Report if there are different classes of shares with different rights associated:

YES NO X

Class	Number of shares	Nominal value per share	Number of voting rights per unit	Different rights

A.2 Detail the direct or indirect holders of significant shareholdings of the company at the close of the financial year, excluding the Board Members:

Name or corporate name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION	40.092.780		0	4,01%
REPSOL, S.A.	200.964.920		0	20,08%
FUNDACION BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	0	CRITERIA CAIXA, S.A.U.	244.557.521	24,44%
		CAIXABANK, S.A.	208	0,00%
GLOBAL INFRASTRUCTURE PARTNERS III	0	GIP III CANARY 1, S.À R.L.	200.137.868	20,00%

State the most significant changes in the shareholding structure that have occurred during the financial year:

Name or corporate name of the shareholder	Date of transaction	Description of transaction

REPSOL, S.A.	21-09-2016	Se ha descendido el 10%
CRITERIA CAIXA, S.A.U.	21-09-2016	Se ha descendido el 10%
GIP III CANARY 1, S.À R.L.	21-09-2016	Se ha superado el 15%

A.3 Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Name or corporate name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR. ISIDRO FAINÉ CASAS	17.426			0,00%
MR. JOSU JON IMAZ SAN MIGUEL	2.100			0,00%
MR. WILLIAM ALAN WOODBURN	0			0,00%
MR. RAFAEL VILLASECA MARCO	13.055	RAVIFA 2013, S.L. B66079922	8917	0,00%
MR. RAMÓN ADELL RAMÓN	5.000			0,00%
MR. ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	8.339			0,00%
MR. XABIER AÑOVEROS TRIAS DE BES	350			0,00%
MR. MARCELINO ARMENTER VIDAL	12.600			0,00%
MR. MARIO ARMERO MONTES	0			0,00%
MR. FRANCISCO BELIL CREIXELL	7.128			0,00%
MRS. BENITA FERRERO-WALDNER	0			0,00%
MR. ALEJANDRO GARCÍA-BRAGADO DALMAU	0			0,00%
MRS.	0			0,00%

CRISTINA GARMENDIA MENDIZABAL				
MRS. HELENA HERRERO STARKIE	0			0,00%
MR. MIGUEL MARTÍNEZ SAN MARTIN	0			0,00%
MR. RAJARAM RAO	0			0,00%
MR. LUÍS SUÁREZ DE LEZO MANTILLA	18.156			0,00%

% total voting rights held by the board of directors	0,00%
---	-------

Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Name or corporate name of director	Number of direct voting rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder of the interest	Number of voting rights		

A.4 State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CONTRACTUAL Y COMERCIAL	Commercial or corporate relationships between Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona (La Caixa) and Repsol, S.A. are expressed in the reports of these companies. Previous shareholders agreement was finished

		on September 21, 2016. See par. A.6.
REPSOL, S.A.	CONTRACTUAL Y COMERCIAL	Commercial or corporate relationships between Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona (La Caixa) and Repsol, S.A. are expressed in the reports of these companies. Previous shareholders agreement was finished on September 21, 2016. See par. A.6.

A.5 State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	COMERCIAL	Existing relationships derive from ordinary commercial traffic and are referred to in par. D.2 and in annual accounts.
REPSOL, S.A.	COMERCIAL	Existing relationships derive from ordinary commercial traffic and are referred to in par. D.2 and in annual accounts.
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	COMERCIAL	Existing relationships derive from ordinary commercial traffic.

A.6 State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (Ley de Sociedades de Capital) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement: ***

YES X NO

Participants in the private	% of share capital	Brief description of the
-----------------------------	--------------------	--------------------------

shareholders' agreement	affected	agreement
CRITERIA CAIXA, S.A.U REPSOL, S.A. GIP III CANARY 1, S.À R.L.	64,52	Participants have agreed some commitments related to the Corporate Governance of the Company whose purpose is the composition of the Board of Directors and its Committees as detailed below.

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

YES NO X

Participants in concerted action	% of share capital affected	Brief description of the agreement

Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:

According to the relevant facts published as a result of the Purchase Contract of shares dated 12 September 2016 between Repsol SA and Criteria Caixa SAU on the one hand and GIP III CANARY 1, S.À RL on the other, Criteria Caixa and Repsol agreed to terminate the Agreement between them in relation to their participation in GAS NATURAL SDG, SA dated 11 January 2000, as amended on 16 May 2002, 16 December 2002 and 20 June 2003, under which both parties exercised joint control over GAS NATURAL SDG, SA. That termination was subject to the condition precedent to the actual transfer of the shares in question to GIP III CANARY 1, S.À R.L, a circumstance which occurred on 21 September 2016.

Relevant facts Nos. 242611 and 242612, both dated September 12, 2016 and Nos. 242957 and 24963, both dated September 21, 2016.

As expressed in the aforementioned relevant facts, REPSOL SA, CRITERIA CAIXA SAU and GIP III CANARY 1, S.À RL, as shareholders of the Company, agreed to exercise the rights inherent to their status as such with full autonomy and in the manner they deem most convenient at any time, stating that the agreement reached does not involve concerted action.

In this agreement, these companies assumed certain commitments related to the corporate governance of the Company. In particular, the companies committed to make their best efforts to ensure, to the extent legally possible: (i) That each one of them has a representation in the Board of Directors proportional to the percentage of its participation in the share capital; (ii) that the chairmanship of the Company is non-executive and corresponds to one of the Directors appointed by the party that has a stake in the Company's capital significantly higher than the rest, which is currently CRITERIA, and that there are two Vice-Presidents Non-executive directors who are employed by appointed Directors at the proposal of REPSOL and GIP respectively,

while the presidency is occupied by a director on a proposal from CRITERIA; (iii) that the Executive Committee be made up of 10 members, 2 appointed by CRITERIA (including, where appropriate, the Chairman of the Board), 2 by REPSOL, 2 by GIP, 3 Independent Directors and 1 Executive Director; (iv) the Audit Committee has 7 members, 1 appointed by CRITERIA, 1 by REPSOL, 1 by GIP and 4 by Independent Directors; (v) that the Appointments and Remuneration Committee is made up of five members, 1 appointed by CRITERIA, 1 by REPSOL, 1 by GIP and 2 by Independent Directors and (vi) that in the event of changes in the total number of members of the Board of Directors of the Company or in the participation of the Parties in the Company's share capital, the Company shall adopt the necessary measures to adapt the composition of the Board of Directors So as to maintain the balance between the directors appointed by each of them in accordance with the principle of proportional representation.

A.7 State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 5 of the Securities Market Act (Ley del Mercado de Valores). If so, identify it:

YES NO X

Individual or Company name

Comments

A.8 Complete the following tables about the company's treasury shares::

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
750.545	0	0,08%

(*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
Total:	

Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:

Explain any significant changes

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer own shares of the company.

The General Shareholders' Meeting of May 14, 2015, in its fourteenth item on the Agenda, authorized the Board of Directors to agree on a period of not more than 5 years to acquire the shares of the Company, subject to the following conditions:

FOURTEENTH.- Authorization to the Board of Directors for the derivative acquisition of own shares, directly or through companies of the GAS NATURAL SDG, SA Group, in the terms agreed by the General Meeting and with the legally established limits, without giving effect to the authorization Agreed by the Ordinary General Meeting of April 20, 2010.

Fourteenth 1.- Leave the authorization granted to the Board of Directors by the General Shareholders' Meeting held on April 20, 2010, in order to acquire shares of the Company for pecuniary interest, in the unused portion.

Fourteenth 2.- To authorize the Board of Directors so that, within a period not exceeding five years, it may acquire, for one or more times, for a consideration, up to a maximum of 10% of the capital stock or the maximum amount resulting from application in accordance with current legislation at the time of acquisition, shares of the Company that are fully paid up, without the nominal value of shares acquired directly or indirectly, in addition to those already held by the Company and its subsidiaries exceeding 10% of the subscribed capital, or any other legally established. The minimum and maximum purchase price will be the quotation on the Spanish stock exchanges' Continuous Market with an oscillation of more or less than 5%.

In the event that the shares are not listed, the maximum and minimum acquisition price will be indicated between one-half and two times the book value of the shares, in accordance with the latest audited consolidated balance sheet. The Board of Directors is empowered to delegate this authorization to the Executive Committee or to the person or persons it deems convenient. This authorization is understood to extend to the acquisition of shares of the Company by controlled companies.

Likewise, the General Shareholders' Meeting of April 20, 2012, in its tenth item of the Agenda, adopted the following agreement:

TEN.- Authorization to the Board of Directors, with power of substitution in the Executive Committee, in accordance with the provisions of article 297.1 b) of the Capital Companies Act, so that, within a maximum period of five (5) years, If it deems it advisable, to increase the share capital up to the maximum amount corresponding to half of the share capital at the time of authorization, with an incomplete subscription forecast, issuing ordinary shares, privileged or redeemable shares, voting or not voting, with premium or without premium, in one or more times and in the opportunity and amount that considers appropriate, including the power to eliminate, as the case may be, preferential subscription rights, rewriting the corresponding articles of the Articles of Association and leaving effect the authorization agreed by the General Meeting of April 20, 2010.

Ten.-

- 1) Taking into account the current figure of the share capital, to authorize the Board of Directors, with power of substitution in the Executive Committee, to

increase the share capital by FOUR HUNDRED AND NINETY FIVE MILLION EIGHT HUNDRED AND THIRTY SIX THOUSAND SIXTY AND NINE EUROS (495,836. 069.- €) within five (5) years, as from this date, by means of cash disbursement, in one or more times in the opportunity and amount that the same decides, issuing ordinary shares, privileged or redeemable shares, with voting or non-voting, with a premium or without a premium, without the need for a new authorization from the General Meeting, as well as to modify the articles of the Bylaws that may be necessary for the increase or increases of capital made pursuant to said authorization , with an incomplete subscription forecast, all in accordance with what is established in article 297.1 b) of the Capital Companies Act, without giving effect to the authorization agreed by the General Meeting of April 20, 2010.

- 2) The Board of Directors, with power of substitution in the Executive Committee, is expressly empowered to exclude, in whole or in part, the pre-emptive subscription right in relation to any or all of the issues that it may agree upon based on this authorization.
- 3) As a result of the previous agreement, to amend the Transitory Article of the Articles of Association, which will be drafted as follows:

**TEMPORARY ARTICLE
DELEGATION TO THE BOARD OF DIRECTORS.**

The Company’s Board of Directors is empowered, within a maximum period of five (5) years as from today, to increase capital by FOUR HUNDRED NINETY-FIVE MILLION, EIGHT HUNDRED THIRTY-SIX THOUSAND, AND SIXTY-NINE EURO (495,836,069 euro) on one or more occasions, when and in the amount it so determines, by issuing voting or non-voting common, preference or redeemable shares, at a premium or otherwise, to be paid in cash, without the need for further shareholder approval, including where appropriate the power to totally or partially override pre-emptive subscription rights, and to amend the Articles of Association as required as a result of any capital increase(s) undertaken by virtue of the aforementioned authorisation, allowing for incomplete subscription, in conformity with the provisions of Article 153.1.b) of the Spanish Capital Companies Act; this power may be sub-delegated to the Executive Committee.

A.9 bis Estimated free-float:

	%
Estimated free-float	31,39

A.10 State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.

YES NO

Description of restrictions
As a company that includes certain regulated and quasi-regulated assets and activities in the Group, the acquisition of shares of GAS NATURAL SDG, S.A. may be subject to the provisions of Additional Provision Nine of Law 3/2013, of June 4, creating the Comisión Nacional de los Mercados y Competencia (National Commission on Markets and Competition).

Due to its nature as main operator in the gas and electricity markets, the holding of its shares is subject to the restrictions established in article 34 of Decree-Law 6/2000 of Urgent Measures to intensify competition in the markets of goods and services.

A.11 State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007.

YES NO X

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective:

A.12 State whether the company has issued securities that are not traded on a regulated market within the European Community.

YES NO X

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

B GENERAL SHAREHOLDERS' MEETING

B.1 State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

SI NO X

	Quorum % different from that established in section 193 of the Companies Act general	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194
Required quorum upon 1st call		
Required quorum upon 2nd call		

Description of differences

B.2 State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

SI

NO

Describe how they differ from the rules provided by the Companies Act.

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions		
Description of difference		

B.3 State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.

The amendment to the Articles of Association is regulated by Articles 24, 32 and 68 of the Articles of Association and Article 2 of the Regulations of the General Meeting.

The shareholders, assembled at a duly convened Shareholders' Meeting, shall resolve upon the matters within its competence by simple majority vote in general. Accordingly, a motion will be deemed to have been adopted if the votes in favour of the capital present or represented exceed the votes against.

All shareholders, including dissidents and those that have not taken part in the Meeting, are subject to the resolutions of the Shareholders' Meeting.

For the valid ratification at ordinary or extraordinary Shareholders' Meetings of bond issues, an increase or decrease in capital, the suppression or curtailment of pre-emptive subscription rights in issues of new shares or convertible bonds and the transformation, merger, demerger, transfer en bloc of assets and liabilities, the transfer of registered office abroad and in general any amendment to the Company's Articles of Association, the attendance of shareholders, in person or by proxy, holding at least fifty per cent (50%) of the subscribed voting share capital will be necessary at first call. When the Meeting is convened for a second time, the shareholders present or represented owning twenty-five per cent (25%) of the aforesaid capital shall suffice.

Amendments to the Articles of Association require the approval of the Shareholders' Meeting subject to the following requirements:

- 1) That the Board of Directors or, where appropriate, the shareholders responsible for the proposal, draw up a written report to justify the proposed amendment.
- 2) The notice of the Shareholders' Meeting must clearly set out the proposed amendment and state that all shareholders are entitled to examine the full text of the proposed amendment and the report in connection with same at the registered offices and on the corporate web site, and to obtain a copy or have it delivered to them free of charge.
- 3) The decision must be adopted by the Shareholders' Meeting as provided in these Articles of Association.
- 4) The decision must be expressed in a public instrument, registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:

Date of General Shareholders' Meeting	Attendance data				Total
	% of shareholders present in person	% of shareholders represented by proxy	% of voting Electronic voting	absentee Others	
14/05/15	68,57%	11,96%	0% 0%		80,53%
04/05/16	68,67%	8,77%	0% 0%		77,44%

B.5 State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.

SI NO

Number of shares required to attend the general shareholders' meeting	100
---	-----

B.6 Section deleted.

B.7 State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.

Information regarding Corporate Governance can be accessed at this address: www.gasnaturalfenosa.com → Shareholders and Investor → Corporate Governance.

Information regarding the general shareholders' meeting of the Company can be accessed at this address: www.gasnaturalfenosa.com → Shareholders and Investor → General Shareholders' Meeting.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of directors

C.1.1 Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	20
Minimum number of directors	10

C.1.2 Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR. ISIDRO FAINE CASAS		PROPRIETARY	PRESIDENT	18/05/2015	18/05/2015	GENERAL SHAREHOLDERS' MEETING
MR. JOSU JON IMAZ SAN MIGUEL		PROPRIETARY	VICEPRESIDENT 1°	21/09/2016	21/09/2016	COOPTATION
MR. WILLIAM ALAN WOODBURN		PROPRIETARY	VICEPRESIDENT 2°	30/09/2016	30/09/2016	COOPTATION
MR. RAFAEL VILLASECA MARCO		EXECUTIVE	CHAIRMAN/CEO	28/01/2005	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MR. RAMÓN ADELL RAMÓN		INDEPENDENT	DIRECTOR	18/06/2010	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MR. ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI		PROPRIETARY	DIRECTOR	27/06/1991	11/04/2014	GENERAL SHAREHOLDERS' MEETING
MR. XABIER AÑOEROS TRIAS DE BES		INDEPENDENT	DIRECTOR	20/04/2012	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MR. MARCELINO ARMENTER VIDAL		PROPRIETARY	DIRECTOR	21/09/2016	21/09/2016	COOPTATION
MR. MARIO ARMERO MONTES		PROPRIETARY	DIRECTOR	21/09/2016	21/09/2016	COOPTATION
MR. FRANCISCO BELIL CREIXELL		INDEPENDENT	DIRECTOR	14/05/2015	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MRS. BENITA MARIA FERRERO-WALDNER		INDEPENDENT	DIRECTOR	14/05/2015	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MR. ALEJANDRO GARCÍA-BRAGADO DALMAU		PROPRIETARY	DIRECTOR	21/09/2016	21/09/2016	COOPTATION
MRS. CRISTINA GARMENDIA MENDIZABAL		INDEPENDENT	DIRECTOR	14/05/2015	14/05/2015	GENERAL SHAREHOLDERS' MEETING
MRS. HELENA HERRERO STARKIE		INDEPENDENT	DIRECTOR	04/05/2016	04/05/2016	GENERAL SHAREHOLDERS' MEETING
MR. MIGUEL MARTÍNEZ		PROPRIETARY	DIRECTOR	14/05/2015	14/05/2015	GENERAL

SAN MARTÍN						SHAREHOLDERS' MEETING
MR. RAJARAM RAO		PROPRIETARY	DIRECTOR	21/09/2016	21/09/2016	COOPTATION
MR. LUIS SUÁREZ DE LEZO MANTILLA		PROPRIETARY	DIRECTOR	26/02/2010	11/04/2014	GENERAL SHAREHOLDERS' MEETING

Total number of directors	17
----------------------------------	----

State the vacancies on the board of directors during the reporting period:

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
MR. SALVADOR GABARRÓ SERRA	EXECUTIVE	21/09/2016
MR. EMILIANO LÓPEZ ACHURRA	INDEPENDENT	04/05/2016
MR. ANTONIO BRUFAU NIUBÓ	PROPRIETARY	21/09/2016
MR. DEMETRIO CARCELLER ARCE	PROPRIETARY	15/09/2016
MR. HERIBERT PADROL MUNTE	PROPRIETARY	21/09/2016
MR. JUAN ROSELL LASTORTRAS	PROPRIETARY	20/09/2016
MR. MIGUEL VALLS MASEDA	INDEPENDENT	21/09/2016

C.1.3 Complete the following tables about the members of the board and each member's status:

EXECUTIVE DIRECTORS

Individual or company name of director	Position within the company's structure
MR. RAFAEL VILLASECA MARCO	CHAIRMAN & CEO

Total number of executive directors	1
Total % of the board	5,88%

EXTERNAL PROPRIETARY DIRECTOR

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment
MR. ENRIQUE ALCÁNTARA-	CRITERIA CAIXA, S.A.U.

GARCÍA IRAZOQUI	
MR. MARCELINO ARMENTER VIDAL	CRITERIA CAIXA, S.A.U.
MR. ISIDRO FAINE CASAS	CRITERIA CAIXA, S.A.U.
MR. ALEJANDRO GARCÍA- BRAGADO DALMAU	CRITERIA CAIXA, S.A.U.
MR. JOSU JON IMAZ SAN MIGUEL	REPSOL, S.A.
MR. MIGUEL MARTÍNEZ SAN MARTIN	REPSOL, S.A.
MR. LUÍS SUAREZ DE LEZO MANTILLA	REPSOL, S.A.
MR. MARIO ARMERO MONTES	GIP III CANARY 1 S. À R.L.
MR. RAJARAM RAO	GIP III CANARY 1 S. À R.L.
MR. WILLIAM ALAN WOODBURN	GIP III CANARY 1 S. À R.L.

E

RNOS

Total number of proprietary directors	10
% total directors	58,82%

EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MR. RAMÓN ADELL RAMÓN	Professor of Financial Economics and Accounting at the University of Barcelona.
MR. XABIER AÑOVEROS TRIAS DE BES	Doctorate in Law.
MR. FRANCISCO BELIL CREIXELL	Senior Engineer.
MRS. BENITA MARIA FERRERO-WALDNER	Doctorate in Law.
MRS. CRISTINA GARMENDIA MENDIZABAL	Doctorate in Biology.
MRS. HELENA HERRERO STARKIE	Degree in Chemical Sciences.

Total number of independent director	6
Total % of the board	35,29%

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group,

whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship.

If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.

