

**MODEL ANNEX I  
ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED  
PUBLIC LIMITED COMPANIES**

**IDENTIFYING DATA OF THE ISSUER**

END DATE OF THE REFERENCE FINANCIAL YEAR 31/12/2016

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Company name:

GAS NATURAL SDG, S.A.

Registered office:

Plaça del Gas, no 1 – 08003 BARCELONA



**A COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR**

A.1 Explain the company remuneration policy. This heading will include information on:

- General principles and foundations of the remuneration policy.
- The most significant changes made to the remuneration policy in respect to the policy applied during the previous year, as well as any modifications that have been made during the year regarding the conditions of exercising the options already granted.
- Criteria used to establish the company remuneration policy.
- Relative importance of the variable remuneration components with regard to the fixed components and criteria used to determine the various components of the directors' remuneration package (*remuneration mix*).

**Explain the remuneration policy**

In establishing its remuneration policies, the Company aims to steadily create value for the Group over time, ensuring transparency and competitiveness in its remuneration policy.

The Directors' remuneration policy was approved by the General Shareholders' Meeting on 14 May 2015, and is defined and revised periodically by the Board of Directors at the proposal of the Appointments and Remuneration Committee, in order to keep the Company remuneration policy in line with the best practices of the benchmark market.

Some of the decisions that must be adopted by the Board under the remuneration policy, have been adopted during the meeting on 7 February 2017. The remaining decisions regarding the CEO's remuneration for his executive duties for 2017 were set at the Committee meeting on 7 March 2017.

A. The remuneration of Directors in their capacity as such is based on the following principles:

- It must be sufficient to compensate for their dedication, qualifications and responsibility, without compromising their independence.
- It must serve a market approach, considering the fixed remuneration for directors of listed companies that are equal in weight to GAS NATURAL SDG, S.A.

Article 44 of the Articles of Association establishes a system of remuneration by means of fixed annual allowance, and the remuneration policy approved by the General Shareholders' Meeting on 14 May 2015 established a maximum annual amount of €5,000,000.

It also established that the distribution of this maximum amount will be done by the Board of Directors, with the remuneration differing according to the committee or committees to which each Director belongs and the dedication and responsibility required in each. It may also differ depending on the responsibility and duties that each Director assumes on the Board or on the Committees. It is left to the discretion of the Board of Directors to consider other circumstances that must be objective and applied in a transparent manner.

B. Only the CEO has the role of the Executive Director. With regard to the CEO's remuneration policy, for the performance of his executive duties as detailed in section A.3, it is similar to the general remuneration policy of management personnel in the Gas Natural Fenosa Group so as to achieve a balance between the different elements of this policy (fixed and variable annual and multi-annual). It includes, among other things, the following:

- Basic remuneration: An annual allocation will be determined by the Board of Directors at the proposal of the Appointments and Remuneration Committee that is added to the fixed remuneration received for belonging to the Board of Directors and its Committees. The sum of both form the fixed monetary remuneration.

The basic remuneration will vary annually by decision of the Board of Directors and subject to a report from the Appointments and Remuneration Committee, according to the evolution of the Company's results and according to the remuneration observed in companies with a similar weight.

- Variable remuneration: represents a significant part of the total remuneration and is linked to the achievement of predetermined, specific and quantifiable objectives, directly aligned with the creation of value for shareholders.
  - Annual variable remuneration is based on achieving the targets set in the Management by Objectives Plan and the Company's results. In the case of the CEO they are mainly aimed at complying with the budget approved at the beginning of the year by the Board of Directors.
  - Multi-annual variable remuneration is based on the achievement of objectives aligned with a group of key indicators that are consistent with the Company's current Strategic Plan.
- Other variable remuneration: In the case of one-off transactions, the Board of Directors may establish remuneration linked to specific and previously established objectives to encourage the achievement of objectives linked to these one-off transactions. On the other hand, the Board of Directors may establish remuneration in consideration of singular achievements that have contributed decisively to the Company's results.
- Social welfare systems: The same conditions are recognised for the

CEO concerning social welfare that supplements Social Security protection, as are recognised for the Company's Directors, although they are channelled through instruments that consider the commercial nature of the relationship that binds the CEO to the Company. According to the above, the CEO's remuneration package is completed with a social welfare system comprising the following: collective savings insurance, pension plan and life insurance. These instruments are detailed in section A.5 of this report.

- Social benefits: additionally, and in accordance with the principles underlying the CEO's remuneration policy, his remuneration package is completed by health insurance and a discount on gas and electricity consumption. These benefits are detailed in section A.10 of this report.

In connection with the performance of his duties, the basic remuneration, the remuneration set by the Board of Directors based on his status as Director, and the variable remuneration (annual and multi-annual) received, by the CEO, represent, in relation to his total monetary remuneration, the following percentages in 2016, and it is estimated that the proportion will be substantially similar in 2017:

Basic remuneration	Board remuneration	Annual variable remuneration	Multi-annual variable remuneration
37%	8%	30%	25%

- A.2 Information about the preparatory work and the decision-making process that has been followed to determine the remuneration policy and role played, where applicable, by the remuneration committee and other supervisory bodies in shaping remuneration policy. This information shall include, where applicable, the mandate given to the remuneration committee, its composition and the identity of external consultants whose services have been used to define the remuneration policy. It will also express the role of the directors who, where applicable, have been involved in defining the remuneration policy.