Individual or company name of director	Description of the relationship	Reasoned statement

OTHER EXTERNAL DIRECTOR

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties

Total number of other external director	
Total % of the board	

State the changes, if any, in the class of each director during the period:

Individual or company name of director	Date of change	Former class	Current class

C.1.4 Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female directors				% of total directors of each class			
	Ejercicio t	Ejercicio t-1	Ejercicio t-2	Ejercicio t-3	Ejercicio t	Ejercicio t-1	Ejercicio t-2	Ejercicio t-3
Ejecutiva	0	0	0	0	0	0	0	0
Dominical	0	0	0	0	0	0	0	0
Independiente	3	2	0	0	17,65%	11,76 %	0	0
Otras Externas	0	0	0	0	0	0	0	0
Total:	3	2	0	0	17,65%	11,76%	0	0

C.1.5 Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

Explicación de las medidas
The Company is firmly committed to the principle of diversity in the composition of its Board of Directors and due respect to the right of shareholders to make proposals for the appointment of Directors that they deem appropriate in accordance with the legal mandate of proportional representation. Therefore, as far as gender diversity is concerned, just as the Board of Directors is respectful of the proposals of proprietary directors received from shareholders, in contrast to independent directors, the proposal corresponds to the Appointments and Remuneration. The latter has adopted an active approach to achieving such diversity in recent renovations. As a consequence, in the proposal to the 2015 Shareholders' Meeting, half of the new independent directors were men and the other half were women and at the 2016 Shareholders' Meeting, since there was only one renewal, it was decided that The only counselor to propose was a woman. The result is that there has been a short period of time between the independent directors.

C.1.6 Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:

Explicación de las medidas
The Appointments and Remuneration Committee is charged with the task of reviewing the necessary skills in the candidates who must fill each vacancy, meeting the requirements for each category of Directors and the process of incorporating the new members, reports or proposals where appropriate. The responsibility of ensuring that when new vacancies are filled, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors including, in the same conditions among the potential candidates, women who meet the profile sought.

If there are few or no female directors despite any measures adopted, describe the reasons for such result:

Explicación de los motivos
The female Directors account for 17.64% of the total number of Directors. The Company gradually incorporates female Directors to its Board of Directors as a manifestation of its commitment to diversity in the composition of the Board, one of whose most relevant manifestations is the gender diversity, since it has moved from 0 Directors in 2014 to 3 Directors in 2016, and it has been possible that in a short term there is parity among the Independent Directors.

C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the director

selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.

The Appointments and Remuneration Committee has verified the Directors' Selection Policy and has concluded that it is in accordance with a very defined shareholder structure that imposes respect for certain legal requirements of respect for the principle of proportional representation of shareholders, Which should be made compatible with the Corporate Governance recommendations. The Appointments and Remuneration Committee is satisfied that the achievements of the 2016 Shareholders' Meeting have been maintained in the restructuring of corporate governance in September 2016.

C.1.7 Explain the form of representation on the board of shareholders with significant holdings.

Of the four significant shareholders that the Company currently has, only three of them have proprietary Directors. CRITERIA CAIXA, S.A.U. has four Proprietary Directors, REPSOL, S.A. And GIP III CANARY, 1 S À R.L. each of them has three Proprietary Directors and SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, TRANSFORMATION ET LA COMMERCIALIZATION does not have any proprietary Director. This representation is fully consistent with the principle of proportional representation.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

SI NO

Individual or company name of the shareholder	Reason

C.1.9 State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by

what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:

Name of director	Reason for withdrawal
MR. SALVADOR GABARRO SERRA	Change in the shareholding structure
MR. HERIBERT PADROL MUNTE	Change in the shareholding structure
MR. ANTONIO BRUFAU NIUBÓ	Change in the shareholding structure
MR. DEMETRIO CARCELLER ARCE	Change in the shareholding structure
MR. JUAN ROSELL LASTORTRAS	See paragraph H
MR. MIGUEL VALLS MASEDA	Change in the shareholding structure

C.1.10 State any powers delegated to the CEO(s):

Nombre o denominación social del consejero	Brief description
MR. RAFAEL VILLASECA MARCO	He has delegated broad powers of representation and administration according to the characteristics and needs of the position of CEO.

C.1.11 Identify any members of the board who are directors or officers of companies within the listed company's group:

Individual or company name of director	Name of entity within the group	Position	Do he/she have executive duties?

C.1.12 Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Individual or company name of the director	Name of listed company	Position
MR. ISIDRO FAINÉ CASAS	TELEFÓNICA, S.A.	VICEPRESIDENT
MR. ISIDRO	THE BANK OF EAST ASIA	DIRECTOR

FAINÉ CASAS		
MR. ISIDRO FAINÉ CASAS	SUEZ ENVIRONNEMENT COMPANY, S.A.	DIRECTOR
MR. JOSU JON IMAZ SAN MIGUEL	REPSOL, S.A.	CEO
MR. RAMÓN ADELL RAMÓN	ORYZON GENOMICS, S.A.	DIRECTOR
MR. MARCELINO ARMENTER VIDAL	ABERTIS INFRAESTRUCTURAS, S.A.	DIRECTOR
MR. MARIO ARMERO MONTES	COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS, S.A.	DIRECTOR
MRS. BENITA FERRERO- WALDNER	MUNICH REINSURANCE CO	DIRECTOR
MRS. CRISTINA GARMENDIA MENDIZÁBAL	COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA HOLDINGS, S.A.	DIRECTOR
MRS. CRISTINA GARMENDIA MENDIZÁBAL	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MRS. CRISTINA GARMENDIA MENDIZÁBAL	SYGNIS AG	PRESIDENT
MR. LUIS SUÁREZ DE LEZO	REPSOL, S.A.	SECRETARY OF THE BOARD/BOARD MEMEBER

C.1.13 State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its directors may be members:

SI

NO

Explanation of rules

C.1.14 Section deleted.

C.1.15 State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	7.655
Amount of pension rights accumulated by the directors (thousands of euro)	3.241
Amount of pension rights accumulated by former directors	0

(thousands of euro)	
---------------------	--

C.1.16 Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:

Nombre o denominación social	Cargo/s
MR. CARLOS JAVIER ÁLVAREZ FERNÁNDEZ	CHIEF FINANCIAL OFFICE
MR. SERGIO ARANDA MORENO	MANAGING DIRECTOR FOR LATIN AMERICA
MR. CARLOS AYUSO SALINAS	DIRECTOR OF INTERNAL AUDIT, COMPLIANCE AND CONTROL
MR. ANTONIO BASOLAS TENA	MANAGING DIRECTOR OF STRATEGY AND DEVELOPMENT
MR. JOSÉ MARÍA EGEA KRAUEL	MANAGING DIRECTOR OF ENERGY PLANNING
MR. MANUEL FERNÁNDEZ ÁLVAREZ	MANAGING DIRECTOR OF WHOLESALE ENERGY BUSINESS
MR. MANUEL GARCÍA COBALEDA	LEGAL SERVICES GENERAL MANAGER AND COMPANY SECRETARY
MR. JORDI GARCÍA TABERNERO	MANAGING DIRECTOR OF COMMUNICATION AND INSTITUTIONAL RELATIONS
MR. DANIEL LÓPEZ JORDÀ	MANAGING DIRECTOR OF RETAIL ENERGY BUSINESS
MR. ANTONI PERIS MINGOT	MANAGING DIRECTOR OF REGULATED BUSINESS
MRS. ROSA M ^a SANZ GARCÍA	MANAGING DIRECTOR OF PEOPLE AND RESOURCES

Total senior management remuneration (in thousands of euros)	9.445
---	-------

C.1.17 State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Individual or company name of director	Company name of the significant shareholder	Position
MR. JOSU JON IMAZ SAN MIGUEL	REPSOL, S.A.	CEO
MR. JOSU JON IMAZ SAN MIGUEL	REPSOL OLI & GAS CANADA INC.	PRESIDENT
MR. ISIDRO FAINÉ CASAS	CRITERIA CAIXA, S.A.U.	PRESIDENT
MR. MARCELINO ARMENTER VIDAL	CAIXA CAPITAL RISC S.G.E.C.R., S.A.	PRESIDENT
MR. ALEJANDRO GARCIA-BRAGADO DALMAU	CRITERIA CAIXA, S.A.U.	FIRST VICE PRESIDENT
MR. LUÍS SUÁREZ DE LEZO MANTILLA	REPSOL, S.A.	SECRETARY OF THE BOARD/BOARD MEMBER

Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship
MR. ISIDRO FAINÉ CASAS	FUNDACIÓN BANCARIA CAIXA D'ESTALVIS I PENSIONS DE BARCELONA (LA CAIXA)	CHAIRMAN OF THE BOARD OF TRUSTEES
MR. LUIS SUAREZ DE LEZO MANTILLA	REPSOL, S.A.	SECRETARY OF THE BOARD
MR. MIGUEL MARTÍNEZ SAN MARTIN	REPSOL, S.A.	CFO AND CORPORATE DEVELOPMENT
MR. MARCELINO ARMENTER VIDAL	FUNDACIÓN BANCARIA CAIXA D'ESTALVIS I PENSIONS DE	MANAGING DIRECTOR CRITERIA CAIXA, S.A.U.

	BARCELONA (LA CAIXA)	
MR. RAJARAM RAO	GLOBAL INFRASTRUCTURE PARTNERS III	SHAREHOLDER
MR. WILLIAM WOODBURN	GLOBAL INFRASTRUCTURE PARTNERS III	SHAREHOLDER

C.1.18 State whether the regulations of the board have been amended during the financial year:

YES NO

Descripción modificaciones
<p>Modifications have been introduced in September 2016 which have affected two areas:</p> <ol style="list-style-type: none"> 1. Establishment of reinforced majorities for the adoption of agreements on certain matters (art 10): acquisition or disposal of assets for more than 500 million euros, approval of budgets and strategic plan, dividend policy, financing agreements or contracts of Gas supply of more than 500 million euros, other material contracts or CAPEX investments of more than 200 million euros, material modifications in accounting or tax policies and reformulation of accounts. Art. 5 establishes a reservation of these matters to the full Council. 2. The number of members of the Executive Committee and the ¿? Committee has been modified to make compatible the principle of proportional representation of shareholders with full respect for the requirements contained in the Law of Capital Companies regarding the presence of independents in said Committees. To this end, the maximum number of members of the Executive Committee (Article 30) and the number of members of the Executive Committee (Article 32) have been extended to 10. (See Section C.2.5 below)

C.1.19 State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. Describe the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.

The procedures for the selection, appointment, re-election, evaluation, and removal of directors are established in Articles 41 and 42 of Articles of Association and in articles 4, 11 to 15 and 31 of Regulations of the Board of Directors.

1.- Appointment of Board Members:

1. The Board Members shall be designated by the General Shareholders Meeting or by the Board of Directors, in accordance with the provisions of the Corporate Enterprises Act and in the Articles of Association of the Company.

2. The Board Members that are designated must be persons that, in addition to their compliance with all legal requirements and all terms provided for under the Articles of Association in respect of the appointment thereof, are prestigious and well known persons that have adequate knowledge and professional expertise in respect of the exercise of their functions. The proposals for the appointment of Board Members that the Board of Directors submits to the General Shareholders Meeting for consideration and the decisions for the appointment thereof that are adopted by the General Shareholders Meeting by virtue of the co-option powers that are legally available thereto, must be preceded by a proposal from the Appointments and Remuneration Committee in the case of Independent Board Members or by a report for the for the rest of the Board Members. When the Board diverges from recommendations of said Committee, the reasons for said divergence must be justified and formally recorded in the Minutes of the meeting.

3. The updated professional and biographical profile of all of the Board Members shall be published on the Company's web page, together with other Boards of Directors to which they belong, whether or not listed companies, as well as the category of the Board Member, as applicable, and, in the case of Proprietary Board Members, it shall be necessary to also state the shareholder that they represent or with which they are related, the date of their first appointment as a Board Member of the Company, as well as the subsequent dates of appointment and the shares of the Company and the share options that are held thereby.

4. The Board shall establish orientation programs that provide the new Board Members with the necessary knowledge regarding the Company and the corporate governance rules thereof for the adequate performance of the functions thereof. Furthermore, the Board shall provide the Board Members with knowledge upgrade programs as and when required.

2.- Re-election of Board Members:

The Board Members shall exercise their position during the maximum term of three years, and may be re-elected. The Board Members designated pursuant to the co-option system shall exercise their positions subject to the terms provided for under applicable legislation.

The Appointments and Remuneration Committee, which is responsible for the evaluation of the quality of the work and the commitment to their positions of the Board Members that have been proposed during the preceding mandate, must, necessarily, propose, in the case of Independent Board Members and must inform in respect of the rest of the Board Members, regarding the proposal for the re-election of Board Members that the Board of Directors decides to present to the General Shareholders Meeting.

Independent directors will not be in the charge for a period of more than 12 years.

3.- Evaluation:

According to Article 4.5. of Regulations of the Board of Directors, the Board will evaluate periodically its performance, as well as the performance of the different Committees.

4.- Removal of Board Members:

1. The Board Members shall be removed from office when their respective terms, for which they were appointed, have elapsed and in all other situations, when required pursuant to the provisions of the Corporate Enterprises Act, the Articles of Association and these Regulations.

2. The Board Members must present their resignation from the Board of Directors and must formalize, if the Board deems necessary, their corresponding formal resignation from office in the following situations:

a) When the Executive Board Members cease to exercise their executive functions.

b) When the Board Members are subject to any of the situations of disqualification or prohibition as provided for under applicable law, under the Articles of Association or under these Regulations.

c) When the Board Members seriously breach their obligations as Board Members, thereby placing the interests of the Company at risk.

d) When the reason for which the Board Members were appointed as Independent Board Members, Executive Board Members or Proprietary Board Members no longer exists.

3. After the Board Members have been removed from office, said persons may not render their services to a competitor company during the period of two years, except in the case that the Board of Directors waives said obligation or reduces the term of the restraint of trade covenant.

4. When an Independent Board Member is removed from office prior to the conclusion of the mandate for which he or she was appointed, the reasons for said removal from office must be explained in a letter addressed to the rest of the Board Members. The removal of the Board Members shall be notified as relevant information.

C.1.20 Explain the extent to which the self-evaluation of the board has given rise to significant changes in its internal organization and regarding the procedures applicable to its activities:

Description of changes
The Board of Directors' self-assessment has not led to major changes in the internal organization and procedures applicable to its activities. The Board concludes in its report that during the 2016 financial year it has functioned with expected normality, fully exercising its powers with respect to the legislation and the regulations governing the organization and functioning of the Board Regulations.
Irrespective of the fact that the Chairman of the Board and the Managing Director have intervened in all matters submitted to the Board, it is worth noting that the diversity of profiles of the different members of the Board of Directors has resulted

in their interventions highlighted in matters such as:

- D. Antonio Brufau Niubó: monitoring of investments, special attention in foreign countries.
- D. Ramón Adell Ramón: audit and annual accounts.
- D. Enrique Alcántara-García Irazoqui: rating of the Company.
- D. Xabier Añoveros Trias de Bes: Strategy Plan.
- D. Francisco Belil Creixell: growing businesses.
- D. Demetrio Carceller Arce: international investments.
- D^a Benita María Ferrero-Waldner: commitments in EU and business in Asia and India. Electricaribe.
- D^a Cristina Garmendia Mendizábal: investments in IT. Electricaribe.
- D. Emiliano López Achurra: political and economic worldwide background.
- D. Miguel Martínez San Martín: Brent and dollar development, as well as Company rating.
- D. Heribert Padrol Munté: Tax policy.
- D. Joan Rosell Lastortras: Dividend policy.
- D. Luis Suárez de Lezo Mantilla: Strategy Plan.
- D. Miguel Valls Maseda: Remuneration policy.
- D. Mario Armero Montes: Legal strategy in Colombia.
- D. Marcelino Armenter Vidal: Economic issues.
- D. Rajaram Rao: reporting to the Board and economic information.
- D. Josu Jon Imaz San Miguel: medium- and long-term development of markets.
- D. William Alan Woodburn: health and safety, environmental and operational efficiency.
- D. Alejandro García-Bragado Dalmau: corporate governance.
- D^a. Elena Herrero Starkie: technology and operational innovation.

C.1.20.bis Describe the process of self-evaluation and the areas evaluated by the board of directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chairman of the board and chief executive officer, and the performance and contribution of each director.

C.1.20.ter List any business relationships of the consultant or any company of its group with the company or any company of its group.

C.1.21 State the circumstances under which the resignation of directors is mandatory.

The Directors shall cease to hold office for the term for which they were appointed, unless re-elected and when the General Meeting decides to use the powers it holds. Likewise, they shall cease in all other cases in which they may do so in accordance with the Law, the Articles of Association and the Regulations of the Board of Directors.

The Board Members must present their resignation from the Board of Directors and must formalize, if the Board deems necessary, their corresponding formal resignation from office in the following situations:

- a) When the Executive Board Members cease to exercise their executive functions.
- b) When the Board Members are subject to any of the situations of disqualification or prohibition as provided for under applicable law, under the Articles of Association or under these Regulations.
- c) When the Board Members seriously breach their obligations as Board Members, thereby placing the interests of the Company at risk.
- d) When the reason for which the Board Members were appointed as Independent Board Members, Executive Board Members or Proprietary Board Members no longer exists.

C.1.22 Section deleted.

C.1.23 Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

YES NO

If so, describe the differences.

Description of differences
<p>Article 10.4 of Regulations of the Board of Directors provides as follows:</p> <p>“4. The resolutions and decisions must be adopted with the favorable vote of the absolute majority of the Board Members that are either present or represented thereat, unless the Corporate Enterprises Act, the Articles of Association or these Regulations provide for the need for a qualified majority. The written voting procedures, without a meeting session, shall only be possible when none of the Board Members are opposed to this voting procedure and provided that the requirements provided for under the Companies Register Regulations are satisfied.</p> <p>In particular, the favorable vote of at least two thirds of the Board Members, present or represented, shall be necessary for the valid adoption of the resolutions and decisions regarding the following aspects, that are reserved for the plenary session of the Board and, accordingly, are not able to be delegated</p> <ul style="list-style-type: none"> a) The acquisition or disposal of assets that belong to the Company (irrespective of the legal nature of said operations and, in particular, although said operations are carried out by means of merger or split-off operations or any other subsidiary company operations) for a sum that exceeds 500,000, 000 Euros, unless the approval thereof corresponds to the General Shareholders Meeting or are carried out in execution of the budget or the strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividends distribution policy and the approval of a new dividends distribution policy. d) The formalization, modification, renewal, non-renewal or termination by the Company of financing or refinancing contracts for a sum that exceeds 500, 000,000 Euros. e) The formalization, modification, renewal, non-renewal or termination by

the Company of any material contract, other than the contracts provided for under paragraph d) hereinabove, the amount of which exceeds 500,000,000 Euros in the case of gas procurement contracts and which exceeds 200,000,000 Euros in the case of other contracts.

f) Any material modifications to the accounting or tax criteria and policies of the Company, unless they are the result of modifications to applicable legislation or of the application of directives or criteria established by competent public authorities.

g) The redrafting of the annual accounts of the Company, unless said redrafting is the result of any legislative modification or of the application of directives or criteria established by competent public authorities.

h) Capital investments (CAPEX) not provided for in the annual budget of the Company that exceed 200,000,000 Euros.

i) The modification of this paragraph i), the modification of the aspects and terms of paragraphs a) to h) hereinabove or the modification of the qualified majority voting requirements provided for in respect thereof.

C.1.24 Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.

YES NO

Description of requirements

C.1.25 State whether the chair has a tie-breaking vote:

YES NO

Matters on which a tie-breaking vote may be cast

C.1.26 State whether the by-laws or the regulations of the board set forth any age limit for directors:

YES NO

Age limit for the chair
 Age limit for the CEO
 Age limit for directors

C.1.27 State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:

YES NO

Maximum number of terms	
-------------------------	--

C.1.28 State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

According to Article 47, second paragraph, of Articles of Association: “Directors unable to attend may appoint another Director to act on their behalf, with no limit applying to the number of Directors that may be represented by another. Proxies must be granted in writing. Non-executive directors may grant proxy only to another non-executive director.”

On the other hand, Article 10.3 of Regulations of the Board of Directors provides: “Each Board Member may confer his or her proxy representation upon another Board Member, without any limitation as to the number of proxy representations that may be held by the Board Members. The proxy representation of the absent Board Members may be formalised by any documented procedure whatsoever, including that of telegrams, e-mail, telex or facsimile addressed to the Chairman or the Secretary of the Board, a sufficient period of time beforehand.”

C.1.29 State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

Number of meetings of the board	15
Number of meetings of the board at which the chair was not in attendance	0

If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

Number of meetings	0
--------------------	---

State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	6
Number of meetings of the Audit Committee	7
Number of meetings of the Appointments and Remuneration Committee	8

Number of meetings of the appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of Committee _____	

C.1.30 State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Number of meetings with the attendance of the directors	9
% in attendance of total votes during the financial year	94,51

C.1.31 State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified::

YES NO

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR. Carlos Javier Álvarez Fernández	Director General Económico-Financiero

C.1.32 Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.

Article 7 of the Regulation of the Board of Directors provides as follows:

“1.- After the Board has received the reports issued by the Economic and Financial Department and by the Audit Committee, and after the pertinent clarifications in respect thereof, the Board of Directors shall draft, in clear and precise terms, that facilitate the adequate understanding of the content thereof, both the individual and consolidated Annual Accounts and Management Report. The Board of Directors shall ensure that the foregoing represent the true and fair image of the equity, the financial situation and the results of the Company, in accordance with the provisions of the Corporate Enterprises Act.

2.- Except in the case of any express declaration to the contrary, which must be formalized by way of formal Certificate, it shall be understood that, prior to the formalization of the Annual Accounts, as required pursuant to the Corporate Enterprises Act, the Board of Directors and each one of the members thereof, has been provided with all of the information necessary for the formalization thereof, and any necessary qualifications shall be included therein, as the case may be.

3.- The Board of Directors shall use their best endeavors to draft the accounts in such a way so that the accounts auditor of the Company is not required to include any qualifications whatsoever to the accounts.

Notwithstanding the foregoing, when the Board of Directors considers that it must maintain its own criteria, the Board shall publicly explain the terms and scope of the discrepancy”

Prior to its submission to the Audit Committee and subsequently to the Board of Directors, the Company's Accounts are certified by the Economics and Finance Director General.

Pursuant to those established in article 51 bis of the Articles of Association and in the Capital Companies Act, the Audit Committee is responsible for, inter alia, the functions of informing the General Meeting of shareholders on matters arising in relation to matters within the competence of the Committee and, in particular, on the outcome of the audit, explaining how it has contributed to the integrity of the financial information and the role that the Committee has played in that process, process of preparation and presentation of the mandatory financial information and to present recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity.

In addition, the Board of Directors of the Company has entrusted the Audit Committee with other powers to ensure that the Board of Directors seeks to present the accounts to the General Shareholders' Meeting without limitations or qualifications in the Audit Report and, in exceptional cases where there are exceptions, both the Chairman of the Committee and the Auditors explain to the shareholders the content and scope of such limitations.

C.1.33 Is the secretary of the board a director?

YES NO

If the secretary is not a director, complete the following table:

Individual or Company name of the Secretary	Representative
MR. MANUEL GARCÍA COBALEDA	-

C.1.34 Section deleted.

C.1.35 State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.

Among the legal duties of the Audit Committee are to establish the appropriate relations with the external auditor to receive information on issues that may threaten its independence, for its consideration by the committee, and any others related to the process, and where appropriate the authorization of services other than those prohibited under the conditions set out in Articles 5 (4) and 6.2 (b) of Regulation (EU) No 537 / 2014, of April 16, and as provided for in section 3 of Chapter IV of Title I of Law 22/2015, of July 20, Audit of Accounts, on the regime of independence, as well as those other communications provided for in the statutory audit and auditing standards. In any case, they must receive annually from the external auditors the declaration of their independence in relation to the

entity or entities related to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind provided and the corresponding fees received of these entities by the external auditor or by the persons or entities related to it in accordance with the provisions of the regulations governing the audit activity.

It is also the function of the Audit Committee to issue annually, prior to the issuance of the audit report, a report that will express an opinion on whether the independence of auditors or audit firms is compromised. This report must contain, in any case, the reasoned assessment of the provision of each and every one of the additional services referred to in the previous letter, individually considered and as a whole, other than statutory audit and in relation to the regime of independence or with the regulations regulating the audit activity.

The Board of Directors has also entrusted the following functions to the Audit Committee: ensuring that the remuneration of the external auditor for their work does not compromise their quality or independence and ensure that the company and the external auditor respect the rules in force on the provision of services other than audit services, limits on the concentration of the auditor's business and, in general, on the other rules on the independence of auditors.

Additionally, Article 6.4 of the Council Regulation provides that “The Board of Directors shall ensure that a direct relationship is maintained with the members of the senior management bodies of the Company and with the Auditors thereof. The objective, professional and permanent nature of said relationship shall strictly respect the independence of the Auditors.”

The principles underlying the Company's relationship with financial analysts and investment banks are based on transparency, simultaneity and non-discrimination, as well as the existence of specific and distinct partners for each group.

In addition, the Company pays particular attention not to compromise or interfere in the independence of financial analysts with respect to the services provided by investment banks, in accordance with the internal codes of conduct established by them and aimed at the separation of their Analytical and advisory services.

C.1.36 State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

YES NO **X**

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

YES NO **X**

Description of the disagreement

C.1.37 State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

YES NO

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	0	233	233
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	0%	5,8%	4,7%

C.1.38 State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

YES NO

Explanation of reasons

C.1.39 State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	26	26

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	100%	100%

C.1.40 State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

YES NO

Describe the procedure
<p>Article 21 of Regulations of the Board of Directors provides as follows:</p> <p>“1.- The Board Members shall have access, through the Chairman, and, as the case may be, through the Secretary, to all of the services of the Company and may compile and receive, with the broadest possible powers, the information and advisory services that may be required in relation to any aspect of the Company whatsoever. The right to information shall be extended to the subsidiary companies and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the corresponding Committees of the Board, where the information shall be directly provided thereto, and the Board Members shall be provided with the appropriate liaisons or any measures necessary for the analysis thereof. 2.- Furthermore, the Board Members shall have the right to propose to the Board of Directors that the Company contract, at the cost and expense thereof, the legal advisors, accountants, technical professionals, financial advisors, commercial professionals or any other professional whatsoever that they consider necessary for the interests of the Company in order to assist the Board Members in the exercise of their functions, when related to specific problems of certain relevance and complexity that are associated with the exercise of their positions. 3.- Both the request for access as well as the proposal that are referred to under paragraphs 1 and 2 of this Article, must be notified to the Chairman of the Company through the Secretary of the Board. The Board of Directors may veto the approval of the proposal that is referred to under paragraph 2 of this Article if the Board considers that said proposal is unnecessary for the performance of the functions of the Board Member, or that the sum thereof is disproportionate in relation to the importance of the problem and the assets and revenue of the Company, or, finally, that said technical support or advisory services could be adequately provided by experts and technical staff of the Company.”</p>

C.1.41 State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

YES NO

Describe the procedure
<p>Article 9, points 2 and 3, of the Regulations of the Board of Directors:</p> <p>“2.- The notification of the ordinary meeting sessions of the Board shall be carried out by the Chairman, or by the Secretary or Deputy Secretary, under the instructions of the Chairman, and shall be carried out by any of the notification channels that are provided for under the Articles of Association, and said documentation shall be forwarded by way of e-mail, provided that the recipient Board Member has provided an e-mail address for said purposes. The meeting notification shall include the place at which the meeting is to be held and the agenda thereto and shall be issued, except in exceptional cases, at least 48 hours prior to the meeting. Prior to each meeting, the Board Members shall be provided with the information and documentation considered to be pertinent or relevant in relation to the matters to be discussed at the meeting of the Board. Furthermore, the Board Members shall be provided with the Minutes of the previous</p>

meeting, whether or not approved. The Chairman shall be responsible for establishing the agenda for the meetings, except in the case of the compulsory meeting pursuant to paragraph 1 hereinabove, in which case the agenda for the meeting shall include the aspects set out by the Board Members that have requested the meeting of the Board. The constitution of the Board shall be valid, without the prior notification thereof, if all of the Board Members are either present or duly represented and provided that they unanimously accept the holding of the meeting of the Board. The meeting sessions of the Board of Directors shall normally be held at the registered office of the Company, however may also be held at any other place that may be determined by the Chairman and must be set out in the meeting notification.

3.- Furthermore, the Board may be held in several different rooms, simultaneously, provided that the interactivity and intercommunication between said rooms in real time is ensured by way of audio-visual or telephonic means which, accordingly, provide for a single meeting session to be simultaneously carried out. In said situations, the meeting notification shall set out the connection system to be used and, if applicable, the places in which the necessary technical resources shall be available in order to attend and participate at the meeting. The resolutions shall be deemed to be adopted at the place where the Chairman is physically present.”

The procedure followed is to refer, usually one week in advance, to the date of the meeting, the agenda and any information that is available and may be useful for a more accurate knowledge of the matters to be discussed at the Board meeting.

Likewise, during the meeting, officers whose affairs are treated are available to be called - and, often, made use of - so that the Directors can request clarifications, data or opinions in relation to the points dealt with in the session.

Finally, Directors may request additional information that they deem necessary for the exercise of their functions through the Board Secretariat.

C.1.42 State whether the company has established any rules requiring directors to inform the company —and, if applicable, resign from their position— in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

YES NO

Explain the rules
<p>Pursuant to Article 16.3 (e) of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in current legislation and, in particular, the Director shall inform the Company of any kind of judicial, administrative or Any nature in which it is implied that, because of its importance, could seriously affect the reputation of the Company. The Board shall examine the matter and take such measures as may be desirable in the interest of the Company with the required urgency.</p> <p>The Board Members must present their resignation from the Board of Directors and must formalize, if the Board deems necessary, their</p>

corresponding formal resignation from office in the following situations::

- e) When the Executive Board Members cease to exercise their executive functions.
- f) When the Board Members are subject to any of the situations of disqualification or prohibition as provided for under applicable law, under the Articles of Association or under these Regulations.
- g) When the Board Members seriously breach their obligations as Board Members, thereby placing the interests of the Company at risk.
- h) When the reason for which the Board Members were appointed as Independent Board Members, Executive Board Members or Proprietary Board Members no longer exists.

C.1.43 State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

YES NO X

Name of Director	Criminal case	Comments

State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

YES NO

Decision made / action taken	Duly substantiated explanation

C.1.44 Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.

An important part of the investments with partners outside the group contain clauses of change of control that allow the other partner to choose to acquire the shares in case of change of control of the holding company of the group GAS NATURAL FENOSA.

On the other hand, most of the debt that includes a change of control clause, either by acquiring more than 50% of the voting shares or by

obtaining the right to appoint the majority of the members of the Board of Directors of GAS NATURAL, are subject to additional conditions such as a significant reduction in the credit rating or rating caused by the change of control; material damage to the creditor; entails a material adverse change in the solvency or ability to perform the contract. These clauses represent the repayment of the debt, although they usually have a longer period than the one granted in cases of early ruling; in some cases the granting of guarantees is contemplated as an alternative to reimbursement.

Specifically, the bonds issued, in an approximate volume of 12,000 Million Euros, as is usual in the euromarket, would be subject to early maturity, provided that this change of control caused a three-step or three full notches fall in at least two of the three qualifications it had and all ratings fell below "investment grade" and whenever the Rating Agency expressed that the reduction of the credit rating is motivated by the change of control.

There are also loans for an amount of approx. 2,500 million Euros which could be subject to early repayment in the event of a change of control, most of this amount linked to infrastructure financing with funds from the European Investment Bank. Financing that was taken for the acquisition of Unión Fenosa. They also require a reduction in the rating and have special repayment terms that are longer than those of early termination cases.

Most of the change control clauses are linked to the occurrence of damage to creditors or significant reductions in rating. Most of the change in control is excluded if any of the current shareholders hold relevant interests in the company jointly with a third party. Some contract provides for the granting of guarantees as an alternative to reimbursement of the amount arranged and generally have special debt repayment terms that are longer than those of early termination cases.

C.1.45 Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	30
Type of beneficiary	Description of agreement
Management Committee and other officers	<p>The Chief Executive's contract was amended in October 2016 regarding the causes and termination regime, with the said clause of the contract being amended and extending its duration to its entire mandate as a Director of the Company.</p> <p>The CEO's contract establishes an indemnity in the amount of three annuities of the total</p>

	<p>remuneration at the date of the contractual modification for certain cases of extinction of the contractual relationship: by decision of the company, unless very serious breach and culpable of his professional obligations which causes serious prejudice to the interests of Gas Natural SDG SA, by decision of the Chief Executive Officer or by termination of the contract. In addition, and in the case of a post-contractual non-competition agreement for one year, an indemnity equivalent to one full compensation annuity is established.</p> <p>The contracts signed with the members of the Management Committee contain a clause that establishes a minimum indemnity of two annual remunerations in certain cases of extinction of the relationship, which include certain cases of change of control, dismissal unfairly or the assumptions contemplated in the articles . 40, 41 or 50 of the Workers' Statute. Likewise, the contracts signed with the members of the Management Committee and the Director of Internal Audit contain a clause that establishes an indemnity equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period of two years.</p> <p>On the other hand, compensation agreements exist with sixteen other managers, equivalent to a fixed annuity for non-post-contractual competition for a period of two years. In addition, twelve directors who partially agree with the previous ones have compensation agreements whose amounts entitle them to receive a minimum</p>
--	---

	compensation of one fixed annuity in one case and two annual remuneration in others in certain cases of termination of the relationship, which include unfair dismissal or the assumptions contemplated in arts. 40, 41 or 50 of the Workers' Statute.
--	--

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General Shareholders' Meeting
Decision-making body approving the provisions	X	

	YES	NO
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	X	

C.2. Committees of the board of directors

C.2.1 Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:

EXECUTIVE COMMITTEE

Name	Position	Class
MR. ISIDRO FAINÉ CASAS	CHAIRMAN	PROPRIETARY
MR. RAMÓN ADELL RAMÓN	MEMBER	INDEPENDENT
MR. MARCELINO ARMENTER VIDAL	MEMBER	PROPRIETARY
MR. FRANCISCO BELIL CREIXELL	MEMBER	INDEPENDENT
MRS. BENITA MARÍA FERRERO-WALDNER	MEMBER	INDEPENDENT
MR. JOSU JON IMAZ SAN MIGUEL	MEMBER	PROPRIETARY

MR. MIGUEL MARTINEZ SAN MARTIN	MEMBER	PROPRIETARY
MR. RAJARAM RAO	MEMBER	PROPRIETARY
MR. RAFAEL VILLASECA MARCO	MEMBER	EXECUTIVE
MR. WILLIAM ALAN WOODBURN	MEMBER	PROPRIETARY

% executive directors	10%
% proprietary directors	60%
% independent directors	30%
% other external directors	-

Explain the duties assigned to this committee, describe the procedures and rules of organization and operation thereof, and summarize the most significant activities thereof during the year.

a) Functions of the executive committee:

Aspects that are ordinarily not able to be delegated, however that may be adopted by the Executive Committee or by the Managing Director(s), by reasons of urgency, that have been duly justified, and that must be ratified at the first meeting of the Board of Directors that is held after the adoption of the decision.

- a) The approval of the management objectives, the annual financing plan, the investments and financing policy, the corporate social responsibility policy.
- b) The determination of the policy for the control and management of risks, including tax risks, and the supervision of the internal information and control systems.
- c) The determination of the corporate governance policy of the Company and of the Group of which the Company is the parent company; the organization and functioning thereof and, in particular, the approval and modification of the Regulations thereof.
- d) The approval of the financial information that, by reason that the Company is a listed company, must be periodically published by the Company.
- e) The definition of the structure of the group of companies of which the Company is the parent company.
- f) The approval of all types of investments and operations that, by reason of the significant sum or the special characteristics thereof, constitute strategic operations or are the subject of special tax risks, unless the approval thereof corresponds to the General Shareholders Meeting.
- g) The approval of the creation or acquisition of shareholdings in other special purpose entities or companies registered in countries or territories that are considered to be tax havens, as well as any other analogous transactions or operations that, by reason of their complexity, may undermine the transparency of the Company and its Group.
- h) The approval, subject to the prior report of the Audit

Committee, of the operations that the Company or any of its Group companies carry out with Board Members, in the terms established in applicable legislation, or with shareholders that hold, either individually or jointly with other shareholders, a significant shareholding in the share capital of the Company, including shareholders that are represented on the Board of Directors of the Company or of other companies that form part of the corporate Group thereof or with any related-parties thereof.

i) The determination of the tax strategy of the Company.

Aspects for which the resolutions or decisions thereof may be adopted, indistinctly, by the Board of Directors or by the Executive Committee.

a) The definition of the general structure of delegations and empowerments.

b) The incorporation of new companies or entities or the variation of the shareholdings in already existing companies.

c) The approval of merger, take-over, split-off, integration or winding-up operations, with or without liquidation, for which any of the companies of the Group have any interests whatsoever.

d) The disposal of shareholdings in the share capital of companies or of other fixed assets by any Group company.

e) The approval of the investment projects to be implemented by any Group company.

f) The approval of the programs for the issue and renewal of series of promissory notes, of debentures or of other similar securities by any Group company.

g) The approval of financial operations, to be carried out by any Group company, that are not included in the Annual Financing Plan.

h) The provision of guarantees and bonds by Group companies in order to guarantee the obligations of entities that do not belong to the Group, or that have, if they do belong to the Group, external partners.

i) The assignment of rights regarding the commercial name and trademarks, as well as in respect of patents, technology and any other modality of industrial property that belongs to any Group company.

j) The approval of the appointment and removal of the Trustees and other positions of the GAS NATURAL FENOSA FOUNDATION and of the natural persons legal representatives of GAS NATURAL SDG, S.A. in the situations in which GAS NATURAL SDG, S.A. is designated as the corporate director of any other company. Approval of contributions to sponsorship or patronage activities.

k) The formalization of commercial, industrial or financial agreements that are of a relevant importance for the Group and that represent any modification, change or review of the current Strategic Plan or Annual Budget.

In relation to the aspects set out under paragraphs b), c), d), e), g), h) and i), the approval of the Board of Directors or the Executive Committee shall be required in relation to the resolutions or decisions that, by reason of the nature or amount thereof, are of special relevance for the Group. An operation shall be deemed to be of special relevance when the economic importance of the operation exceeds 15 million Euros, except in relation to paragraphs h) and i), in which case said limit shall be that of 5

million Euros and in respect of paragraph j), for which said limit shall be that of 200,000 Euros.

Unless any other regime is approved upon the adoption of the corresponding resolution or decision, it shall be considered that an investment or operation does not require any additional approval in the case of any deviation of the operation, when said deviation does not exceed 10% or a further 15 million Euros above of the amount authorised by the Board or, as the case may be, by the Executive Committee.

When necessary, the resolutions of the Board of Directors and of the Executive Committee must be adopted subject to the prior report of the pertinent Committee.

b) Procedures and rules of organization and operation:

The Executive Committee shall be comprised by the Chairman of the Board of Directors and by a maximum of another nine Board Members, that shall belong to the categories provided for under Article 3 of these Regulations, and shall be of a similar proportion to that of the existing Board of Directors. The designation of the members of the Executive Committee shall require the favorable vote of at least two thirds of the members of the Board.

The Chairman of the Board of Directors shall act as the Chairman of the Executive Committee and the Secretary of the Board shall act as the Secretary thereof, that may be substituted by the Deputy Secretary.

The Executive Committee shall be deemed to be validly constituted when half plus one of the members thereof are either present or represented.

The members of the Executive Committee shall be removed from office when they cease to be Board Members or when the Board removes them from the Executive Committee. The vacancies on the Executive Committee shall be newly designated as soon as practicable by the Board of Directors.

The permanent delegation of powers by the Board of Directors in favour of the Executive Committee shall include all of the powers of the Board, with the exception of the powers that are not able to be delegated, whether pursuant to legal provisions or the Articles of Association or pursuant to these Regulations.

The Executive Committee, which shall be called by the Chairman thereof, shall meet, whenever deemed necessary by the Chairman thereof or at the prior request of at least 1/3 of the members thereof. The Secretary shall draft the Minutes of the resolutions and decisions adopted at the meeting session thereof, which shall be detailed at the next plenary session of the Board of Directors.

In the cases in which, in the judgement of the Chairman or of the majority of the members of the Executive Committee, the importance of the matter so requires, the resolutions and decisions adopted by the Committee shall be submitted for the ratification of the plenary session of the Board.

The foregoing shall also be applicable to the matters that the Board had forwarded to the Executive Committee for the study and analysis thereof,

whereby the Board reserves the right to adopt the final decision in relation thereto.

In all other cases, the resolutions and decisions adopted by the Executive Committee shall be valid and binding, without the need for any subsequent ratification thereof by the plenary session of the Board, without prejudice to the provisions of Article 5 of these Regulations.