**Explain the process for determining the remuneration policy**

The Appointments and Remuneration Committee is responsible for proposing to the Board the remuneration criteria for the Company Directors, as well as ensuring the transparency of the remuneration. The Board of Directors is responsible for approving the CEO's remuneration his executive duties as well as the remuneration of the Directors in their capacity as such within the framework approved by the General Shareholders' Meeting.

Article 44 of the Articles of Association states that the remuneration received by the Directors in their capacity as such consists of a fixed allowance and that the remuneration policy must necessarily include the maximum amount of the annual remuneration payable by the group of Directors in that capacity. Article 22 of the Regulations of the Board of Directors establishes the general outline of the process for determining the remuneration policy and states the following:

"The Appointments and Compensation Committee will propose to the Board of Directors the criteria that it deems appropriate to fulfil the purposes of this article. The Board shall be responsible for approving these criteria, as well as for the final distribution of the overall sum, within the limits established by the Articles of Association to this end and within the maximum amount approved by the General Meeting. Within each year, the Board may agree, with the frequency it deems appropriate, payments on account of the amounts owed to each Director for the work performed in that period."

Article 31(1), in relation to the composition of the Appointments and Remuneration Committee, states:

"The Appointments and Remuneration Committee shall consist of a minimum of three and a maximum of five Directors, appointed by the Board of Directors from among the non-executive Directors, taking into account their knowledge and skills. Its members shall stand down when they do so in their capacity as Directors, when thus agreed by the Board of Directors or after a period of three years from their appointment. They may be reappointed.

At least two members of the Appointments and Remuneration Committee shall have the status of Independent Directors. The Board of Directors shall choose its Chair from among these two Independent Directors. This Chair will not have a casting vote. The Committee secretariat shall be the secretariat of the Board of Directors."

Accordingly, the composition of the Committee as at 31 December 2016 is as follows:

Position	Name	Status
Chair	Mr Francisco Belil Creixell	Independent
Member	Ms Cristina Garmendia Mendizábal	Independent
Member	Mr Alejandro García-Bragado Dalmau	Proprietary
Member	Mr Miguel Martínez San Martín	Proprietary
Member	Mr William Alan Woodburn	Proprietary
Secretary	Mr Manuel García Cobaleda	Non-Executive Secretary

Until 21 September 2016 the composition was as follows:

Position	Name	Status
Chair	Mr Miguel Valls Maseda	Independent
Member	Ms Cristina Garmendia Mendizábal	Independent
Member	Mr Antonio Brufau Niubó	Proprietary
Secretary	Mr Manuel García Cobaleda	Non-Executive Secretary

All members of the Committee, current and former, have extensive

experience in large companies and knowledge in accordance with the Committee's tasks.

A. The remuneration of the members of the Board of Directors in their capacity as such for 2017 was determined by the Board of Directors during its meeting on 7 February 2017, on a proposal and report from the Appointments and Remuneration Committee on the same day. The amounts are detailed in section A.3.

B. Currently only the CEO has the role of Executive Director. The remuneration for his executive duties for 2017 is established by a subsequent Board pursuant to the explanation in section A.1 upon the proposal by the Appointments and Remuneration Committee together with the remuneration policy for the entire management team.

- A.3 Indicate the amount and nature of the fixed components, with a breakdown, where applicable, of the remuneration for the performance of the executive directors' senior management duties, of the additional remuneration as chair or member of any committee of the Board, of the expenses from their participation on the Board and its committees or other fixed remuneration as a director, as well as an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that are not paid in cash and the basic parameters by which they may be granted.

**Explain the fixed components of the remuneration**

A. The remuneration of the Directors in their capacity as such consists of a fixed annual allowance.

The remuneration of the Directors in their condition of Board members and Executive Committee members has remained unchanged since 2007.

The amount of remuneration of the Directors in their capacity as such approved for 2017 is as follows:

- Chair of the Board of Directors: €50,000.00/year.
- Director: €26,500.00/year.
- Chair of the Executive Committee: €50,000.00/year.
- Member of the Executive Committee: €26,500.00/year.
- Member of the Appointments and Remuneration Committee: €25,000.00/year.
- Member of the Audit Committee €40,000.00/year.

With regard to the remuneration that the CEO might earn as a member of the Board of Directors of other companies in the Group, these amounts are subtracted from his variable remuneration.

The Company has subscribed and paid the corresponding global premium for civil liability insurance for Directors and Executives of GAS NATURAL SDG, S.A. and for most of the companies belonging to this Group, thus also covering all the Directors of GAS NATURAL SDG, S.A, including both Executive and Non-Executive Directors, for the responsibilities that may be required of them in the performance of their

duties as directors.