The provisions of these Regulations in relation to the functioning of the Board of Directors shall, to the extent possible, also be applicable to the Executive Committee.

c) Most important activities during 2016.

In the exercise of its powers, during the 2016 financial year it has analyzed, informed and / or adopted agreements on, among other things:

- Quality and efficiency of its operation.
- Various investment proposals.
- Financial operations.
- Status reports on different issues.

State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class::

YES X **NO**

If no, explain the composition of your executive committee

AUDIT COMMITTEE

Name	Position	Class
MR. RAMÓN ADELL RAMÓN	CHAIRMAN	INDEPENDENT
MR. ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	MEMBER	PROPRIETARY
MR. XABIER AÑOVEROS TRIAS DE BES	MEMBER	INDEPENDENT
MRS. CRISTINA GARMENDIA MENDIZABAL	MEMBER	INDEPENDENT
MRS. HELENA HERRERO STARKIE	MEMBER	INDEPENDENT
MR. RAJARAM RAO	MEMBER	PROPRIETARY
MR. LUÍS SUÁREZ DE LEZO MANTILLA	MEMBER	PROPRIETARY

% proprietary directors	42,86%
% independent directors	57,14%
% other external directors	-

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

a) Functions of Audit Committee:

The Committee has the powers established by the Law and those entrusted to it by the Board of Directors in general or in particular.

On November 27, 2015, the Board of Directors has entrusted the following functions:

- Prepare the report on the independence of the Auditor.
- Prepare the Report on the functioning of the Audit Committee.
- Prepare the Report on related-party transactions.
- Prepare the Report on corporate social responsibility policy.
- Ensure that the Board of Directors seeks to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the Audit Report and that, in the exceptional cases in which there are qualifications, both the Chairman of the Committee and the Auditors, clarify to shareholders the content and scope of such limitations.
- In relation to information and control systems:
 - (a) To supervise the preparation process and the integrity of the financial information relating to the company and, as the case may be, to the group, reviewing compliance with regulatory requirements, adequate delimitation of the consolidation perimeter and correct application of the accountant criteria.
 - (b) Ensure the independence of the unit that assumes the internal audit function; Approve the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of society; Receive periodic information on their activities; And verify that senior management takes into account the conclusions and recommendations of its reports. To propose to the Chairman of the Board of Directors the selection, appointment, re-election and dismissal of the person in charge of the internal audit service, as well as to propose the budget for that service, with the last decision corresponding to the Chairman of the Board of Directors.
 - (c) Establish and supervise a mechanism that allows employees to communicate, on a confidential basis and, if

it is possible and considered appropriate, anonymous, irregularities of potential significance, especially financial and accounting, that they notice within the company.

- In relation to the external auditor.
 - (a) In case of resignation of the external auditor, examine the circumstances that motivated it.
 - (b) Ensure that the remuneration of the external auditor for their work does not compromise their quality or independence.
 - (c) Supervise that the company reports as a relevant fact to the National Securities Market Commission the change of auditor and accompany it with a statement on the possible existence of disagreements with the outgoing auditor and, if they existed, on their content.
 - (d) Ensure that the external auditor holds a meeting with the board of directors annually to inform him of the work performed and of the evolution of the accounting and risk situation of the company.
 - (e) Ensure that the company and the external auditor comply with the current rules on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, the other rules on the independence of auditors.
- Call any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.
- Analyze and inform the Board of Directors about the economic conditions and the accounting impact and, in particular, where applicable, on the exchange ratio, in relation to the operations of structural and corporate modifications that, by their nature or quantity, have special relevance. Those transactions whose net value exceeds the value of 25% of the assets included in the last approved balance sheet of the Company shall be deemed to be relevant.
- In relation to the supervision of compliance with the corporate governance rules, the Codes of Conduct and the corporate social responsibility policy.
 - (a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.
 - (b) Supervision of the communication strategy and relationship with shareholders and investors, including small and medium shareholders.
 - (c) The periodic evaluation of the adequacy of the corporate governance system of the company, in order to fulfill its mission of promoting social interest and taking into account, as appropriate, the legitimate interests of the remaining interest groups.
 - (d) Monitoring and evaluation of the processes of relationship with the different stakeholders.
 - (e) The evaluation of all matters related to non-financial risks of the company - including operational, technological, legal, social, environmental, political and reputational.
 - (f) Coordination of the non-financial information and diversity

reporting process, in accordance with applicable regulations and international reference standards.

b) Procedures and rules of organization and operation

The Audit Committee shall be comprised by a minimum of three and a maximum of seven Board Members, that shall be designated by the Board of Directors from among the Non Executive Board Members, and at least one of the Non-Executive Board Members thereof shall be designated taking into account his or her knowledge and expertise in accounting or audit fields, or in both fields. The members thereof shall be removed from office when they cease to be Board Members or when the Board removes them from the Audit Committee or by reason of the expiry of the period of three years after their appointment, however the members thereof may be re-elected.

The majority of the members of the Committee shall be Independent Board Members, from among which, the Board of Directors shall designate the Chairman of the Audit Committee, who shall not have a casting vote. The Secretary of the Board of Directors shall act as the Secretary of the Committee.

The Committee, which shall be called by the Chairman thereof, shall meet as often as necessary in order to issue reports or proposals in relation to its functions or when deemed necessary by the Chairman thereof, or at the prior request of at least two of the members thereof and, shall meet at least four times a year. The meeting notification must be issued at least two days prior to the date set down for the meeting thereof, except in the case of any justified and reasoned urgency. The meetings shall ordinarily take place at the registered office of the Company. The Committee may invite any manager or employee that it deems necessary to attend the meetings.

c) Most important activities during 2016.

In the exercise of its powers, during the 2016 financial year it has informed and / or adopted proposals on, among other things:

- Quality and efficiency of its operation.
- External audit of individual and consolidated annual accounts.
- Economic information.
- Appointment of Auditors.
- Tax status report.
- Independence of Auditor.
- Related-party transactions.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of director with experience	MR. RAMÓN ADELL RAMÓN
Number of years during which chair has held the position	2

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Class
MR. FRANCISCO BELIL CREIXELL	CHAIRMAN	INDEPENDENT
MR. ALEJANDRO GARCÍA-BRAGADO DALMAU	MEMBER	PROPRIETARY
MRS. CRISTINA GARMENDIA MENDIZABAL	MEMBER	INDEPENDENT
MR. MIGUEL MARTINEZ SAN MARTIN	MEMBER	PROPRIETARY
MR. WILLIAM ALAN WOODBURN	MEMBER	PROPRIETARY

% proprietary directors	60%
% independent directors	40%
% other external directors	-

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

a) Functions of the Appointments and Remuneration Committee:

The Committee has the powers established by the Law and those entrusted to it by the Board of Directors in general or in particular.

The Board of Directors has entrusted the following duties:

- Prepare the report on the functioning of the Appointments and Remuneration Committee.
- Verify the policy for the selection of Directors and report it in the Annual Corporate Governance Report.
- By delegation to be given by the Chairman of the Board, organize and coordinate the periodic evaluation of the Board and the first executive manager of the Company.
- Prepare the report on the functioning of the Board of Directors.
- To propose to the Board of Directors the basic conditions of the contracts of the senior managers.
- Verify compliance with the remuneration policy established by the Company.
- Periodically review the remuneration policy applied to directors and senior managers, including remuneration

systems with actions and their application, as well as to ensure that their individual remuneration is proportionate to the remuneration of other directors and senior executives of the company.

- Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the commission.
- Verify information on the remuneration of directors and senior executives contained in the various corporate documents, including the annual report on directors' compensation.
- By agreement of the Board of Directors of January 29, 2016, it was entrusted to exercise all the powers in matters of corporate social responsibility that until that date were exercised by the Audit Committee.

b) Procedures and rules of organization and operation

The Appointments and Remuneration Committee shall be comprised by a minimum of three and a maximum of five Board Members that shall be designated by the Board of Directors from among the Non-Executive Board Members, taking into account the knowledge and skills thereof. The members thereof shall be removed from office when they cease to be Board Members or when the Board of Directors removes them from the Appointments and Remuneration Committee or by reason of the expiry of the period of three years after their appointment, however the members thereof may be re-elected.

At least two members of the Appointments and Remuneration Committee shall be Independent Board Members and, from among the Independent Board Members thereof, the Board of Directors shall designate the Chairman of the Appointments and Remuneration Committee, who shall not have a casting vote. The Secretary of the Board of Directors shall act as the Secretary of the Committee.

The Committee, which shall be called by the Chairman thereof, shall meet as often as necessary in order to issue reports or proposals in relation to its functions or when deemed necessary by the Chairman thereof, or at the prior request of at least two of the members thereof. The meeting of the Committee shall be called by the Chairman, at least two days prior to the date set down for the meeting thereof, except in the case of any justified and reasoned urgency. The meetings shall ordinarily take place at the registered office of the Company. The Committee may invite any manager or employee that it deems necessary to attend the meetings.

c) Most important activities during 2016:

In the exercise of its powers, during the 2016 financial year it has informed and / or adopted proposals on, among other things:

- Annual report on the remuneration of Directors.
- Degree of achievement of the Group's objectives.
- Remuneration of employees.

- Quality and efficiency of its operation
- Re-election, ratification or appointment of Directors.

APPOINTMENT COMMITTEE

Name	Position	Class

% proprietary directors	
% independent directors	
% other external directors	

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

--

REMUNERATION COMMITTEE

Name	Position	Class

% proprietary directors	
% independent directors	
% other external directors	

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

--

COMMITTEE ON _____

Name	Position	Class

% proprietary directors	
% independent directors	

% other external directors	
----------------------------	--

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

--

C.2.2 Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors							
	Financial year 2015		Financial year 2014		Financial year 2013		Financial year 2012	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	1	10%	0	0	0	0	0	0
Audit Committee	2	28,57%	0	0	0	0	0	0
Appointments and Remuneration Committee	1	20%	1	33%	0	0	0	0
Appointment Committee	-	-	-		-	-	-	-
Remuneration Committee	-	-	-		-	-	-	-
Committee on _____	-	-	-		-	-	-	-

C.2.3 Section deleted.

C.2.4 Section deleted.

C.2.5 State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

The Committees are regulated under the Articles of Association and the Regulation regarding the organization and functioning of the Board of Directors and its Committees of GAS NATURAL SDG, S.A.

Both documents are published in the website of the Company (www.gasnaturalfenosa.com) →Shareholders and Investors →Corporate Governance →Governing Regulations

During 2016, the following articles related to said Committees have been modified: Articles 5, 30 and 32 of the Regulations of the Board of Directors, with a view to making the principle of proportional representation of shareholders compatible with the existence of an

adequate number of independent Directors in full Respect to the current legislation.

Thus, the number of members of the Executive Committee is 10, of which 60% (six directors) are proprietary directors (2 appointed by Criteria Caixa, SAU, 2 by Repsol, SA and 2 by GIP III Canary 1, S .À RL), or that is in line with the shareholding that each of these Companies holds in GAS NATURAL SDG. The number of members of the Audit Committee is 7, of which 4, the majority, are independent and 3 proprietors, one representing each of the shareholders with stakes of 20% or more. The Appointments and Remuneration Committee has 5 members, of which 3 (60%) represent each of the shareholders with 20% or more shareholding and 2 (40%) are independent.

Both the Executive Committee and the Audit Committee and the Appointments and Remuneration Committee have produced a report on the quality and effectiveness of their operation during the previous year.

C.2.6 Section deleted.

D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Explain any procedures for approving related-party and intragroup transactions.

Procedure for the approval of related-party transactions
<p>According to art. 5.II of the Regulations of the Board of Directors, powers of the Board which may not be delegated but may be adopted by the Executive Committee or by the Chief Executive Officer on duly justified grounds of urgency and which shall be ratified by the first Board of Directors following the adoption of the decision, one of them is the approval, following a report by the Audit Committee, on the operations carried out by the Company or its group companies with directors, under the terms established in current legislation, or with shareholders holding, individually or in concert with others, of a significant shareholding, including shareholders represented in the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.</p> <p>Moreover, art. 6.5 of the Regulations of the Board indicates that the Board of Directors will include in the Annual Report and in the Annual Corporate Governance Report information on transactions with significant shareholders (total volume of transactions and nature of the most relevant ones) so that other shareholders may know its scope and importance.</p> <p>On 30 September 2011 the Board of Directors, following a favorable report from the Appointments and Remuneration Committee (then competent), agreed to grant a generic authorization to the related polyethylene network purchase transactions of REPSOL BUTANO, S.A. which are carried out under normal market conditions. This authorization is executed by the General Director of Regulated Businesses.</p> <p>The Board of Directors on 25 May 2012, following a favorable report from the Nominating and Compensation Committee (then competent), granted a generic authorization for ordinary operations carried out under market conditions with CAIXABANK, S.A., or with any entity belonging to "la Caixa" Group relating to: opening of current bank accounts, temporary financial investments generated by cash surpluses from current operations, management of receipts at collection,</p>

various payments related to usual operations (payroll, Taxes, social security, suppliers and others of a similar nature), issuance of VISA and equivalent cards, purchase and sale of currency in cash or in advance before payment and collection of invoices in foreign currency approved, confirmation of letters of credit, of interest rate derivatives, as well as ISDA and CMOF contracts, as well as any other of a similar nature, which cover all or some of the foregoing transactions). This authorization is executed by the Economics and Finance Director General.

Following a favorable report from the Audit Committee, the Board of Directors on July 22, 2016 adopted the agreement on the realization under the ISDA framework of operations with REPSOL, S.A., relating to OTC of electricity, gas and CO2. This authorization is executed by the General Director of Wholesale Energy Businesses.

D.2 Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Interest charged	2.752
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Interest accrued but not paid	47
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Contributions to pension plans and life insurance	24.541
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Services received	15.160
FUNDACIÓ BANCARIA CAIXA D'ESTALVIS i	GAS NATURAL SDG, S.A.	COMMERCIAL	Interest paid	247

PENSIONS DE BARCELONA (LA CAIXA)				
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Provision of services	462
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Sales of finished or non-finished goods	1.243
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Financing agreements: other	513.062
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Sales of intangible assets	274.528
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Financing agreements: loans	123.316
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Guarantees	100.000
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Management contracts	480.720
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	GAS NATURAL SDG, S.A.	COMMERCIAL	Dividends and other distributed benefits	424.923

CAIXA)				
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Services received	8.853
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Purchase of finished or non-finished goods	236.845
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Provision of services	1.363
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Sales of finished or non-finished goods	694.196
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Purchase of fix assets or goods	424.651
REPSOL, S.A.	GAS NATURAL SDG, S.A.	COMMERCIAL	Dividends and other distributed benefits	367.291
GIP III CANARY 1, S.À R.L.	GAS NATURAL SDG, S.A.	COMMERCIAL	Dividends and other distributed benefits	66.045

D.3 Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)

D.4 Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
Global Power Generation, S.A.	Dividends received from Buenergía Gas & Power, Ltd.	6.036

D.5 State the amount of transactions with other related parties.

0 (thousands of Euros).

D.6 Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.

1.- Directors:

According to the Regulations of the Board of Directors:

The Board Members are subject to the duty of loyalty in the terms established under applicable legislation and, in particular:

- The Board Members must abstain from participating in the deliberations and voting procedures in relation to resolutions or decisions in which he or she or any related party is subject to any direct or indirect conflict of interest. The foregoing shall exclude the obligation to abstain from resolutions or decisions that affect the Board Member in his or her capacity of director of the Company, such as the designation or revocation thereof in relation to positions within the governing body or other similar positions.
- Furthermore, the Board Member must adopt the measures necessary in order to avoid situations in which his or her interests, whether directly or indirectly in relation to any third-party, may be subject to any conflict of interest with the Company's interests and with his or her duties to the Company.
- In their capacities of loyal and prudent representatives of the Company, the Board Members must inform the Company of the shares of the Company that they hold, whether directly or indirectly through companies in which they hold a significant shareholding, in accordance with the procedure and the other formalities established for investments in shares of GAS NATURAL SDG, S.A. and the subsidiary companies thereof.
- The Board Members must notify the Company of any significant changes to their professional situation and any changes that affect the nature or category in which the Board Members are classified.
- The Board Members shall inform the Company of any type of legal or administrative claim whatsoever or of any facts that may relate to the Board Members that, by reason of the importance thereof, may seriously affect the reputation of the Company. The Board shall examine the situation and shall adopt the measures that are required in the interests of the Company, with the required urgency.

The Board of Directors shall, at all times, use its best endeavours to avoid that the Proprietary Board Members exercise their powers or position in order to obtain equity advantages without the adequate consideration or balancing entry, in benefit of the shareholder that has proposed the appointment of the Proprietary Board Members.

The Board Members must abstain from carrying out activities, either on their own behalf or for any third party, that would constitute effective competition, whether real or potential, with the Company or that, in any other way whatsoever, would create any permanent conflict of interest with the Company. In particular, Board

Members must not perform, either directly or indirectly, any positions of any nature at competitor companies or entities of GAS NATURAL SDG S.A. or of any company of its Group, and must not provide, in favour of said companies or entities, any representation or advisory services whatsoever. A company or entity shall be deemed to constitute a competitor of GAS NATURAL SDG, S.A., when it is engaged, whether directly or indirectly, or through its Group companies, in activities included within the corporate activities of GAS NATURAL SDG, S.A.

2.- Directors and senior officers:

Moreover, the Internal Code of Conduct in connection with the Securities Markets of GAS NATURAL SDG, S.A., establishes in its section 6 the information that the Directors and executives of the entity must provide in respect of conflicts of interest:

“6.1. The parties bound by this Internal Code of Conduct are obliged to notify the Secretary of the Board of Directors of GAS NATURAL SDG, S.A. of any conflicts of interest that might arise with the companies in which they have an interest or with their personal or family property or with any other factor that might interfere with the performance of the activities covered by this Code.

If there are doubts as to whether or not there is a conflict of interest, the bound parties must consult with the Secretary of the Board of Directors of GAS NATURAL SDG, S.A., who will issue a decision in writing. The Secretary may refer the matter to the Nomination and Remuneration Committee when he/she considers it advisable because of the magnitude of the matter.

Parties affected by possible conflicts of interest must keep the information up to date and report any change or cessation of the situation that they reported previously.

6.2. Affected persons must abstain from participating in the adoption of any decision that might be affected by the conflict of interest with the Company.”

3.- Significant shareholders:

The Board of Directors, following a report by the Audit Committee, approves the operations carried out by the Company or its group companies with Board Members, under the terms established by current legislation, or with individual shareholders, individually or in concert with others, a significant participation, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them.

D.7 Is more than one company of the group listed in Spain?

YES NO **X**

Identify the subsidiaries listed in Spain:

Listed subsidiaries

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships

among them, as well as those between the listed dependent company and the other companies within the group:

YES

NO

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Explain the scope of the Risk Management System of the company including all tax aspects thereof.

The Risk Management System is an integral system that is continuously operative, that consolidates the management activities per area or business unit or activity, subsidiaries, geographic zones and support areas (such as, for example, human resources, marketing or management control) at a corporate level, and quantifies the impact of the main risk factors and also guarantees the homogeneity for the criteria used to measure said risk factors.

The purpose thereof is to forecast any potential deviations in relation to the global targets and to guarantee that the decision-making process takes into consideration an adequate balance between risk and returns, from the perspective of both the marginal contribution to the global portfolio as well as in relation to each one of the different businesses.

The purpose of the risk management system at Gas Natural Fenosa is to guarantee the predictability and sustainability of the operative and financial performance of the Company.

E.2 State the bodies of the company that are responsible for the drafting and implementation of the Risk Management System including all tax aspects thereof.

Audit Committee

The Audit Committee is the highest supervisory body for the efficacy of the internal control and of the risk management systems of the Company. The Committee ensures that the foregoing systems identify the different types of risk and the measures established to mitigate and manage said risks if indeed they occur in the form of effective losses or damages to the Company.

Risk Analysis Committee

The Risk Analysis Committee is responsible for determining and reviewing the target Risk Profile of the Company. The Committee ensures that said risk profile is aligned with the strategic position of the Company and protects the interests of the interest groups thereof. Furthermore, the Committee ensures that all members of the organisation understand and accept their responsibility for the identification, assessment and management of the most relevant risks.

Risk Units

The Risk Units report directly to the Economic and Financial Department, which provides said Department with the corporate vision necessary for the carrying out of its functions, without prejudice to the fact that specific Wholesale Business Risk and Retail Business Risk management units also report to the Economic and Financial Department, in close contact with the business units that have the highest exposure to risk by reason of their profile and turnover.

The purpose of the Risk Units is to externalise exposure to the uncertainties and to internalise the levels of exposure to risk in the decision-making processes of senior management, as an instrument for the effective selection of returns. The Risk Units are responsible for coordinating the different agents involved in risk management. The monitoring and assessment of the exposure to risk pursuant to an integrated approach enables the Company to maximise the efficacy of its decision-making procedures, by optimising the returns/risk binomial.

The Risk Units are responsible for ensuring the maintenance of the global risk profile, as well as for the permanent measurement and control of the risk.

The Businesses

The Businesses are responsible for risk management within their pertinent areas. The Businesses identify the trends and positions that may imply risk and reports said risks to the Risk Units, and they also apply the management directives and criteria issued by the Risk Units.

The risk management is based upon a series of key concepts which include the concept of the Risk Profile, which is considered to mean the level of exposure to the uncertainty as a result of the joint incidence of different categories of risk identified by Gas Natural Fenosa.

Other corporate areas

Other corporate areas are responsible for the monitoring and management of certain risks, by reason of the specific nature and the particularities of the management mechanisms thereof. For example, the Environmental and Quality Control Department, that is responsible for the environmental risk and climate change, and the Reputation and Sustainability Department, that manages reputational risks. The foregoing areas operate in coordination with the Risk Units.

E.3 State the main risks, including all tax risks, that the company is subject to in relation to its business targets.

	Description	Risk Management
Market risk		
Price of gas	Volatility in international markets that determine the price of gas.	Physical and financial hedging.
Price of electricity	Volatility of electricity	Physical and financial hedging. Optimisation of the

	markets in Spain and Portugal.	electricity generation assets.
Volume of gas	Deviation between the supply and demand of gas.	Optimisation of contracts and assets. Trading.
Volume of electricity	Reduction of the available thermal generation gap.	Optimisation of the electricity marketing/generation balance.
Regulation	Exposure to the review of the recognised criteria and of profitability levels for regulated activities.	Intensification of the communication with regulatory authorities. Adjustment of efficiencies and investments at recognised rates.
Exchange rate	Volatility in the international currency markets.	Geographic and macro-economic diversification through inflation rates. Hedging by way of financing in local currencies and derivatives.
Interest rate and credit spread	Volatility in the financing facility rates.	Financial hedging. Diversification of the financing sources.
Tax	Ambiguity or subjectivity in the interpretation of the applicable tax regulations, or by the substantiation modification thereof.	Queries to independent expert bodies. Contracting of first tier consultancy firms. Ratification of the Code of Good Tax Practices. Allocation of provisions with prudent criteria.
Credit risk		
Credit	Potential increase of payment default, conditional upon economy recovery in Spain.	Analysis of the solvency of customers to define specific contractual terms and conditions. Debt recovery procedures. Systematization of the calculation of the economic capital.
Operational risk		
Operational risk: image and reputation	Deterioration of the perception of Gas Natural Fenosa from different interest groups.	Identification and monitoring of potential reputational events. Communication transparency.
Operational risk:	Accidents, damages or	Continuous improvement

insurable	unavailability of the assets of Gas Natural Fenosa.	plans. Optimisation of the total cost of the risk.
Operational risk: the environment	Damages to the natural and/or social environment. Trends of environmental regulation.	Emergency plans in facilities subject to risk of environmental accidents. Specific insurance policies. Integral environmental management.
Operational risk: climate change	Trends of environmental factors as a result of climate change. Regulation to combat climate change.	Participation in clean Development Mechanisms. Frequent communication with regulatory authorities.

E.4 State whether the company has a tolerance level in relation to the risk, including tax risks.

The Company has tolerance levels established at a corporate level for the main types of risk.

The risk assessment process begins with the identification of the risks, generally by the businesses that are exposed thereto. Said identification takes place at the time at which the exposure exists. Notwithstanding the foregoing, on an annual basis the Risk Units carry out a detailed review of the risks in order to guarantee the correct identification of all of the exposures, whether current or potential risks.

The Risk Units are responsible for carrying out the assessment of the identified risks, in light of:

- a) Position at risk: Definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity in the case of the occurrence of the risk.
- d) Probability of the risk taking place.
- e) Risk mitigation controls and mechanisms used and the efficacy thereof.

Finally, a tolerance level shall be proposed for the types of risks identified, that shall be approved by the Risk Analysis Committee.

E.5 State which risks, including tax risks, have taken place during the year.

The main risk that has occurred during the year is related to the tensions that exist in respect of the prices of commodities, and in particular of crude oil and derivatives, and from the pool in Spain. Furthermore, during the first half-year period the main South American currencies have also devaluated.

Notwithstanding the foregoing, the risk control mechanisms have enabled the Company to keep the impact thereof within the established tolerance range, defined by means of the current risk limits.

E.6 Explain the response and supervision plans for the main risks of the entity, including tax risks.

The risks regarding the performance of GAS NATURAL FENOSA are set out in the Risks Map of the Company. Said map is the main communication instrument

for the Audit and Control Committee in respect of its risks supervision functions of the Company.

At an operational level, the Risk Units and other specific areas (Regulation, Environment, Electricity Generation) carry out periodic measurements of the trends of the main risks, and set out the pertinent indications in the case that any exposure levels or trends are detected that may exceed the established tolerances.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS FOR THE ISSUE OF FINANCIAL REPORTING (ICSFR)

Describe the mechanisms that comprise the risk control and management systems in relation to the process for the issue of financial reporting (ICSFR) of your company.

F.1 Control of the Company

State, including the main characteristics thereof, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICSFR; (ii) the implementation thereof; and (iii) the supervision thereof.

Gas Natural Fenosa has defined its Internal Control System on Financial Reporting (hereinafter, “ICSFR”) in the “General Guidelines of the Internal Control System on Financial Reporting (ICSFR) of Gas Natural Fenosa”.

As part of the ICSFR, Gas Natural Fenosa has defined, in the aforementioned General Guidelines, the responsibilities model thereof. Said model is defined in relation to the following five ambits of responsibility:

- Board of Directors: Is responsible for the existence of an adequate and effective ICSFR, the supervision of which is delegated upon the Audit Committee.

The Regulations regarding the Organisation and Functioning of the Board of Directors of Gas Natural SDG, S.A. and its Committees, in Article 5, paragraph II thereof, provides that the determination of the policy for the control and management of risks, including tax risks, and the supervision of the internal reporting and control systems is, among other functions, an aspect that is ordinarily no able to be delegated by the Board of Directors.

- Audit Committee: This Committee is, *inter alia*, responsible for the supervision of the ICSFR. Article 32, paragraph 2 of the Regulations of the Board of Directors states that the Committee shall have the powers that are provided for under the Corporate Enterprises Act and the powers that are generally or specifically conferred by the Board of Directors. Thus, the Corporate Enterprises Act, at Section 529 *quaterdecies* thereof, states, at paragraph 4.b), that the Audit Committee shall have the function of supervising the efficacy of the internal control of the company, the internal auditing and the risk management systems,

as well as the function of discussing with the accounts auditor the significant weaknesses of the internal control system detected during the audit. In particular and in relation to the reporting and control systems, the Audit Committee is responsible for, *inter alia*, the supervision of the process for the drafting and for the integrity of the financial reporting of the Company and, as the case may be, the group, and for reviewing the compliance of the required guidelines, the adequate delimitation of the scope of the consolidated accounts and the correct application of the accounting criteria. For the carrying out of part of the foregoing functions the Audit Committee is supported by the Internal Auditing, Compliance and Control Unit.

- Economic and Financial Department: Is responsible for the design, implementation and functioning of the ICSFR. For the carrying out of this function, the Economic and Financial Department is supported by the Internal Control on Financial Reporting Unit.
- Internal Auditing, Compliance and Control Unit. In general, this unit is responsible for supporting the Audit Committee in the supervision and continuous assessment of the efficacy of the Internal Control System in all aspects of Gas Natural Fenosa, by providing a methodical and rigorous approach for the monitoring and improvement of the processes and for the assessment of the operational risks and controls associated thereto, including the risks and controls that correspond to the ICSFR and to the Crime Prevention Model.
- Business units and corporate units involved in the process for the drafting of financial reporting. They are responsible for executing the processes and for maintaining the daily operations and ensuring that the implemented control activities are performed.

F.1.2. Whether, especially in relation to the process for the drafting of the financial reporting, the following elements exist:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for the correct dissemination thereof within the company.**

The design and review of the organisational structure of the senior management, as well as the definition of the lines of responsibility are carried out by the Board of Directors, by means of the Managing Director and by the Appointments and Remuneration Committee.

In order to guarantee the adequate management of the economic and financial reporting of the group, the Economic and Financial Department has developed, as part of the ICSFR, a technical instruction that consists of a map of interrelationships (reporting flows) regarding the process of the drafting of the financial reporting which sets out the communications between the Economic and Financial Department, the different process managers and the persons responsible for the source or the application of the financial reporting and that is referred to as “Map of interrelationships regarding the financial reporting of Gas Natural Fenosa”.

Accordingly, Gas Natural Fenosa has taken into account six different aspects for the drafting of the map of interrelationships regarding the processes for the drafting of the financial reporting:

- (i) the information necessary for the drafting of the financial reporting;
- (ii) the persons responsible for the source or the application of the financial reporting and
- (iii) the distribution of tasks among the different organisational units
- (iv) the scope of said distribution to all of the companies within the group
- (v) the frequency of the reporting of the information.
- (vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Accordingly, by means of the map of interrelationships of Gas Natural Fenosa, the processes that relate to the drafting of the financial reporting are clearly defined, including both the operational processes with relevant impacts regarding the financial reporting as well as the processes related to the administration and accounting area, and the persons responsible for said information.

- **Code of conduct, approval body, degree of dissemination and instruction, principles and values included therein (stating whether special mentions exist regarding the registration of operations and the drafting of financial reporting), body responsible for analysing breaches and for proposing corrective actions and sanctions.**

The commitments of the senior management of Gas Natural Fenosa include their undertaking to use their best endeavours to ensure that the operations are carried out within the context of ethical professional practices, and not only through the implementation of mechanisms for the purpose of preventing and detecting fraudulent conduct committed by employees, or inappropriate practices that may imply sanctions, fines or that may damage the image of Gas Natural Fenosa, but rather through by enhancing the importance of the ethical values and principles of integrity among their professional staff.

Accordingly, Gas Natural Fenosa has implemented a Code of Conduct (hereinafter, the “Code of Ethics”), that was approved by the Board of Directors at its meeting held on 31 March 2005, that is binding upon all of the employees of GAS NATURAL SDG, S.A. and all of the subsidiary companies in which Gas Natural Fenosa controls the management activities thereof. The updates and modifications of the Code of Ethics are carried out by the Board of Directors of GAS NATURAL SDG, S.A.

As from the ratification thereof, the Code of Ethics has been modified on four occasions, the most recent of which took place on 27 June 2014, in order to update the code and to incorporate new commitments assumed by Gas Natural Fenosa in relation to the entry into force of the reform of the Spanish Criminal Code (Act 5/2010), the implementation of a Crime Prevention Model within the Group, the issue of the Anti-Corruption Policy of Gas Natural Fenosa and in order to adapt the code to the best practices of Corporate Responsibility.

The Code of Ethics sets out the general ethical principles of Gas Natural Fenosa, that define the values to be followed in practice throughout the organisation and that include: (i) Purpose (ii) scope of application (implication of all of the members of Gas Natural Fenosa); (iii) fundamental principles of conduct at Gas Natural Fenosa (declaration of the style of government of the group); (iv) conduct guidelines (declaration of the key values of Gas Natural Fenosa; (v) acceptance and compliance of the Code; (vi) Code of Ethics Committee and (vii) term.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Gas Natural Fenosa. In particular, the Code of Ethics establishes a series of conduct guidelines that are to a greater or lesser extent related to the reliability of the financial reporting and with the compliance of applicable regulations, and in particular:

- Respect for legality, human rights and ethical values. (Section 4.1)
“Gas Natural Fenosa is committed to acting at all times in accordance with applicable legislation, with the internal Regulatory System established with internationally accepted ethical practices, with complete respect for human rights and public liberties (...)”

- Treatment of information and knowledge (Section 4.11):
“All employees who enter information of any type into the group’s computer systems must ensure its rigour and reliability.

In particular, all financial transactions of the group must be shown clearly and accurately in the corresponding records, through the corresponding Accounting Accounts, and in all operations that are conducted, including all income and incurred expenses.

Employees of Gas Natural Fenosa will abstain from any practices that contravene the commitment to clearly and accurately reflect all the financial transactions in the group’s Accounts”.

Furthermore, Gas Natural Fenosa has established an Anti-Corruption Policy, which was approved by the Steering Committee at its meeting held on 3 March 2014, and modified at the meeting held on 24 November 2015, which is binding upon all of the employees of all of the companies that comprise the Gas Natural Fenosa group and in which Gas Natural Fenosa holds majority shareholdings as well as the companies in which Gas Natural Fenosa is responsible for the operations and/or management thereof. The Policy is understood to be an extension of Chapter 4.7. “Corruption and bribery” of the Code of Ethics of the group and the purpose thereof is to establish the principles that must be adhered to by all of the employees and directors of the companies of Gas Natural Fenosa in relation to the prevention, detection, investigation and remedy of any corrupt practice within the organisation.

Furthermore, Gas Natural Fenosa has an Internal Code of Conduct for aspects related to the Securities Market, that has also been approved by the Board of Directors of the Company.

In July 2005 the Code of Ethics Committee of Gas Natural Fenosa was established with the principal mission of promoting the dissemination

and application of the Code of Ethics within the entire group and for providing a communication channel for all employees in order to receive queries and notifications regarding breaches of the Code and of the Anti-Corruption Policy.

In order that the Code of Ethics Committee is able to exercise its functions in an objective and independent manner, the Committee is chaired by the Internal Auditing, Compliance and Control Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee reports regularly to senior management and to the Audit Committee. The purpose thereof is to provide reports and recommendations, and to propose corrective actions to the units responsible for the provision of solutions to the problems related to the practical application of the Code of Ethics and of the Anti-Corruption Policy and furthermore to act as a liaison between said units and the employees.

The sanctionary regime, where necessary, is established by the Human Resources Unit.

Furthermore, the Code of Ethics Committee may propose, and in fact has done so on several occasions, updates of the terms of the Code. Said updates are, first of all, approved by the Audit Committee and, thereafter, ratified by the Board of Directors.

Moreover, Local Code of Ethics Committees have been established that are responsible for promoting the dissemination and application of the Code in certain countries in which Gas Natural Fenosa operates, namely, in Argentina, Brazil, Chile, Mexico, Colombia, Panama, Italy and Moldavia.

In order to promote not only the exercise of said responsibility but also the knowledge and dissemination of the Code of Ethics, the Code of Ethics is available in 9 languages:

- Externally: the corporate website of Gas Natural Fenosa.
- Internally, on the Naturalnet group platform.

Furthermore, online training courses have been developed through the Corporate University of Gas Natural Fenosa, that are obligatory for all of the employees of Gas Natural Fenosa.

Gas Natural Fenosa, through the Code of Ethics Committee, periodically carries out Declaration of Compliance of the Code of Ethics and Anti-Corruption Policy campaigns, in order to establish the conduct guidelines that are expected of all employees, as well as to disseminate the mechanisms that exist for carrying our queries and notifications, and to periodically formalise the commitment of all of the employees of the group in accordance with the ethical guidelines and principles of integrity.

Gas Natural Fenosa, in order to promote the knowledge of the Code of Ethics among its suppliers and collaborating companies includes in its General Contracting Terms and Conditions a clause that promotes among its suppliers practices in harmony with the conduct guidelines included in the Code of Ethics of Gas Natural Fenosa, and the suppliers are notified of where they may obtain a copy of the Code of Ethics of

the group, and are also provided with information regarding the queries and notifications channels for aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of suppliers, contractors and external collaborators of Gas Natural Fenosa. Said Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Gas Natural Fenosa.

- **Complaints channel, that provides for the notification to the Audit Committee of financial and accounting irregularities, as well as potential breaches of the Code of Conduct and irregular activities within the organisation, and state whether said channel is confidential.**

At Gas Natural Fenosa the concept of professional ethics is centered upon integrity and professional responsibility, where the concept of integrity is understood to mean ethical, honourable and good faith actions and the concept of professional responsibility is understood to mean proactive and efficient actions for excellence, quality and professional service.

As provided for under Article 32.2 of the Regulations of the Board of Directors and its Committees, “the Audit Committee shall have the powers that are provided for under the Corporate Enterprises Act and the powers that are generally or specifically conferred by the Board of Directors”. Accordingly, the powers of the Audit Committee include the power to “establish and supervise a mechanism that enables employees to communicate, confidentially and, if possible and if considered appropriate, anonymously, any potentially significant irregularities, in particular of a financial and accounting nature within the company”.

In harmony with the foregoing, the Board of Directors, at its meeting held on 31 March 2006, established that the notifications received through the notification procedure for breaches of the Code of Ethics of Gas Natural Fenosa, related to fraudulent practices, audits or deficiencies in the accounting and internal control thereof, shall be directly notified to the Audit Committee.

As a mechanism for obtaining a higher degree of internal control regarding compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Committee of Gas Natural Fenosa was established, whereby one of the main functions thereof is to provide and supervise a communication channel for all employees in order to receive queries and notifications of breaches of the Code, and accordingly to facilitate the resolution of disputes related to the application of the Code of Ethics and of the Anti-Corruption Policy and to draft reports for the governing bodies of Gas Natural Fenosa in relation to the dissemination and compliance of the Code of Ethics and of the Anti-Corruption Policy, and the activities of the Committee itself.

The aforementioned communication channel constitutes an open channel (e-mail, fax, postal mail and internal mail) between the Code of

Ethics Committee and all of the employees of Gas Natural Fenosa in order to notify of aspects related to the Code. This channel enables all of the employees of the group, suppliers and collaborating companies to obtain or provide information regarding any aspects related to the Code of Ethics and Anti-Corruption Policy. Said parties may also contact the Code of Ethics Committee in order to notify the Committee confidentially and in good faith of conduct that breaches the Code. And all of the foregoing outside the normal reporting mechanisms for employees.

All of the communications between the Code of Ethics Committee and the employees of Gas Natural Fenosa are absolutely confidential, and adhere to the limitations established under the Spanish Data Protection Act 15/1999, of 13 December. Accordingly, the Chairman of the Committee (The Internal Auditing, Compliance and Control Director) is the only member thereof, in first instance, that is authorised to access all of the information regarding all of the queries and notifications received from the group through the query and notification procedure. Furthermore, the notifications related to fraudulent practices, audits or deficiencies in accounting or internal control processes are directly notified to the Audit Committee.

The foregoing queries and notifications are considered and resolved by the Code of Ethics Committee.

In the 2016 Corporate Responsibility Report of Gas Natural Fenosa further information is provided regarding the Code of Ethics, the Anti-Corruption Policy, the activities of the Code of Ethics Committee and the use of the communication channel.

- **Training programs and periodic updates for the staff involved in the drafting and review of the financial reporting, as well as in the assessment of the ICSFR, that covers, at least, accounting rules, audits, internal control and risk management.**

The need have sufficiently qualified and up to date professionals involved in the preparation and review of the financial reporting, as well as in the assessment of the ICSFR, means that it is necessary to develop an adequate training plan, such that the people responsible for each area have the necessary knowledge in order to be able to carry out the different functions included within the processes for the preparation and review of the financial reporting.

Accordingly, Gas Natural Fenosa has a Corporate University, that is responsible for the knowledge and development management of people throughout the Company. The Corporate University has a quality control management system in accordance with Standard ISO 9001:2008 that was renewed in 2016 and that obtained the CLIP accreditation in 2003 which was last renewed in 2013 for a period of five years. Said certification acknowledges the quality of the training and development processes of people in corporate education organisations.

The objectives of the Corporate University include, among others: ensure knowledge management in a multinational and multicultural organisation; accompany the business in relation to the main plans of

the group; position the organisation as a leader in training within the energy sector; guarantee that employees obtain the technical knowledge and the necessary skills in order to fulfil the established strategic objectives and to transmit and share experiences and best practices that exist at the Company. Accordingly, the Corporate University is a place to meet, debate and where people are trained that promotes innovation and excellence in the development of talent so that our professionals can fulfil the objectives of the Company.