B. Currently only the CEO has the role of Executive Director and the fixed component of his remuneration for performing these duties was determined in accordance with the content of the section A.1. at the Board meeting of March 7, 2017 in the amount of €1,537,987.50 (sum of basic remuneration of €1,284,987.50 and €253,000.00 for the membership of the Board and its Committees).

A.4 Explain the amount, nature and main characteristics of the variable components of the remuneration systems.

In particular:

- Identify each of the remuneration plans of which the directors are beneficiaries, including the scope, date of approval, implementation date, validity period and their main features. In the case of stock option plans and other financial instruments, the general features of the plan will include information on the conditions for exercising these options or financial instruments for each plan.
- Indicate any remuneration for profit sharing or bonuses, and the reason they were granted.
- Explain the basic parameters and basis for any system of annual bonuses.
- The types of directors (executive directors, external proprietary directors, independent directors or other external directors) who are beneficiaries of remuneration systems or plans that include variable remuneration.
- The foundation of such systems or variable remuneration plans, the performance evaluation criteria chosen, as well as the components and methods of evaluation to determine whether such evaluation criteria have been met or not and an estimation of the absolute amount of the variable remuneration to which the remuneration plan in force would give rise, depending on the degree of compliance with the hypotheses or objectives used as reference.
- Where appropriate, information will be provided on the deferral periods or payment deferment that have been established and/or retention periods for shares or other financial instruments, if there are any.

**Explain the variable components of the remuneration systems**

A. The Directors, in their capacity as such do not receive this type of remuneration.

B. Currently only the CEO has the role of Executive Director.

The CEO's contract provides variable remuneration for his executive duties.

This remuneration is intended to strengthen the commitment of the Company CEO and encourage the best performance of his duties, aligning them with the short- and long-term interests of the Company and its shareholders.



In accordance with the CEO's contract, the variable remuneration is set through two programmes according to their objectives and time horizon:

Annual variable remuneration:

The annual variable remuneration rewards, on an annual basis, contribution towards the achievement of predetermined, specific and quantifiable objectives related to economic and financial and efficiency and growth variables, as well as issues of quality and safety, being directly linked to the achievement of the objectives proposed in the Management by Objectives Plan. It is paid once, at the end of the financial year.

The Board of Directors, on the proposal of the Appointments and Remuneration Committee, has fixed the following indicators and weights based on the annual variable remuneration of the Chief Executive Officer for 2017 and to be paid in the first quarter of 2018. Budget of the company for 2017 approved in the Board of Directors in its session of February 2017. The objectives and their respective weight are indicated:

**Economic Objectives:**

30% Consolidated EBITDA of the GNF Group (M €)

20% Consolidated net income of the GNF group (M €)

**Objectives Efficiency:**

10% Cumulative Productivity Plan 2017 (impact on OPEX accumulated in 2016 and 2017)

**Objectives Growth:**

10% Net Increase Gas Supply Points (Spain and Latin America) (number of points)

10% Increase in Energy Sales: gas in Spain, Europe and external LNG plus electricity in Spain (TWh)

**Objectives Quality and Safety:**

10% Quality: Weighted Net Promoter Score (NPS)

10% Safety: Accidents with low in labor (frequency index) and not exceed certain environmental limits.

The annual variable remuneration is calculated based on 80% of the fixed monetary remuneration. A percentage is applied to this amount depending on the degree of achievement of the objectives previously set by the Board. The maximum percentage of compliance is limited to 115%.

Multi-annual variable remuneration:

The Company has had monetary incentive programmes in place since 2004, for all management personnel, with a three-year measurement period, linked to the achievement of objectives in the medium term, in order to promote the retention and motivation of the key people linked to these objectives and an alignment with the maximization of the value of Gas Natural Fenosa in a sustained manner over time. These programmes

have been approved by the Board of Directors of Gas Natural SDG, S.A., at the proposal of the Appointments and Remuneration Committee. The beneficiaries of these programmes are the Directors of the Company and likewise apply to the CEO.

The Board of Directors, on 7 March 2017 approved the launch of the Medium-Term Remuneration Programme 2017-2019. Furthermore, at the end of 2016 the Medium-Term Remuneration Programme for 2014-2016, 2015-2017 and 2016-2018 were in force.

This section A.4 describes the features and objectives of the 2014-2016, 2015-2017, 2016-2018 and 2017-2019 programmes:

These programmes are independent from one another, but their main characteristics are shared. In all cases, they are specific multi-annual remuneration plans for the years covered in each one of them. Each plan is linked to complying, by the end of the period, with a series of strategic objectives and commitments set out in the Group's Strategic Plan that is in force at any given time, and that are directly aligned with the interests of shareholders, to the extent that they contribute to generating value for the Company.

Compliance with the respective objectives grants the beneficiaries of each plan the right to receive variable remuneration in the medium term in the first quarter of the financial year following its completion. The Appointments and Remuneration Committee is moreover responsible for assessing the degree of achievement of the objectives previously set, while its proposal must be submitted for the approval by the Board of Directors. However, in each case, the payment of the incentive is conditional upon the beneficiary remaining with the Group until 31 December of the final year of the programme, except for the special cases set out in the specific terms of the programme.

To determine the degree of compliance with the Medium-Term Remuneration Programmes, economic objectives will be taken into consideration that have a weight determined for the purposes of establishing the final value of the objective.

Within the economic objectives, the variables that have been used are optimisation and financial discipline and creation of value for shareholders.

The indicators and their relevant weights that have been established to determine the degree of compliance with the Medium-Term Remuneration Programmes for the years 2014-2016, 2015-2017, 2016-2018 and 2017-2019, are related to the Company's EBITDA as well as profitability.

- Net debt/EBITDA. This indicator reflects the number of times the net debt contains the EBITDA.
- EV/EBITDA. This is determined by the number of times the Enterprise Value (EV) contains the EBITDA

- Shareholder return. This is defined as the ratio of the sum of the GNF share price at the end of the programme period and the dividends corresponding to a share received in the period between the GNF share price at the beginning of the programme period.
- Return on fixed assets. This is obtained as the ratio between the operating income and the fixed assets (net of amortization and impairment losses) used in its achievement.

Each one of the four objectives has a weight of 25%. The degree of achievement of each one of the four objectives gives rise to an objective achievement percentage between 0 and 100%, and therefore 100% is the maximum limit.

The multi-annual variable remuneration represents 70% of the CEO's fixed monetary remuneration. The programme corresponding to the years 2013-2014-2015 was calculated on the basis of 87.5% of the annual variable remuneration from the three years in question. Starting from the programme corresponding to the years 2014-2015-2016, the calculation basis has been modified gradually, moving to using 70% of the average fixed monetary remuneration from the three years in question starting from the programme for 2016-2017-2018. The objective achievement percentage is applied to this amount, which, as stated, may not exceed 100%

The CEO is the beneficiary of the Medium-Term Remuneration Programmes currently in force: 2014-2016, 2015-2017, 2016-2018 and 2017-2019.

The Appointments and Remuneration Committee is responsible for examining the degree of compliance with the objectives of each of the Medium-Term Remuneration Programmes, and therefore proposing to the Board of Directors the amounts by way of multi-annual variable remuneration for the CEO. The Board of Directors is responsible for agreeing the amount of the multi-annual variable remuneration for the CEO corresponding to the programmes.

The indicators and their corresponding weightings that were established to determine the degree of compliance with the Medium-Term Remuneration Programme for the financial years 2014-2016, as well as the economic consequences of this programme, are detailed in section C.1.

- A.5 Explain the main features of the long-term savings systems, including retirement and any other survivors' benefit, financed in full or in part by the company, whether provided internally or externally, with an estimation of their amount or equivalent annual cost, indicating the type of plan, whether it is defined benefit or contribution, the conditions for consolidating the economic rights in favour of the directors and their compatibility with any kind of compensation for the early termination or cancellation of the contractual relationship between the company and the director.

Also indicate the contributions in favour of the director to defined contribution pension plans; or the increase in director vested rights, in the case of contributions to defined benefit plans.

Explain the long-term savings systems
<p>A. The Directors, in their capacity as such do not receive this type of remuneration.</p> <p>B. Currently only the CEO has the role of Executive Director.</p> <p>The CEO's contract provides remuneration of this kind for his executive duties.</p> <p>The same conditions are recognised for the CEO concerning social welfare that supplements Social Security protection, as are recognised for the Company's Directors, regardless of whether they are channelled through instruments that consider the commercial nature of the relationship that binds the CEO to the Company.</p> <p>The instruments through which the CEO's social welfare systems are organised are the following:</p> <ul style="list-style-type: none"><li>• <u>Group savings insurance</u>: designed as a defined contribution scheme financed through the group insurance, with a specific return guaranteed by the insurance company.</li></ul> <p>The CEO is given the right to receive a series of savings contributions for retirement. These contributions will be governed by the rules set out in the Plan Regulations established to that end. Gas Natural SDG, S.A. annually contributes an amount equal to 20% of the CEO's fixed monetary remuneration to this instrument. Contingencies covered by the plan are retirement, death before retirement and permanent disablement before retirement. He will not be entitled to receive any amount for this item in the event of very serious and culpable breach of his professional obligations that causes serious harm to the interests of the Company.</p> <ul style="list-style-type: none"><li>• <u>Pension plans</u>: Defined contribution instrument with regard to the funding of benefits for retirement.</li><li>• In addition, the CEO is the beneficiary of an insurance policy to cover the contingencies of death and absolute permanent disablement or severe disablement before retirement, in which Gas Natural SDG acts as policyholder. The premiums for life insurance are estimated to amount to 25.3 thousand euros during the financial year 2017.</li></ul>

A.6 Indicate any compensation agreed or paid in the event of termination of duties as director.

**Explain the compensation**

The Directors, in their capacity as such do not have this type of compensation.