The content of the programs are structured through Training Schedules. said schedules take advantage of training synergies and furthermore cover the development needs in an ordered, complete, stable and sustainable manner. The schedules are comprised of three blocks: context knowledge (general and specific to all schedules), functional knowledge (specific to the position or profile) and skills (based upon the 24 skills of the Leadership Model).

In 2014 the “Programa Savia” [Savia Program] was established, which is a training program the purpose of which is to strengthen the current role of managers, that must be the change agents in relation to the global implementation of the new processes associated with the with the strategic challenges. In 2015 the second phase of the program was commenced, Savia 2.0, which was focused upon the experience of customers and on change management. In 2016 the program has continued, and during that year was focused on cooperation and empowerment. The program consists of two days of on-site training that is then complemented with online training via a dynamic and innovative methodology. Moreover, in November 2015, the first edition of Savia was extended to Chile, for 504 participants.

Another of the relevant programs is “Compromiso con la Seguridad y Salud” [Health and Safety Commitment]. Gas Natural Fenosa has consolidated its position as a leader in Health and Safety after the implementation of an ambitious program aimed at carrying out a deep and significant cultural change that commenced in 2012. The Corporate University has supported the Company during this process with the foregoing program. In 2016, in terms of Occupational Hazards Prevention, Health and Safety approximately 240,000 hours of training have been imparted to over 12,500 employees, with over 55,500 participations in different training activities. Thanks to the foregoing plan, the accident frequency and severity indices have dropped by 30% and the number of working days lost by reason of workplace accidents has also been reduced.

In September 2015, as part of the “Proyecto CeX” [CeX Project] (Customer Experience) the “Programa Advocacy”, Embajadores del Cambio [Advocacy Program, Change Ambassadors] was implemented. Within the new culture of situating the customer at the centre of all operations, 270 ambassadors of the brand and corporate culture of Gas Natural Fenosa were selected, of which 18 were selected from the Economic and Financial Department. The mission of the ambassadors is to transmit our values both within their labour as well as their personal contexts and environments and become authentic change agents that promote the holistic vision of customers. Currently this program has been extended to all of the employees within Spain.

On the other hand, the specific knowledge for the economic and financial has several objectives, including, to homogenise the economic and financial processes carried out within any ambit of the organisation; the updating of the accounting, tax, financial, risk management and management control criteria as well as the international regulations and

technical knowledge of the tax area; as well as to provide sufficient knowledge regarding the valuation of companies, financial derivatives and the analysis of financial statements.

In total, in 2016 over 200 professionals from the Economic and Financial Department carried out over 6,000 hours of training in relation to specific content, including, among other aspects, audit regulations, tax aspects, specialisation in finances, accounting, international financial reporting standards, management control and tax reforms.

F.2 Risk assessment of the financial reporting

State, at least:

F.2.1. What are the main characteristics of the process for the identification of risks, including risks of error or fraudulent practices, in relation to:

- **Whether the process exists and is documented.**

The approach adopted by Gas Natural Fenosa to carry out the process for the identification and analysis of the risks of the financial reporting is set out in three inter-related matrices:

- The definition matrix of the scope of the financial reporting
- The matrix for the risks associated with the financial reporting
- The control activities matrix of the financial reporting

The purpose of the definition matrix of the scope of the financial reporting is to identify the accounts and the breakdowns that have a significant associated risk, the potential impact of which in the financial reporting of the group is substantial and requires, accordingly, special attention. Accordingly, in the process for the identification of the significant accounts and breakdowns a series of quantitative variables have been taken into account (balance and variation of the account) as well as qualitative variables (complexity of the transactions; changes and complexity of the regulations; need to use estimations or forecasts; application of judgements and qualitative importance of the information). The methodology for the drafting of the scope matrix has been set out in a technical instruction called “Definition matrix of the scope of the financial reporting of Gas Natural Fenosa”.

For each one of the significant accounts/breakdowns set out in the definition matrix of the scope, the critical processes and sub-processes have been defined that impact the accounts/breakdowns and the risks have been identified that may generate errors in the financial reporting, and the objectives for control of the existence and occurrence thereof; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, are covered in the “Matrix for the risks associated with the process of the drafting and issue of the financial reporting of Gas Natural Fenosa”.

Within the risks identification process defined by Gas Natural Fenosa in the ICSFR, the problem related to fraudulent practices has been considered as a highly relevant element. Accordingly, the fraud risk control policy of Gas Natural Fenosa is based upon three basic aspects:

- Fraud prevention.
- Fraud detection.
- Investigation and management of the fraud situations.

Preventive anti-fraud controls have been defined, from the perspective of financial reporting, that are classified in two categories. The so-called active controls, considered as barriers that restrict or prevent persons that may try to commit fraud from having access to the valuable assets. On the other hand, the passive controls aim to prevent fraud by way of dissuasive measures.

Finally, both the general control activities as well as the process control activities, that consist of the policies and procedures included throughout the stages of the process for the preparation of the financial reporting and that ensure the reliability thereof, are set out in the “Control activities matrix of the financial reporting of Gas Natural Fenosa”.

The ICSFR of Gas natural Fenosa is a dynamic system, and accordingly the periodic update thereof constitutes a fundamental process in order to fulfil at all times the purposes thereof, that is to say, in order to ensure that the financial reporting of the group is reliable. In particular, the definition matrix of the scope thereof is updated on an annual basis.

- **Whether the process covers all of the objectives of the financial reporting, (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and of so, how often.**

Gas Natural Fenosa, aware of the need for and the importance of a tool that ensures the adequate control of the management of the ICSFR, implemented in 2013 the SAP GRC Process Control application, for the integral management of the documentation, and the assessment and supervision of the internal control of the processes of Gas Natural Fenosa. Said implementation, carried out within the framework of the efficiency enhancement program of Gas Natural Fenosa, was carried out, initially, in all of the Spanish companies in which Gas Natural Fenosa holds a majority shareholding as well as in the companies in which Gas Natural Fenosa is responsible for the operations and/or management thereof. In 2014 the implementation of the SAP GRC Process Control tool was carried out in Colombia and in the Shared Economic and Financial Services Centre of South America; in 2015 the implementation was extended to other countries of the group, such as Mexico and France; and in 2016 the tool was implemented in Holland and the progressive implementation thereof is scheduled in the countries where Gas Natural Fenosa operates. For the implementation of SAP GRC Process Control, both within Spain as well as at an international level, Gas Natural Fenosa has received the support of the users responsible for the key controls of the ICSFR and of the Internal Auditing, Compliance and Control Unit.

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICSFR model was extended to the countries which have recently been included within the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). This incorporation strengthens and enhances the Internal Control in Gas Natural Fenosa.

With the exception of the definition matrix of the scope, the ICSFR model of Gas Natural Fenosa is integrated within SAP GRC Process Control. This tool identifies the General Environment Controls and the General Computer Controls, together with the critical processes, their associated risks, as well as the control activities

that mitigate said risks, that are set out in the aforementioned risks and controls matrices. Furthermore, the units responsible for the carrying out of the control activities are identified and integrated in the processes structure.

The following benefits are provided through the implementation of SAP GRC Process Control:

- It centralises all of the documentation and management of the ICSFR of Gas Natural Fenosa in a homogeneous manner.
- It integrates the internal control of the financial reporting in the business and corporate processes, thereby enabling each organisational unit to carry out, periodically, the assessment of their controls, with the provision of the necessary documentary evidence, and, annually, to carry out the internal certification process of the ICSFR.
- It uses workflows and forms for the management of the control activities, for the documentation of the evidence of the execution thereof and for the action plans.
- It provides for access to documentation that evidences the controls of the processes and displays the immediate result of the assessment in a user-friendly manner .
- It constitutes a support tool for the supervision process of the ICSFR by the Internal Auditing, Compliance and Control Unit.
- It provides for the provision and support of the information required for both the external and internal reporting of the ICSFR.

After the implementation of SAP GRC Process Control in April 2013, during the subsequent years the requests for assessment of the controls have been carried out in accordance with the established timetable, and the documentary evidence of the execution of the controls has been requested from the units involved in the ICSFR, in accordance with the established frequency. Said assessment makes it possible, if applicable, to identify and inform about weaknesses and the necessary action plans.

- **The existence of a process for the identification of the scope of the consolidated accounts, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose (SPV) entities.**

The identified critical processes include the process for the identification of the scope of the consolidated accounts of Gas Natural Fenosa, that has been described in a technical instruction called “Consolidated Accounts Procedures of the Gas Natural Fenosa group”. Said document sets out the process for the monthly update of the scope of the consolidated accounts, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the scope of the consolidated accounts is of fundamental importance for the drafting of the consolidated financial reporting of Gas Natural Fenosa.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental risks, etc.) to the extent that they affect the financial statements.**

The risks matrix identifies the risks associated with the fulfilment of the objectives of financial reporting, taking into account in said identification the effects of other types of risks (for example: operational, technological, financial, reputational risks, etc.) that form part of the Corporate Risks Map of Gas Natural Fenosa.

- **Which governing body of the company supervises the process.**

The supervision of the efficacy of the ICSFR is the responsibility of the Audit Committee. For the performance of this function, the Audit Committee receives the support of the Internal Auditing, Compliance and Control Unit and the External Audit (see section F.5).

F.3 Control activities

State, together with the main characteristics thereof, whether at least the following aspects exist:

F.3.1. Procedures for the revision and authorisation of the financial reporting and the description of the ICSFR, to be published in the securities markets, stating the parties responsible for said procedures, as well as the descriptive documentation of the activities and controls flows (including those related to fraud risk) of the different types of transactions that may substantially affect the financial statements, including the procedure for the closing of the accounts and the specific review of the relevant judgements, estimations, valuations and forecasts.

Gas Natural Fenosa carries out periodic reviews of the financial reporting that is drafted, as well as of the description of the ICSFR, in accordance with the different levels of responsibility that guarantee the quality thereof.

By way of initial review, the persons responsible for the closing of the accounts of each company of Gas Natural Fenosa review the financial reporting drafted in order to ensure that it is reliable.

Furthermore, the financial reporting of Gas Natural Fenosa is periodically reviewed by the manager of the Economic and Financial Department, who identifies possible deviations. Accordingly, the Economic and Financial Department reports the regulated financial reporting to the Audit Committee, and ensures the transparency and accuracy of the information and mentions the internal control systems and the accounting criteria applied.

Furthermore, the Economic and Financial Department also reports on:

- the main accounting principles, judgements, estimations and processes used for the drafting of the economic and financial reporting and the financial statements,
- the companies that form part of the scope of the consolidated accounts of the group,
- the main risks and contingencies and the hedging thereof by means of provisions,
- the tax situation of the group and the main tax policies applied in the Companies Income Tax declarations,

- the procedure for the selection of the external auditor,
- the efficacy and efficiency of the Internal Control System on Financial Reporting (ICSFR) and the certification process regarding the key controls, as well as the action plans for improvements that have resulted from said process.
- the Risks Control Policies and Systems at Gas Natural Fenosa, as well as the relevant aspects associated to the drafting, definition and conclusions of the Corporate Risks Map of Gas Natural Fenosa.

Finally, the Chief Financial Officer (CFO) certifies the reasonableness of the individual and consolidated annual accounts that are presented to the Board of Directors for approval.

On the other hand, as is set out in the “General Guidelines for the Internal Control System on Financial Reporting (ICSFR) of Gas Natural Fenosa”, the control activities defined by the group in the ICSFR comply with the fundamental objective of ensuring that the financial reporting of Gas Natural Fenosa represents the true and faithful image of the group.

The control activities defined in the ICSFR include both general controls as well as controls of the critical processes.

The general controls are mechanisms that, although they do not provide for a sufficient degree of control over the processes of the group, nonetheless provide for the fulfilment of a series of key objectives for an effective ICSFR, that is to say, they describe the policies and directives designed in order to protect the ICSFR of Gas Natural Fenosa as a whole.

On the other hand, all of the identified critical processes have been documented by means of the control activities matrix as well as by the corresponding technical instructions that describe the processes. In the management tool of the ICSFR, SAP GRC Process Control, the critical processes are identified, as well as their associated risks and the control activities that mitigate said risks, together with the documentation that describes said processes. Accordingly, Gas Natural Fenosa has identified all of the necessary processes for the drafting of the financial reporting, for which relevant judgements, estimations, valuations and forecasts have been used, all of which are considered to be critical. On a periodic basis, the Audit Committee is notified of the main hypotheses applied in order to estimate the financial reporting that depend upon relevant judgements, valuations and forecasts.

The following information has been included within the critical processes and control activities documentation included within SAP GRC Process Control:

- Description of the process.
- Diagram of the reporting flows of the process.
- Map of the systems that are involved in the process.
- Description of the financial reporting risks associated with the different control processes and objectives
- Definition of the control activities for the mitigation of the identified risks and the attributes thereof.
- Description of the persons or units responsible for the processes and the control activities.

Moreover, in the definition of the control activities the following control activities classifications have been identified, in light of the following five criteria:

- Scope: Depending upon the scope of the control activities, the activities may be divided into:

- General control activities.
- Process control activities.
- Implementation: the control activities have been classified into implemented and non-implemented activities.
- Degree of automation: Depending upon the degree of automation of the control activities, the activities may be divided into automatic and manual activities.
- Nature of the activity: Depending upon the nature of the control activities, the activities may be divided into preventive or detection activities.
- Frequency: Depending upon the recurrence of the activity over time, for example: annual, weekly, monthly, daily, etc.

Finally, in the ICSFR of Gas Natural Fenosa the annual internal certification model has been defined for the controls identified in the critical processes, that must be carried out by the business and corporate units involved in the process of the drafting of the financial reporting. The Financial Reporting Internal Control Unit is responsible for the implementation and monitoring of this certification process. To carry out this internal certification process, the units involved use the functions integrated within the SAP GRC Process Control tool for the management of the ICSFR of Gas Natural Fenosa (see section F.2.1).

In turn, the Internal Auditing, Compliance and Control Unit is responsible for reviewing and assessing the conclusions regarding compliance and efficacy that result from the annual internal certifications process of the units responsible for the controls, of the identification of the weaknesses and of the action plans.

F.3.2. Policies and procedures for the internal control of the information systems (including, access security, change control, operational aspects, continuous operability and segregation of the functions) that support the relevant processes of the company in relation to the drafting and publication of the financial reporting.

For the critical processes associated with the drafting and publication of the financial reporting of Gas Natural Fenosa that have been defined in the ICSFR of the group, the control activities have been identified that operate in the information systems, both for the systems that are directly used for the preparation of financial reporting as well as for the systems that are relevant in the control process of transactions that are set out therein.

Generally speaking, within the information systems map of Gas Natural Fenosa, a series of policies have been defined and implemented in order to guarantee the following aspects:

- Access security both for the data as well as for the applications.
- The control regarding changes to the applications.
- The correct procedures for the use of the applications.
- The availability of the data and the continuity of the applications.
- An adequate segregation of the functions.

a) Access security:

A series of measures have been defined at different levels in order to guarantee the confidentiality and to avoid the unauthorised access both to the data as well as to the applications. The management and authentication of the majority of the internal

users is centralised in the Directories of OIM (Oracle Identity Manager), that ensures the confidentiality thereof.

The Company has two main DPC (Data Processing Centres) in Madrid, that provide for the availability of the information systems in the case of any contingency. Only authorised personnel are able to access said facilities, and all access is logged and, subsequently, reviewed in order to analyse any anomaly.

The communications with said systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus systems in order to enhance the internal control against threats.

Moreover, the Company is currently working on the creation and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery of interrupted critical functions.

Finally, at an application, operational system and database level, the user-password combination is used as a preventive control. At a data level, profiles have been defined that limit access thereto. Gas Natural Fenosa is developing a project for the definition and implementation of a users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based upon best practices, which establishes the checks and validations necessary in order to limit the risk in said process.

The main aspects thereof are set out hereinbelow:

- Approval by the Technical Committee, Changes Committee and Business.
- Carrying out of tests in different environments, prior to the production phase.
- Specific environments for the development and test tasks.
- Rollback procedures.
- Segregation of functions in the majority of the environments between the development and production equipment.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Periodic maintenance of the documentation regarding changes.

c) Operability:

In order to guarantee that the operations are correctly carried out, said operations are monitored on four different levels:

- All of the interfaces between systems are monitored so as to ensure the correct execution thereof.
- At a perimeter level, different availability indicators exist so as to avoid any communications interruptions.
- Automatic validations regarding the data entered so that the data is checked against the expected data in light of the nature, type thereof, etc.
- Of the infrastructures that support the applications.

Furthermore, an internal Help Desk service exists that final users may use and they have available a management tool in order to report any type of incident.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of the information systems provides for the availability thereof in the case of incidents.

Furthermore, a backup copy of the data is periodically carried out, that is temporarily kept in a safe place based upon the legal requirements established for each one of the systems. The data is copied and stored in different locations which prevents any information loss. To restore and recover said data, a specific procedure exists, although periodic tests are not carried out.

e) Segregation of functions:

Access to the information systems is defined based upon roles and profiles that define the functionalities that must be available to users. Said profiles are used in order to limit the access of users to the information systems.

f) Regulatory compliance: LOPD (Spanish Data Protection Act)

Gas Natural Fenosa complies with the Spanish Data Protection Act in order to guarantee and protect the personal data of its employees and customers based upon the provisions of the Data Protection Act 15/1999, of 13 December.

The data controller of each file that contains personal data shall ensure legal compliance at Gas Natural Fenosa by:

- Registering the files at the Spanish Data Protection Agency (“AEPD”) of all of the files that include personal data.
- Ensuring that the data is adequate and accurate and is managed proportionally in relation to the purpose for which it was obtained.
- Guaranteeing the due compliance of the duties of secrecy and security.
- Notifying the interested parties of the compilation thereof and obtaining the consent thereof for the processing of the data.
- Guaranteeing the exercise of the rights of access, correction, cancellation and challenge.
- Ensuring that all legal provisions are complied with in relation to the relationships with third parties that provide services with access to personal data, establishing by means of contract that the data processor shall process the data in accordance with the instructions of the data controller of the file, shall not apply or use the data for any other purposes other than that which is set out in the contract, shall not disclose said data, not even for the purposes of the storage thereof, to any other persons (the same security measures as applied by the data controller must be applied thereto).
- Compliance with the sector legislation applicable to Gas Natural Fenosa.

Based upon Section 9 of the LOPD, that conditions the security measures to the state of technology, Gas Natural Fenosa adopts the technical measures that guarantee the security of the personal data and avoids the alteration, loss, or unauthorised processing or access thereto in order to guarantee the confidentiality, integrity and availability of the data.

Pursuant to Section 96 of the LOPD, Gas Natural Fenosa carried out biennial audits of its information systems in order to comply with the provisions of the Data Protection Regulations, as well as the data protection procedures and instructions.

F.3.3. Internal control policies and procedures for the supervision of the activities subcontracted to third parties, as well as the assessment, calculation or valuation aspects thereof that are commissioned to independent experts, that may substantially affect the financial statements.

Gas Natural Fenosa has developed a series of policies and procedures in order to supervise the management of the activities subcontracted to third parties, all of which have been approved by the levels established in the group, which include, the existence of “General Guidelines for External Contracting”, “General Guidelines regarding the Quality of Suppliers” and the procedures that are established therein, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, Gas Natural Fenosa has established in the “General Guidelines for External Contracting” the general principles that must be applied for all awards and contracting of works, goods and services carried out by the group, that guarantees an efficient and quality homogeneous model for the management of the Procurements process at Gas Natural Fenosa.

The foregoing Guidelines also establish, generally speaking, the responsibilities of the different units in the contracting process, which include the Procurements Department as the area responsible for promoting the creation of long-term relationships of trust and confidence with suppliers by establishing objective and impartial mechanisms of assessment and selection and ensuring that the supply chain complies with the principles provided for in the Code of Ethics for Suppliers, that the suppliers, as from 2016, must ratify and the terms of which are sourced from the Code of Ethics of Gas Natural Fenosa, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. The aforementioned Guidelines creates the obligation for the initial evaluation of all potential suppliers prior to the participation thereof within a procurements process, by which the Company evaluates, *inter alia*, legal, financial, quality, safety and security, environmental and corporate responsibility aspects, and also carries out the periodic evaluation thereof. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

For said purposes, Gas Natural Fenosa has developed, in the “General Guidelines regarding the Quality of Suppliers” and in the relevant procedures thereof, the basic principles that govern the evaluation and certification process of the suppliers of the group, which include the establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high risk (Operating Risk, Legal Risk, Health and Safety Risk, Quality Risk, and Environmental-Social-Governance Risk). The certification process may reveal anomalies that require a corrective action plan, or that result in the non-certification of a supplier, that shall prevent the supplier from rendering services to Gas Natural Fenosa.

Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on the Health and Safety aspects. The necessary corrective measures or action plans are established, as the case may be.

The main areas that affect critical processes of the financial reporting that Gas Natural Fenosa has subcontracted to third parties are:

- Certain processes of the Systems area
- Meter reading and measurement processes
- Certain Customer Services processes
- Logistics operator
- Payslip and staff management process.
- Site management and maintenance works of the distribution business
- Certain services provided to customers of the Retail business

Furthermore, the Business Units carry out the supervision and the quality control of their suppliers in order to determine whether they fulfil the required levels of quality for the execution of the works. Alternatively, they forward their proposals for the removal of the certifications/accreditation for suppliers/products/persons as a result of any deficiencies in the performance of the services or products.

Gas Natural Fenosa contracts experts for activities that support valuations, judgements or accounting calculations, solely and exclusively when said experts are registered in the corresponding Professional Colleges, or equivalent accreditation, and provided that they declare their independence and are internationally renowned companies.

Furthermore, Gas Natural Fenosa has defined the “Counterparty Due Diligence Procedure” that, in general, aims to provide hedging coverage for the main legal and reputational risks that affect business relationships with third parties and, in particular, the coverage of crimes associated with corruption risks.

The Internal Auditing, Compliance and Control Unit of Gas Natural Fenosa audits the processes and the correct application of the Procurement, Quality of Suppliers and Counterparty Due Diligence Procedures and in the case that breaches are detected the corresponding corrective actions are carried out.

F.4 Information and communication

State, together with the main characteristics thereof, whether at least the following aspects exist:

- F.4.1. A specific function for the purpose of defining and keeping up to date the accounting policies (accounting policy area or department) and for resolving doubts or disputes in relation to the interpretation thereof, while maintaining fluid communication with the persons and units responsible for the operations within the organisation, as well as an updated accounting policies manual that is provided to the units pursuant to which the company operates.**

The Economic and Financial Department is responsible, through the Accounting Planning and External Audit Unit, among other functions, for keeping up to date the accounting policies applicable to the group. Accordingly, it is responsible for the updating of the “Accounting Plan of Gas Natural Fenosa”, that includes the accounting criteria and the accounts plan of the group, as well as for the analysis of

the accounting changes that may affect the financial reporting of Gas Natural Fenosa.

The updating of the “Accounting Plan of Gas Natural Fenosa” is carried out on an annual basis, and the most recent update thereof was carried out in December 2016. The updates review both the accounting criteria based upon changes to the applicable IFRS-EU regulations as well as the accounting structure of the group, ensuring the traceability between the individual accounts plans of the subsidiaries of the group and the accounts plan of Gas Natural Fenosa, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

After the Accounting Plan has been updated, it is disseminated to all of the staff of the organisation via the intranet of Gas Natural Fenosa. Furthermore, and after the updated accounting plan has been published on the intranet, an online alert is sent to users that access the intranet that notifies all staff of said update.

On the other hand, the Accounting Planning and External Audit Unit is responsible for analysing the IFRS-EU regulatory changes that may significantly affect the financial statements and for notifying the managers of Gas Natural Fenosa that are affected by said regulatory changes. The foregoing Unit is also responsible for resolving the doubts and questions regarding the accounting classification of certain transactions that may be raised by the financial reporting staff of Gas Natural Fenosa.

F.4.2. Mechanisms for the capture and preparation of the financial reporting with homogeneous formats, that are applicable and used by all of the units of the company or group, that support the main financial statements and the notes, as well as the information that is set out regarding the ICSFR.

The integral economic and financial management model of Gas Natural Fenosa ensures the uniformity of the administrative and accounting processes by means of the centralisation of the accounting activities and the economic administration in Shared Economic and Financial Services Centres (“CSCs”) and through the use of SAP as a support system in the majority of the companies that form part of the group. The rest of the companies that do not use SAP are required to adhere to the criteria established by the group in order to ensure the uniformity of said processes.

Said model is characterised, fundamentally, by the fact that:

- it constitutes a single model for all countries and businesses;
- it incorporates the legal, tax, commercial and regulatory requirements of each one of the countries;
- it incorporates the internal control requirements;
- it constitutes the basis for obtaining the information that is provided to Senior Management and to official bodies;
- it is supported by a specific organisational model as well as specific economic and financial processes and computer systems for all countries and businesses;

The IFRS-EU financial statements of each country are directly obtained through the local account-group account assignation and the registration of the IFRS-EU adjustments in the SAP application.

As part of the ICSFR of the group, the map of interrelationships regarding the drafting of the financial reporting of Gas Natural Fenosa has been defined. Said map sets out, among other things, the computer systems that are involved in the

process for the drafting and issue of the financial reporting both from the perspective of the individual accounting close as well as from the consolidated accounting close perspective.

Accordingly, in relation to the drafting process of the financial reporting of Gas Natural Fenosa, the application SAP BPC is used, that is the SAP tool for the management of the consolidated process.

The information is automatically and directly loaded into said system, after the month has been closed.

Both of the foregoing tools provide support for the consolidation process and for Management Control in relation to tasks such as:

- Standardisation of the information.
- Validation of the information.

The drafting of the economic information, both of the financial reporting, as well as of the management information is centralised in the Integrated Reporting Centre, that ensures the integration, homogeneity, coherence and rationalisation of the reporting of Gas Natural Fenosa.

Furthermore, Gas Natural Fenosa has local accounts plans in order to comply with the accounting, tax, commercial and regulatory requirements established under the specific legislation of the countries in which the group operates. Said local accounts plans are grouped together to complete the unified and homogeneous group accounts plan for the purposes of the consolidated accounts and financial reporting.

F.5 Supervision of the functioning of the system

State, including the main characteristics thereof, at least:

F.5.1. The supervision activities of the ICSFR carried out by the Audit Committee as well as whether the company has an internal auditing function that includes activities that provide support to the Committee in relation to its supervision activities for the internal control system, including the ICSFR. Furthermore, state the scope of the assessment of the ICSFR carried out during the year and the procedure by which the person or unit responsible for carrying out the assessment notifies of the results thereof, whether the company has an action plan that details the potential corrective measures, and whether the impact thereof has been taken into consideration in relation to the financial reporting.

The Audit Committee has the powers that are provided for at law as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervise the drafting process, the presentation and the integrity of the financial reporting of the Company and, as the case may be, of the group, and to review the compliance with the regulatory requirements, the adequate delimitation of the scope of the consolidated accounts and the correct application of the accounting criteria.

- Supervise the efficacy of the internal control of the Company, the internal auditing and the risk management systems, including the tax risks, as well as to discuss with the accounts auditor the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notify the General Shareholders Meeting regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- To forward to the Board of Directors the proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the terms and conditions for the contracting thereof and to regularly obtain from the external auditor information regarding the audit plan and the execution thereof, and furthermore to preserve the independence thereof in the exercise of its functions.
- Establish the necessary relationships with the external auditor in order to obtain information regarding the questions that may jeopardise the independence thereof, for the examination thereof by the Committee, and any other questions related to the accounts audit process, as well as any other communications provided for under applicable accounts audit legislation and in the audit regulations. In any event, the Committee must receive, annually, from the external auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the external auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the release of the accounts audit report, a report that sets out an opinion regarding the independence of the accounts auditor. Said report must contain, in any circumstances, the valuation of the provision of the additional services referred to under the preceding paragraph, both individually and as a whole, other than for the legal audit and in relation to the regime of independence or the audit regulations.
- Ensure the independence of the unit that assumes the internal auditing functions; approve the orientation and the work plans thereof, ensuring that the activities thereof are mainly focused toward the relevant risks of the Company; to receive periodic information regarding the activities thereof; and to verify that senior management take into account the conclusions and recommendations of its reports. To propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the internal auditing service manager, as well as to propose the budget for said service, however the final decision shall be adopted by the Chairman of the Board of Directors.

The Audit Committee shall obtain, in order to be able perform its activities, the information and documentation provided by the Internal Auditing, Compliance and Control Unit and by the Economic and Financial Department.

The functions of the Internal Auditing, Compliance and Control Unit has been established at Gas Natural Fenosa as independent and objective assessment activities, and accordingly the Internal Auditing, Compliance and Control Units, in turn, reports to the Audit Committee and to the Managing Director of GAS NATURAL SDG, S.A.

The mission thereof is to ensure the continuous review and the improvement of the internal control system of the group, as well as to

ensure the compliance with external and internal regulations and with the established control models in order to safeguard the efficacy and efficiency of the operations, and to mitigate the main risks in each of the different ambits of the group, in particular the operational, corruption, fraud and legal risks. Furthermore, it is responsible for the management of the Crime Prevention Model and of the Code of Ethics Model of Gas Natural Fenosa and for reporting regarding the internal auditing activities to the Audit Committee.

In the performance of its activities, Internal Auditing carries out the methodical review of the internal control systems of the processes of the group in all of the different aspects thereof, as well as the assessment of the controls and the operational risks associated with said processes (including those established in the ICSFR and in the Crime Prevention Model), through the definition and implementation of the “Annual Internal Audit Plan”, in order to improve the efficacy and efficiency thereof. Furthermore, it supports senior management through the fulfilment of its objectives.

The final objective is to safeguard the efficacy and efficiency of the operations and to mitigate the main risks in each one of the ambits of Gas Natural Fenosa, in particular in relation to operational, corruption, fraud and legal risks.

The “Strategic Audit Plan” (with a time frame of five years) and the annual internal audit plans are drafted taking into account, fundamentally, the “Corporate Strategic Plan”, the risk areas included in the Corporate Risks Map, the scope matrix of the Internal Control System on Financial Reporting (ICSFR), the operational risks maps, the results of the audits of previous years, and the proposals of the Audit and Control Committee and from top-tier management.

In accordance with the Strategic Audit Plan, the Internal Control System on Financial Reporting (ICSFR) of Gas Natural Fenosa shall be completely supervised by Internal Auditing within the period of five years.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enables mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

Specifically, and in relation to the Internal Control System on Financial Reporting (ICSFR), Internal Auditing is responsible for:

- Validating the correct design of the ICSFR, in accordance with the basic principles of the model approved by the Audit Committee.

- Supervising the efficacy and suitability of the control policies and procedures implemented (with the complete implementation thereof over five years).
- Reviewing and assessing the conclusions regarding the compliance and efficacy of the ICSFR from the internal certificates of the business and corporate units responsible for the controls (with the complete implementation thereof over five years).
- Assessing and communicating the results obtained in the general supervision process of the ICSFR and from the controls over the ICSFR processes.

In relation to the Crime Prevention Model, the Internal Auditing, Compliance and Control Area is responsible for the annual supervision thereof in order to reasonably ensure the efficacy and efficiency of the Model for the prevention, identification or mitigation of crimes provided for under applicable legislation.

The main processes reviewed by Internal Auditing during 2016 were as follows:

BUSINESS PROCESSES

- Gas Distribution: Meter Reading and Determination of Consumption, Customer Acquisition and Commissioning, Construction of Networks, Emergency Responses, Gas Distribution Warehouse Management, Management of Irregularities and Fraud.
- Electricity Distribution: Electricity Distribution Warehouse Management, Operations, Service Provision, Medium and Low Voltage Development, Network Maintenance, Meter Reading.
- Electricity Generation: Operation and Maintenance of Electricity Generation Assets, Warehouse Management.
- Retail Market: Customer Acquisition and Electricity Facilities Contracting.
- Wholesale Market and Global Accounts: Management of the Loss of Industrial Customers, Management and Optimisation of Gas Logistics
- Provisioning and Transport: Procurements of GNL
- Exploration and Production: Exploration/Production.
- Energy Management: Estimation of the demand and Purchase of Retail Electricity, CO₂ Markets, Electricity Generation Sale

STRATEGIC AND SUPPORT PROCESSES

- Customer Services: Collection, Billing, Debt Collection Management, Customer Support, Meter Reading and Marketing Measures
- Management of Physical Resources: Procurements within and outside the scope of consolidation, Accreditation and Monitoring of Suppliers, Counterparty Due Diligence.
- Internal Control Management: Monitoring of corrective actions, ICSFR, Data Protection Act
- Information Systems Management: Guarantee of continuity and availability of the Information Systems, Information Security, Management of Information Systems Projects.
- Human Resources Management: Human Resources Administration and Services, DPO
- Communication Management and Foreign Relations: Sponsorship, Foundations, Corporate Responsibility
- Management of Economic and Financial Resources: Treasury Stock

- Legal Consultancy and Support Services: Legal Consultancy and Support Services
- Review of the Regulatory System of the Group
- Code of Ethics
- Update of the operational risks map.
- Review of the assessment and implementation of the Productivity Plan
- Crime Prevention Model.

37% of the reviewed processes relate to the business activities within Spain and the remaining 63% correspond to the international ambit.

The controls of the previous processes related to Financial Reporting, were reviewed in accordance with the working methodology that has been set out hereinabove.

F.5.2. Whether a discussion procedure exists by means of which the accounts auditor (in accordance with the provisions of the NTA), the internal audit staff and other experts may notify to senior management and the Audit Committee or directors of the company the significant internal control weaknesses identified during the processes of review of the annual accounts or during any other processes carried out thereby. Furthermore, state whether an action plan exists for the correction or mitigation of the detected weaknesses.

As provided for under Article 6.4 of the Regulations regarding the Organisation and Functioning of the Board of Directors and its Committees:

“The Board of Directors shall ensure that a direct relationship is maintained with the members of the senior management bodies of the Company and with the Auditors thereof. The objective, professional and permanent nature of said relationship shall strictly respect the independence of the Auditors”.

Furthermore, Article 9 of the Regulations provide that:

The Board shall meet at least once every two months, and, at the proposal of the Chairman, as often as the Chairman deems necessary for the proper functioning of the Company. The meeting must, necessarily, be called when requested by at least 1/3 of the Board Members, in accordance with the terms of Article 46 of the Articles of Association of the Company. During the ordinary meeting sessions of the Board, the general aspects and matters shall be discussed that are related to the businesses of the Group, the economic results, the Balance Sheet, the Cash situation and the comparison thereof with the approved budgets, the aspects and matters set out in Article 5, if applicable, and in any event the points included in the agenda to the meeting, drafted in accordance with the terms of these Regulations. During said periodic meetings, the Board shall also receive information regarding the most significant operational results and problems as well as in relation to the foreseeable situations that may be critical for the interests of the Company and the actions that the Steering Committee proposes in order to manage said situations, as the case may be (...).

Accordingly, the members of the Board of Directors, in order to obtain the information necessary for the exercise of their functions, are supported by the Steering Committee, the specific function of which is to carry out the continuous monitoring of senior management of the group, as well as the Audit Committee, the functions of which include the analysis and supervision of the process for the drafting of the regulated financial reporting, as well as the efficacy of the internal control system.

The permanent delegation of powers by the Board of Directors in favour of the Steering Committee shall include all of the powers of the Board, with the exception of the powers that are not able to be delegated, whether pursuant to legal provisions or the Articles of Association or pursuant to these Regulations.

In accordance with the Articles of Association of the Company and the Regulations of the Board of Directors and its Committees, the Audit Committee shall be comprised by a minimum of three and a maximum of seven Board Members, that shall be designated by the Board of Directors from among the Non-Executive Board Members, and at least one of the Non-Executive Board Members thereof shall be designated taking into account his or her knowledge and expertise in accounting or audit fields, or in both fields. The members thereof shall be removed from office when they cease to be Board Members or when the Board removes them from the Audit Committee or by reason of the expiry of the period of three years after their appointment, however the members thereof may be re-elected. The majority of the members of the Committee shall be Independent Board Members. As at 31 December 2016, the Audit Committee is comprised of seven Board Members, three proprietary Board Members and four independent Board Members, one of which is the Chairman of the Audit Committee.

The Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote and who must be replaced as provided for under the Articles of Association (Article 51 *bis*) and as provided for at law, and who may be re-elected after the period of one year has elapsed as from the removal from office thereof. The Secretary of the Board of Directors shall act as the Secretary of the Committee.

The Committee, which shall be called by the Chairman thereof, shall meet as often as necessary in order to issue reports or proposals in relation to its functions or when deemed necessary by the Chairman thereof, or at the prior request of at least two of the members thereof and, shall meet at least four times a year. The Committee may invite any manager or employee that it deems necessary to attend the meetings.

The scope of the activities of the Audit Committee extends to:

- GAS NATURAL SDG, S.A.
- Subsidiary companies in which GAS NATURAL SDG, S.A. holds a majority shareholding
- Other subsidiary and related companies, in respect of which GAS NATURAL SDG, S.A., in any form whatsoever, effectively controls or is responsible for the management or operations thereof.

The Internal Auditing, Compliance and Control Unit shall report to the Audit Committee, on a permanent basis, the actions adopted in order to ensure that Gas Natural Fenosa complies with all of the policies, rules

and controls of the processes established by the senior management of the group.

Furthermore, the foregoing unit shall also present:

- The Annual Internal Audit Plan for the approval of the Committee.
- The degree of execution thereof, as well as the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment of the efficacy of the Control System for the assessment of the operational risks and of the Internal Control of the Gas Natural Fenosa group (including the risks corresponding to the ICSFR and to the Crime Prevention Model), that includes the corresponding Action Plans in order to enhance the level of internal control.
- The degree of implementation by the audited units of the corrective measures that are included in the Audit Reports, in particular the measures proposed by the Audit Committee.

Furthermore, the Economic and Financial Department reports the regulated financial reporting to the Audit Committee, and ensures the transparency and accuracy of the information and mentions the internal control systems and the accounting criteria applied. Furthermore, the Economic and Financial Department also reports on:

- the main accounting principles, judgements, estimations and processes used for the drafting of the economic and financial reporting and the financial statements,
- the companies that form part of the scope of the consolidated accounts of the group,
- the main risks and contingencies and the hedging thereof by means of provisions,
- the tax situation of the group and the main tax policies applied in the Companies Income Tax declarations,
- the procedure for the selection of the external auditor,
- the efficacy and efficiency of the Internal Control System on Financial Reporting (ICSFR) and the certification process regarding the key controls, as well as the action plans for improvements that have resulted from said process.
- the Risks Control Policies and Systems at Gas Natural Fenosa, as well as the relevant aspects associated to the drafting, definition and conclusions of the Corporate Risks Map of Gas Natural Fenosa.

The external auditor notifies the Audit Committee of the significant internal control weaknesses detected during the audit procedures. Furthermore, the external auditors report on the main conclusions that they have reached in relation to the review of the internal control, regarding the assessment of risks and the action plans.

Finally, the external auditor, over and above the periodic meetings with the Audit Committee, also meets with the plenary session of the Board of Directors prior to the Board of Directors drafting the annual accounts.

F.6 Other relevant information.

As is described in section F.3.1. hereinabove, as part of the assessment model of the Internal Control System on Financial Reporting of Gas Natural Fenosa, an annual internal certification process has been defined by means of which, and through SAP GRC Process Control, the business and corporate units involved in the process for the drafting of the financial reporting certify that within their processes the identified controls are applied

and that said controls are valid and sufficient. Moreover, said units report to the Internal Control on Financial Reporting unit of the weaknesses and/or deficiencies that they detect as well as the changes that take place within their processes in order to analyse whether said changes imply the need to develop new controls or modify the existing controls.

During the year 2016, Gas Natural Fenosa has carried out the annual internal certification process, with the result that changes in a limited number of process have been identified, however said changes have not implied the modification of the previously identified control activities, and accordingly the risks associated with the drafting of the financial reporting in the affected critical processes are considered to be covered. The main figures from said process are set out hereinbelow:

	Spain	International	Total
Business and corporate units	136	194	330
Processes identified	54	142	196
Controls certified	854	1,842	2,696

Furthermore, action plans have been identified for weaknesses in relation to the documentary evidence of controls, that amount to 40, of which 8 are for Spain. During the year 2016 a total of 59% of the action plans identified in 2015 have been resolved, and new plans have been established during 2016. In any event, the sub-processes affected by said action plans do not significantly affect the quality of the financial reporting.