- A.7 State the conditions that must be observed by contracts for anyone who exercises senior management duties as executive directors. Among other things, information will be provided about the duration, limits on the amounts of compensation, continuation clauses, notice periods, as well as payment in place of this notice period, as well as any other clauses relating to hiring bonuses, including compensation or golden parachutes for early termination or cancellation of the contractual relationship between the company and the executive director. Include, among other things, covenants or agreements regarding non-competition, exclusivity, continuation or loyalty and post-contractual non-competition agreements.

**Explain the conditions of the executive directors' contracts**

Currently only the CEO has the role of the Executive Director.

The CEO's contract was amended in October 2016, removing the clause on termination of the contract due to a significant change in the Company shareholders and extending its length to his entire current term as CEO of the Company.

It contains a clause on a period of notice by the CEO of six months except in cases of force majeure, a clause on exclusivity during the exercise of his duties and a clause on confidentiality, both during the term of the contract, and once this term has expired.

The CEO's contract establishes compensation in the amount of three annual instalments of the total remuneration as at the date of amending the contract for certain cases of termination of the contractual relationship: due to the decision of the Company, except for very serious and culpable breach of his professional obligations that causes serious harm to the interests of Gas Natural SDG, S.A.; due to a decision by the CEO; or due to the termination of the contract. Additionally, and by way of post-contractual non-competition agreement, for one year compensation equivalent to one year of total remuneration is established.

The contract provides for the obligation that the Company has taken out a civil liability insurance policy.

The Company has subscribed and paid the corresponding global premium for civil liability insurance for Directors and Executives of GAS NATURAL SDG, S.A. and for most of the companies belonging to this Group, thus also covering all the Directors of GAS NATURAL SDG, S.A, including the Non-Executive Directors, for the responsibilities that may be required of them in the performance of their duties as directors.

The current Chair has a role as non-executive and therefore has not signed a contract with the company. The contract of the previous Chair had an unlimited length and would end either by mutual agreement or by the Chair losing his status as executive, Chair or member of the Board of

Directors, which is what happened on 21 September 2016.

- A.8 Explain any additional remuneration paid to directors for services rendered other than those inherent to their position.

**Explain the additional remuneration**

- A.9 Indicate any remuneration in the form of advances, loans and guarantees granted, indicating the interest rate, their essential characteristics and any amounts repaid, as well as the obligations assumed on their account by way of guarantees.

**Explain the advances, loans and guarantees granted**

The members of the Board of Directors have not been granted any loans, advances or guarantees.

- A.10 Explain the main characteristics of the remuneration in kind.

**Explain the remuneration in kind**

A. The Company has subscribed and paid the corresponding global premium for civil liability insurance for Directors and Executives of GAS NATURAL SDG, S.A. and for most of the companies belonging to this Group, thus also covering all the Directors of GAS NATURAL SDG, S.A, including both Executive and Non-Executive Directors, for the responsibilities that may be required of them in the performance of their duties as directors.

B. The CEO's remuneration package also includes the following benefits in kind under the remuneration policy for the Company's management personnel:

- Consumption bonus: enjoying an electricity and gas consumption bonus.
- Health care: group policy in the form of reimbursement of expenses.

- A.11 Indicate the wages earned by the director by virtue of payments made by the listed company to a third entity in which the director provides services, when the purpose of such payments is to remunerate the director's services in the company.

**Explain the remuneration earned by the director by virtue of payments made by the listed company to a third entity in which the director provides services**

- A.12 Any remuneration concept other than those mentioned above, whatever their nature or whichever group entity pays it, especially when it is a related-party

transaction or its issuance distorts the true picture of the total remuneration earned by the director.

Explain the other remuneration components

- A.13 Explain the actions taken by the company in connection with the remuneration system to reduce exposure to excessive risks and adapt it to the objectives, values and long-term interests of the company, including, where applicable, a reference to: measures envisaged to ensure that the remuneration policy considers the company's long-term results, measures that establish an appropriate balance between the fixed and variable components of the remuneration, measures taken in relation to any categories of staff whose professional activities have a material impact on the entity's risk profile, recovery formulas or clauses so as to be able to claim repayment of the variable components of the remuneration based on results when such components have been paid on the basis of data whose inaccuracy has been demonstrated explicitly, as well as measures to avoid conflicts of interest, where applicable.

Explain the actions taken to reduce the risks
<p>In establishing its remuneration policies, the Company aims to steadily create value for the Group over time, ensuring transparency and competitiveness in its remuneration policy.</p> <p>In relation to the CEO, the application of this principle to the variable remuneration components (annual and multi-annual variable remuneration) involves strengthening the CEO's commitment to the interests of the Company and its shareholders in a sustained manner over time.</p> <p>Annual variable remuneration:</p> <p>The annual variable remuneration rewards, on an annual basis, contribution towards the achievement of predetermined, specific and quantifiable objectives related to economic and financial and efficiency and growth variables, as well as issues of quality and safety, being directly linked to the achievement of the objectives proposed in the Management by Objectives Plan.</p> <p>The objectives established for the CEO mainly relate to complying with the budget approved at the beginning of the year by the Board of Directors.</p> <p>Multi-annual variable remuneration:</p> <p>Linked to the achievement of medium-term objectives, in order to promote the retention and motivation of the key people linked to these objectives and an alignment with the maximization of the value of Gas Natural Fenosa in a manner that is sustained over time and consistent with the strategic plan in force at any given time.</p> <p>Each plan is linked to complying with a series of strategic objectives and</p>

commitments set out in the Group's Strategic Plan that is in force at any given time, and that are directly aligned with the interests of shareholders, to the extent that they contribute to generating value for the Company. Both the objectives and the variables used to measure their achievement are previously set by the Board of Directors, subject to a report from the Appointments and Remuneration Committee.