F.7 Report of the external auditor

State:

F.7.1. Whether the information of the ICSFR that is released to the markets has been submitted to review by the external auditor, in which case the company must include the corresponding report as an annex. Alternatively, the reasons why no report exists must be stated.

Gas Natural Fenosa has considered it appropriate to request the External Auditor to issue a report in relation to the information regarding the Internal Control System on Financial Reporting (ICSFR).

G DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

In the case that any recommendation is not complied with or is only partially complied with, a detailed explanation must be included of the reasons thereof, in order that the shareholders, investors and the market in general

have sufficient information in order to assess the decisions of the company. General explanations shall not be accepted.

1. The Articles of Association 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.

Compliant Explain

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

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

Compliant Partially compliant Explain Not applicable

3. During the General Shareholders Meeting the Chairman of the Board of Directors should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous General Shareholders Meeting.
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures applied in respect thereof.

Compliant Partially compliant Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant Explain

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board of Directors approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant Partially compliant Explain **X**

The most recent authorisation for a share capital increase issued in favour of the Board was ratified at the General Shareholders Meeting of 20 April 2012 for a period of 5 years and up to a maximum sum of half of the share capital at the time of the authorisation.

Said authorisation included the power to revoke the pre-emptive subscription rights and the corresponding report was issued that was provided to shareholders.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the General Shareholders Meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.**
- b) Reports of the operation of the Audit Committee and the nomination and remuneration committee.**
- c) Audit committee report on related party transactions.**
- d) Report on corporate social responsibility policy.**

Compliant **X** Partially compliant Explain

7. The company should broadcast its general meetings live on the corporate website.

Compliant **X** Explain

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant **X** Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant

Partially compliant

Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant

Partially compliant

Explain

Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant

Partially compliant

Explain

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant

Partially compliant

Explain

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant

Explain

Currently, the Board of Directors of GAS NATURAL SDG, S.A., within the minimum of 10 members and the maximum of 20 members, as provided for under Article 41 of the Articles of Association, by virtue of the resolution adopted at the General Shareholders Meeting held on 23 June 2003, is comprised of 17 members. Said number of members exceeds the number established in Recommendation 13 of the Good Governance Code by 2 members, however represents the minimum number that enables the Company to fulfil two objectives: on the one hand, to respect and abide by the legal mandate of proportional representation and, on the other hand, to have a sufficient number of independent Board Members that are able to carry out, with the sufficient degree of dedication, the numerous functions that are conferred upon them pursuant to applicable regulations and in particular, to be able to participate at the different committees which they are required to attend. In order to obtain a Board with fewer members, the principle of proportional representation would require a total of four independent Board Members which would adversely affect the working capacity thereof, for example they would all be required to be members of the Audit Committee. In any event, the number of 17 does not limit or restrict the efficient and participative functioning of the Board or of its committees in any way whatsoever.

14. The Board of Directors should approve a director selection policy that:

- a) Is concrete and verifiable.**
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board’s needs; and.**
- c) Favours a diversity of knowledge, experience and gender.**

The results of the prior analysis of Board needs should be written up in the Nomination Committee’s explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total Board appointments occupied by women directors before the year 2020.

The Nomination Committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant Partially compliant **X** Explain

The director selection policy ensures that the selection procedures of the Company are not subject to any implicit bias that could imply any type of discrimination whatsoever, within the framework of the strict adherence to the right of proportional representation of the shareholders that is provided for at law. As has been set out hereinabove, the director selection policy aims to ensure adequate diversity for the composition of the Board of Directors, which means that the members of the Board have different however complementary professional profiles and experience, as the Company believes that said diversity provides for the better functioning of the Board. Within the foregoing framework, as has been set out in section C.1.6, the Board pays attention to the question of gender diversity. Although the policy does not expressly state the objective that in the year 2020 at least a third of the members of the Board are women directors, it is true that within a brief period of time (2014-2016) the percentage of women directors has increased from 0% to 17.64% and parity has been established in relation to the independent directors.

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, 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.

Compliant Partially compliant Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the Board of Directors but not otherwise related.**

Compliant Explain

17. Independent directors should be at least half of all Board Members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 per cent of capital, independent directors should occupy, at least, a third of Board appointments.

Compliant Explain

As at 31 December 2016, one third of the directors are independent directors, although the Company cannot be classified as having low market capitalisation and does not have shareholders that act jointly and that control more than 30% of the share capital. Accordingly, it must be taken into account that three shareholders of the Company have shareholdings that are equal to or that exceed 20% however they do not act jointly, the representation thereof on the Board of Directors complies with the principle of proportional representation. On the other hand, it must be stated that the establishment of qualified majorities for certain matters has provided the independent directors with the capacity to block the decisions thereof.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) **Background and professional experience.**
- b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) **Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) **Dates of their first appointment as a Board Member and subsequent re-elections.**
- e) **Shares held in the company, and any options on the same.**

Compliant Partially compliant Explain

19. Following verification by the Nomination Committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 per cent of capital; and explain any rejection of a formal request for a Board appointment from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant Partially compliant Explain Not applicable

20. 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.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where they find just cause, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a Board Member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board Membership ensue from the proportionality criterion set out in recommendation 16.

Compliant Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the Board of Directors 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 offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board of Directors should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant Partially compliant Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the Board’s approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking Board representation.

When the Board of Directors 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 also apply to the Secretary of the Board of Directors, even if he or she is not a director.

Compliant Partially compliant Explain Not applicable

24. 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 of Directors. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

25. The Nomination Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant Partially compliant Explain

In light of the extensive participation and attendance by the members of the Board at the meeting sessions of the governing bodies, the Company has not yet established rules regarding the number of company boards on which directors can serve, without prejudice to the fact that the Company has verified the adequate functioning of the Board of Directors, both in terms of the number of meetings, that have exceeded the recommended number, as well as in qualitative terms.

26. The Board of Directors should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant Partially compliant Explain

Pursuant to the provisions of Article 9 of the Regulations of the Board of Directors, 1/3 of the directors may propose other points to be included in the Agenda for the meeting of the Board. In relation to the number of meetings, the number of meetings exceed the number provided for in the recommendation and said meetings have been held in accordance with the schedule approved by the Board itself.

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant Partially compliant Explain

28. 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, they should be recorded in the minute book if the person expressing them so requests.

Compliant Partially compliant Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant Partially compliant Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant Explain Not applicable

31. The agendas of Board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant Partially compliant Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant Partially compliant Explain

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board of Directors a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board of Directors and, where appropriate, the company's chief executive officer; exercise leadership of

the Board of Directors and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant Partially compliant Explain

34. When a lead independent director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairman, if applicable; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant Partially compliant Explain Not applicable

35. The Secretary of the Board of Directors should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant Explicable

36. The plenary session of the Board of Directors should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the Board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board Membership and competences
- d) The performance of the Chairman of the Board of Directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the Chairmen of Board committees

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board of Directors itself should start from the report of the Nomination Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Nomination Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant Partially compliant **X** Explain Not applicable

The Board of Directors, once a year, makes its self-assessment, which assesses the quality and efficiency of its operation, the diversity in its composition, its powers as a collegiate body, the performance of the Chairman and the Managing Director and the functioning and the composition of its commissions. Although this analysis considers the contributions made by the different Directors in general, an individualized report of the performance of each one of them is not made. Is for this reason alone because it said that this recommendation is partially fulfilled.

37. When a Steering Committee exists, its membership mix by director class should resemble that of the Board of Directors. The Secretary of the Board of Directors should also act as Secretary to the Steering Committee.

Compliant **X** Partially compliant Explain Not applicable

38. The Board of Directors should be kept fully informed of the business transacted and decisions made by the Steering Committee. To this end, all Board Members should receive a copy of the committee's minutes.

Compliant Partially compliant **X** Explain Not applicable

At each meeting of the Board the matters that have been discussed at the Steering Committee, at the Audit Committee and at the Appointments and Remuneration Committee are set out. The Minutes of the Committees are provided to the members thereof for their approval and are available to all of the directors.

However, above all, the Secretary begins each meeting session of the Board of Directors by setting out all of the matters discussed, as well as the decisions adopted, not only by the Steering Committee but also by all of the Committees that have been held as from the last plenary session of the Board. This system is more effective than the system provided for in the recommendation as it enables the plenary session of the Board to understand (i) in real time and not with a month's delay, of all of the matters discussed and (ii) not only the matters discussed at the Steering Committee, but rather all of the matters discussed at all of the Committees.

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant **X** Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's non-executive Chairman or the Chairman of the Audit Committee.

Compliant Partially compliant **X** Explain

The Internal Auditing, Compliance and Control Unit monitors and ensures, *inter alia*, the proper functioning and internal control of the reporting and control systems and reports to the Managing Director, who is the CEO. The aforementioned Internal Auditing, Compliance and Control Unit reports its activities, in turn, to the Audit Committee that also authorises the annual budget thereof.

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

Compliant Partially compliant Explain Not applicable

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial reporting prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; 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 appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV (Spanish Securities and Exchange Commission) as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the plenary session of the Board of Directors to inform it of the work undertaken and developments in the company's risk and accounting positions.

- e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant Partially compliant Explain

43. **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 Partially compliant Explain

44. **The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board of Directors beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Compliant Partially compliant Explain Not applicable

45. **Risk control and management policy should identify at least:**

- a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), 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) **The measures in place to mitigate the impact of identified risk events should they occur.**
- d) **The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

Compliant Partially compliant Explain

46. **Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:**

- a) **Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**
- b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**

- c) **Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.**

Compliant Partially compliant Explain

- 47. Appointees to the nomination and remuneration committee – or of the Nomination Committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.**

Compliant Partially compliant Explain

- 48. Large cap companies should operate separately constituted nomination and remuneration committees.**

Compliant Explain Not applicable

The Company has a single Appointments and Remuneration Committee as it considers that it is not necessary or efficient to separate the functions thereof.

- 49. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.**

When there are vacancies on the Board of Directors, any director may approach the Nomination Committee to propose candidates that it might consider suitable.

Compliant Partially compliant Explain

- 50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

- a) **Propose to the Board of Directors the standard conditions for senior officer contracts.**
- b) **Monitor compliance with the remuneration policy set by the company.**
- c) **Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) **Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

Compliant Partially compliant Explain

51. The remuneration committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant **X**

Partially compliant

Explain

52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independent directors.
- b) They should be chaired by independent directors.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first plenary session of the Board following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all Board Members.

Compliant

Partially compliant

Explain

Not applicable **X**

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Nomination Committee, the corporate social responsibility, committee, where one exists, or a dedicated committee established ad hoc by the Board of Directors under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

- f) **Monitor and evaluate the company's interaction with its stakeholder groups.**
- g) **Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) **Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant **X** Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) **The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) **The corporate strategy with regard to sustainability, the environment and social issues.**
- c) **Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.**
- d) **The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) **Channels for stakeholder communication, participation and dialogue.**
- g) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant **X** Partially compliant Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant **X** Partially compliant Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **X** Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and 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, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant Explain Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Partially compliant Explain Not applicable

The variable remuneration of the Managing Director does not expressly take into account the qualifications that may exist in the external auditor's report and that reduce the sum thereof, nor is the foregoing a situation that has existed at the Company in the past. Notwithstanding the foregoing, the Appointments and Remuneration Committee only established the degree of compliance with the variable remuneration objectives

after the audited accounts of the Company have been received, and accordingly the Committee is able to take into account any qualifications that exist therein, if applicable, when determining the degree of compliance of the objectives.

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

The variable remuneration of the Managing Director is not structured by way of the award of shares or financial instruments whose value is linked to the share price. The Board considers that it is more effective and simple to structure the objective of the creation of value for the shareholder by means of the establishment of an objective regarding the foregoing and to assign a relevant weighting to said objective. As is explained in the annual remunerations report, the multiannual variable remuneration is designed as set out hereinabove, with a weighting of 25% of the established objectives.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable

The contract executed with the current Managing Director was formalised in 2005 and does not contain said provision.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant Partially compliant Explain Not applicable

The contract executed with the current Managing Director was formalised in 2005 and establishes a compensation entitlement in certain situations of three years of full remuneration. The terms of the modifications thereof, in October 2016, are set out in the annual remunerations report.

H. OTHER INFORMATION OF INTEREST

- 1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**
- 2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive**

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

- 3. The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

The Board of Directors, at its meeting of September 17, 2010, agreed to the adhesion of GAS NATURAL FENOSA to the Code of Good Tax Practices. In accordance with the provisions of the aforementioned Code, it is expressly stated that GAS NATURAL FENOSA has effectively complied with its content and, in particular, that at the meeting held on February 7, 2017, the GAS NATURAL Audit Committee FENOSA has been informed about the fiscal policies followed by the Group during the 2016 financial year.

Note to C.1.2

Mr. Salvador Gabarró Serra by agreement of the Board of Directors dated September 30, 2016 was named Honorary Chairman of the Company.

Note to C.1.9

Mr. Juan Rosell Lastortras submitted his resignation by letter dated 20 September 2016 without expressing the reasons for his resignation.

Note to C.1.12.- Clarification of the position

Mrs. Cristina Garmendia Mendizábal is President of the Supervisory Board at SYNIGS AG.

Note to C.1.16

Total remuneration of senior management has taken into account that received by Mr. José Javier Fernández Martínez as General Director of Global Power Generation, until his retirement in April 2016.

Note to C.1.45

The Appointments and Remuneration Committee is informed of such contracts. Amendments to the Managing Director's contract or the new contractual schemes of the members of the Management Committee must be approved by the Board of Directors. The Managing Director's contract has been approved by the Company's Board of Directors.

Note to G.10

Throughout 2016 this has not occurred. The applicable rules would have given rise to different voting rules for the proposed resolutions formulated by the Board in relation to those proposed by other shareholders. In the first case, votes corresponding to the shares present or represented, minus the votes against, the abstentions and the votes of those shareholders who had left the voting room before the vote, would be considered as votes in favor. With respect to the second case, votes to the shares present or represented shall be considered as votes against and, the votes against, as well as the abstentions and the votes of those shareholders who had left the room before the vote were recorded, have to be considered as votes in favor.

This annual corporate governance report has been approved by the company's board of directors at its meeting on February 7, 2017.

Indicate whether there have been directors who have voted against or abstained in connection with the approval of this Report.

YES

NO

Name or company name of director who has not voted in favor of approving this report	Reasons (against, abstention, non-attendance)	Explain the reasons

GAS NATURAL SDG, S.A.

Informe de auditor referido a la “Información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF)” de Gas Natural SDG, S.A. correspondiente al ejercicio 2016



INFORME DE AUDITOR REFERIDO A LA “INFORMACIÓN RELATIVA AL SISTEMA DE CONTROL INTERNO SOBRE LA INFORMACIÓN FINANCIERA (SCIIF)” DE GAS NATURAL SDG, S.A. CORRESPONDIENTE AL EJERCICIO 2016

A los Administradores:

De acuerdo con la solicitud del Consejo de Administración de Gas Natural SDG, S.A. (en adelante, la Entidad) y con nuestra carta propuesta de fecha 11 de octubre de 2016, hemos aplicado determinados procedimientos sobre la “Información relativa al SCIIF” adjunta, incluida en el Documento complementario al Informe Anual de Gobierno Corporativo de Gas Natural SDG, S.A. correspondiente al ejercicio 2016, en el que se resumen los procedimientos de control interno de la Entidad en relación a la información financiera anual.

El Consejo de Administración es responsable de adoptar las medidas oportunas para garantizar razonablemente la implantación, mantenimiento y supervisión de un adecuado sistema de control interno así como del desarrollo de mejoras de dicho sistema y de la preparación y establecimiento del contenido de la Información relativa al SCIIF adjunta.

En este sentido, hay que tener en cuenta que, con independencia de la calidad del diseño y operatividad del sistema de control interno adoptado por la Entidad en relación a la información financiera anual, éste sólo puede permitir una seguridad razonable, pero no absoluta, en relación con los objetivos que persigue, debido a las limitaciones inherentes a todo sistema de control interno.

En el curso de nuestro trabajo de auditoría de las cuentas anuales y conforme a las Normas Técnicas de Auditoría, nuestra evaluación del control interno de la Entidad ha tenido como único propósito el permitirnos establecer el alcance, la naturaleza y el momento de realización de los procedimientos de auditoría de las cuentas anuales de la Entidad. Por consiguiente, nuestra evaluación del control interno, realizada a efectos de dicha auditoría de cuentas, no ha tenido la extensión suficiente para permitirnos emitir una opinión específica sobre la eficacia de dicho control interno sobre la información financiera anual regulada.

A los efectos de la emisión de este informe, hemos aplicado exclusivamente los procedimientos específicos descritos a continuación e indicados en la *Guía de Actuación sobre el Informe del auditor referido a la Información relativa al Sistema de Control Interno sobre la Información Financiera de las entidades cotizadas*, publicada por la Comisión Nacional del Mercado de Valores en su página web, que establece el trabajo a realizar, el alcance mínimo del mismo, así como el contenido de este informe. Como el trabajo resultante de dichos procedimientos tiene, en cualquier caso, un alcance reducido y sustancialmente menor que el de una auditoría o una revisión sobre el sistema de control interno, no expresamos una opinión sobre la efectividad del mismo, ni sobre su diseño y su eficacia operativa, en relación a la información financiera anual de la Entidad correspondiente al ejercicio 2016 que se describe en la Información relativa al SCIIF adjunta. En consecuencia, si hubiéramos aplicado procedimientos adicionales a los determinados por la citada Guía o realizado una auditoría o una revisión sobre el sistema de control interno en relación a la información financiera anual regulada, se podrían haber puesto de manifiesto otros hechos o aspectos sobre los que les habríamos informado.

Asimismo, dado que este trabajo especial no constituye una auditoría de cuentas ni se encuentra sometido a la Ley de Auditoría de Cuentas, no expresamos una opinión de auditoría en los términos previstos en la citada normativa.



Se relacionan a continuación los procedimientos aplicados:

1. Lectura y entendimiento de la información preparada por la Entidad en relación con el SCIIF – información de desglose incluida en el Informe de Gestión – y evaluación de si dicha información aborda la totalidad de la información requerida que seguirá el contenido mínimo descrito en el apartado F, relativo a la descripción del SCIIF, del modelo de IAGC según se establece en la Circular nº 7/2015 de la CNMV de fecha 22 de diciembre de 2015.
2. Preguntas al personal encargado de la elaboración de la información detallada en el punto 1 anterior con el fin de: (i) obtener un entendimiento del proceso seguido en su elaboración; (ii) obtener información que permita evaluar si la terminología utilizada se ajusta a las definiciones del marco de referencia; (iii) obtener información sobre si los procedimientos de control descritos están implantados y en funcionamiento en la Entidad.
3. Revisión de la documentación explicativa soporte de la información detallada en el punto 1 anterior, y que comprenderá, principalmente, aquella directamente puesta a disposición de los responsables de formular la información descriptiva del SCIIF. En este sentido, dicha documentación incluye informes preparados por la función de auditoría interna, alta dirección y otros especialistas internos o externos en sus funciones de soporte al comité de auditoría.
4. Comparación de la información detallada en el punto 1 anterior con el conocimiento del SCIIF de la Entidad obtenido como resultado de la aplicación de los procedimientos realizados en el marco de los trabajos de la auditoría de cuentas anuales.
5. Lectura de actas de reuniones del consejo de administración, comité de auditoría y otras comisiones de la Entidad a los efectos de evaluar la consistencia entre los asuntos en ellas abordados en relación al SCIIF y la información detallada en el punto 1 anterior.
6. Obtención de la carta de manifestaciones relativa al trabajo realizado adecuadamente firmada por los responsables de la preparación y formulación de la información detallada en el punto 1 anterior.

Como resultado de los procedimientos aplicados sobre la Información relativa al SCIIF no se han puesto de manifiesto inconsistencias o incidencias que puedan afectar a la misma.

Este informe ha sido preparado exclusivamente en el marco de los requerimientos establecidos por el artículo 540 del texto refundido de la Ley de Sociedades de Capital y por la Circular nº 5/2013 de la CNMV de fecha 12 de junio de 2013 de la Comisión Nacional del Mercado de Valores, modificada por la Circular nº 7/2015 de la CNMV de fecha 22 de diciembre de 2015 a los efectos de la descripción del SCIIF en los Informes Anuales de Gobierno Corporativo.

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goiriena Basualdu

10 de febrero de 2017