Within the economic objectives, the variables that have been used are optimisation and financial discipline and creation of value for shareholders.

The indicators and metrics, both for the annual variable remuneration and the multi-annual variable remuneration are detailed in section A.4 and in section C.1.

**B REMUNERATION POLICY PLANNED FOR FUTURE FINANCIAL YEARS**

**C OVERVIEW OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE FINANCIAL YEAR THAT HAS ENDED**

C.1 Briefly explain the main characteristics of the remuneration structure and components of the remuneration policy during the financial year that has ended, that results in the breakdown of the individual remuneration earned by each of the directors reflected in section D of the present report, as well as a summary of the decisions taken by the Board to apply these components.

Explain the remuneration structure and components of the remuneration policy applied during the year

As there have not been any significant changes in the remuneration policy, the main features and components applied during the financial year that has ended correspond with the general principles and fundamentals of the remuneration policy detailed in section A of this report.

A. The remuneration of the members of the Board of Directors for their role as such remained unchanged in 2016, so the value has remained unchanged since 2007. Notwithstanding the above, for 2015 the Board of Directors decided to increase the amount of the fixed allowance for being on the Audit Committee and the Appointments and Remuneration Committee, considering the increased duties, dedication and responsibility that the new corporate governance scheme has established in recent years and considering that the allowance provided at Gas Natural Fenosa was significantly lower than that of comparable listed companies in general. As a result, in 2016, the structure was as follows:

- Chair of the Board of Directors: €50,000.00/year.
- Director: €126,500.00/year.
- Chair of the Executive Committee: €50,000.00/year.
- Member of the Executive Committee: €126,500.00/year.
- Member of the Appointments and Remuneration Committee: 25.000,00/year.



- Member of the Audit Committee €40,000.00/year.

In 2016, the amount of this remuneration in 2016 totalled 4,573,044 euros due to the increase from September 2016 as a result of the change in the Company's corporate governance system that took place in September 2016.

The amount earned by the CEO in 2016 for being on the Board of Directors of CGE increased to 36,6 thousand euros, which is deducted from his variable remuneration.

B. The former Chair's contract did not provide for compensation for executive duties. The current Chair has a role as non-executive and therefore has not signed a contract with the company.

The remuneration received or, in the case of variable remuneration, that will be received by the CEO for his executive duties during 2016, is as follows:

1. Basic remuneration: On 26 February 2016, the Board of Directors agreed, on the proposal of the Appointments and Remuneration Committee, to establish the amount of 1,211,750 euros for the fixed remuneration for executive duties other than supervision duties or collegiate decisions.

The Appointments and Remunerations Committee, as in previous years, had internal advice from the Company's People, Organisation and Culture Department and external support on remuneration and compensation provided by the global consulting firms Peplematters, Towerswatson, Korn Ferry (Hay Group) and The Boston Consulting Group, who have conducted comparative market studies (benchmarking) on the remuneration levels of companies comparable to Gas Natural Fenosa by capitalization, size, shareholding structure and international implementation.

2. To calculate the annual variable remuneration of the CEO for the financial year 2016, which will be paid in the first quarter of 2017, indicators and weightings were taken into account that were set by the Board of Directors, at the proposal of the Appointments and Remuneration Committee. Specifically, in 2016 the following parameters were considered to determine the degree of compliance with the objectives:

- economic objectives, whose weight represents 60% of the total objectives, including the following (all of which refer to the figures approved in the budget for the financial year 2016 approved in January 2016 by the Board of Directors):
  - o achievement of the EBITDA approved for the financial year 2016;
  - o achievement of the net income approved for the financial year 2016;
  - o achievement of the ratio approved for the financial year 2016, between the operating working capital and the turnover.

Degree of achievement:108,07%

- Efficiency objective, whose weight represents 10%, and is defined as the achievement of the productivity objectives approved for the financial year 2016.

Degree of achievement:115%

- Business growth objectives, whose weight represents 20%, establishing the following:
  - o Achieving the planned objective with regard to the net increase of the gas supply points at group level;
  - o Achieving the energy sales forecast.

Degree of achievement:0%

- The following objectives linked to quality, safety and accidents, whose weight represents 10%, have been established:
  - o Achieving the desired position in the customer satisfaction index with respect to competitor companies in Spain;
  - o Achieving the desired value in relation to the customer satisfaction index for gas and electricity in Latin America;
  - o Successfully reducing the accident rate, defined as the frequency of accidents that result in time off work and occurring during the workday;
  - o Ensuring there are no fatal accidents.

Degree of achievement:92,1%

The objectives for the year 2016 were approved by the Appointments and Remuneration Committee during its meeting on 26 February 2016. The assessment of the degree of compliance with the above objectives was approved by the Board of Directors during its meeting on 7 February 2017. The amount of the annual variable remuneration for the financial year 2016, which will be paid in the first quarter of 2017, is 1.002 thousand euros with a total degree of compliance of 85,53%.

3. The CEO's multi-annual variable remuneration corresponding to the 2014-2016 plan will be paid during the first quarter of 2017, and its general mechanism has been explained in detail in section A.4.

The indicators used to determine the degree of compliance with the Medium-Term Remuneration Programme for the years 2014-2016 are related to the Company's EBITDA, as well as the evolution of its market capitalization.

These indicators and their weightings are as follows:

- Net debt/EBITDA (25%): This indicator reflects the number of times the net debt contains the EBITDA

- EV/EBITDA (25%): This is determined by the number of times the Enterprise Value (EV) contains the EBITDA
- Return on fixed assets (25%): This is obtained as the ratio between the operating income and the fixed assets (net of amortization and impairment losses) used in its achievement.
- Shareholder return (25%): defined as the ratio of the sum of the share price at the end of the programme validity period and the dividends corresponding to a share received in the programme validity period between the listing of the share to that of the programme validity period.

The EV/EBITDA and shareholder profitability indicators are assessed in relative terms with regard to comparable companies. The level of achievement of objectives will be determined by the position of Gas Natural Fenosa in the ranking of comparable companies in the reference period.

The assessment of the degree of compliance with the above objectives corresponding to the 2014-2016 programme, which matured in 2016, was approved by the Board of Directors during its meeting on 7 February 2017, and will be effectively paid during the first quarter of 2017, totalling 813 thousand euros with an overall degree of achievement of 81,25%.

The breakdown of remuneration earned includes the amount earned in 2016 from the programmes in force, amounting to 860 thousand euros.

4. The Directors have not received any advances, loans or guarantees and there is no remuneration system based on shares.

The contributions to the CEO's forecast instruments amounted to 302.95 million euros in 2016. In addition, the premiums paid for life insurance have totalled 25.3 thousand euros during the above financial year.

The amount corresponding to the gas and electricity discount and the health insurance premium amounted to 7.8 thousand euros during the above financial year.

## **D BREAKDOWN OF THE INDIVIDUAL REMUNERATION EARNED BY EACH OF THE DIRECTORS**

D.1 Complete the following tables on the individual remuneration for each of the directors (including remuneration for the exercise of executive duties) earned during the year.

**a) Remuneration earned in the company that is the subject of the present report:**

**i) Cash remuneration (in thousands of euros)**

Name/Type/Accrual period financial year t	Salary	Fixed remuneration	Expenses	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of Board Committees	Compensation	Other items	Total financial year t	Total financial year t-1
SALVADOR GABARRO SERRA / Chair/ Executive/		400				400			800	1,100
ANTONIO BRUFAU NIUBO/ Vice Chair/Proprietary Member		92				18			110	152
RAFAEL VILLASECA MARCO/ CEO/ Executive	1,212	127		1,002	860	127		8	3,336	3,341
RAMÓN ADELL RAMÓN/ Independent		127				167			294	248
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI/ Proprietary Member		127				107			234	254
XABIER AÑOVEROS TRIAS DE BES/ Independent		127				15			142	127
FRANCISCO BELIL CREIXELL / Independent		127				84			211	106
DEMETRIO CARCELLER ARCE/ Proprietary Member		92				92			184	254
ISIDRO FAINÉ CASAS / Proprietary Member		281				200			481	81
BENITA FERRERO-WALDNER / Economist		127				81			208	81
CRISTINA GARMENDIA MENDIZÁBAL / Independent		127				40			167	97
EMILIANO LÓPEZ ACHURRA/ Independent		46				46			92	254
MIGUEL MARTINEZ SAN MARTIN / Proprietary Member		127				136			263	162
HERIBERT PADROL MUNTÉ/ Proprietary Member		92				92			92	127
JUAN ROSELL LASTORTRAS/ Proprietary Member		92				92			184	208
LUIS SUÁREZ DE LEZO MANTILLA/ Proprietary		127				40			167	167

Member										
MIGUEL VALLS MASEDA/ Independent		92				18			110	152
ELENA HERRERO STARKIE/ Independent		81				15			96	0
JOSU JON IMAZ SAN MIGUEL/ Proprietary Member		46				46			92	0
MARCELINO ARMENTER VIDAL/ Proprietary Member		46				46			92	0
ALEJANDRO GARCIA- BRAGADO DALMAU/ Proprietary Member		46				9			55	0
WILLIAM ADAM WOODBURN/ Proprietary Member		46				55			101	0
RAJARAM RAO/ Proprietary Member		46				61			107	0
MARIO ARMERO MONTES/ Proprietary Member		46							46	0

## ii) Share-based remuneration systems

Name/Type/Accrual period financial year t	Name of the plan and implementation date	Ownership of options at the beginning of financial year t				Options assigned during financial year t					Shares delivered during financial year t
		No. of options	No. of shares affected	Strike price (€)	Term of exercise	No. of options	No. of shares affected	Strike price (€)	Term of exercise	Conditions for exercise	No. Price Amount
Director 1	Plan 1										
	Plan 2										

Name/Type/Accrual period financial year t	Name of the plan and implementation date	Options exercised during financial year t				Options due and not exercised	Options at the end of financial year t				
		No. of options	No. of shares affected	Strike price (€)	Gross profit (€)	No. of options	No. of options	No. of shares affected	Strike price (€)	Term of exercise	Other requirements for exercise
Director 1	Plan 1										
	Plan 2										

## iii) Long-term savings systems

Name/Type/Total accrual period in	Contribution for the year by the company (thousands of €)	Amount of accumulated funds (thousands of €)
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financial years	Year t	Year t-1	Year t	Year t-1
RAFAEL VILLASECA MARCO	302	289	3,222	2,930

**iv) Other benefits (in thousands of €)**

Remuneration in the form of advances, loans granted.			
Name/Type	Interest rate for the transaction	Essential characteristics of the transaction	Amounts eventually repaid
RAFAEL VILLASECA MARCO	0.00	n/a	n/a
Director 2			

Name/Type	Life insurance premiums		Guarantees provided by the company in favour of the directors	
	Year t	Year t-1	Year t	Year t-1
RAFAEL VILLASECA MARCO	25	26	n/a	n/a

(1) AMOUNT OF LIFE INSURANCE PREMIUMS + LIFE INSURANCE PREMIUM ASSOCIATED WITH THE SAC.

**b) Remuneration earned by the company directors for serving on boards in other group companies:**

**i) Cash remuneration (in thousands of euros)**

Name/Type /Accrual period financial year t	Salary	Fixed remuneration	Expenses	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of Board Committees	Compensation	Other items	Total financial year t	Total financial year t-1
RAFAEL VILLASECA MARCO	0	37	0	0	0	0	0	0	37	72
Director 2										

**ii) Share-based remuneration systems**

Name/Type/Accrual period financial year t	Ownership of options at the beginning of financial year t				Options assigned during financial year t					Shares delivered during financial year t
	No. of options	No. of shares affected	Strike price (€)	Term of exercise	No. of options	No. of shares affected	Strike price (€)	Term of exercise	Conditions for exercise	No. Price Amount
Director 1										

Options exercised during year t	Options due and not exercised	Options at the end of financial year t
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Name/Type/ Accrual period financial year t	No. of options	No. of shares affected	Market price (€)	Gross profit (€)	No. of options	No. of options	No. of shares affected	Strike price (€)	Term of exercise	Other requireme nts for exercise
Director 1										

### iii) Long-term savings systems

Name/Type/Total accrual period in financial years	Contribution for the year by the company (thousands of €)		Amount of accumulated funds (thousands of €)	
	Year t	Year t-1	Year t	Year t-1
Director 1				

### iv) Other benefits (in thousands of €)

Remuneration in the form of advances, loans granted.			
Name/Type	Interest rate for the transaction	Essential characteristics of the transaction	Amounts eventually repaid
Director 1			
Director 2			

Name/Type	Life insurance premiums		Guarantees provided by the company in favour of the directors	
	Year t	Year t-1	Year t	Year t-1
Director 1				
Director 2				

### c) Summary of the remuneration (in thousands of €):

The amounts corresponding to all remuneration components included in this report that have been earned by the director, in thousands of euros, must be included.

In the case of the long-term savings systems, the contributions or allocations made to this type of system will be included:

Name/Type	Remuneration earned in the Company				Remuneration earned in group companies				Total		
	Total cash remunerati on	Amount of shares granted	Gross profit from the options exercised	Total financial year t company	Total cash remuneration	Amount of shares delivered	Gross profit from the options exercised	Total financial year t group	Total financial year t	Total financia l year t- 1	Contribution to the savings systems during the financial year
SALVADOR GABARRO SERRA / Chair/ Executive/*	800			800					800	1,100	

*until 21/09/16											
ANTONIO BRUFAU NIUBO/ Vice Chairman/P roprietary Member*	110			110					110	152	
*until 21/09/16											
RAFAEL VILLASECA MARCO/ CEO/ Executive	3,336			3,336	37			37	3,373	3,413	
RAMÓN ADELL RAMÓN/ Independent	294			294					294	248	
ENRIQUE ALCÁNTAR A-GARCÍA IRAZOQUI/ Proprietary Member	234			234					234	254	
XABIER AÑOBEROS TRIAS DE BES/ Independent	142			142					142	127	
FRANCISCO BELIL CREIXELL / Independent	211			211					211	106	
DEMETRIO CARCELLER ARCE/ Proprietary Member	184			184					184	254	
ISIDRO FAINÉ CASAS / Proprietary Member	481			481					481	81	
BENITA FERRERO- WALDNER / Independent	207			207					207	81	
CRISTINA GARMENDI A MENDIZÁB AL / Independent	167			167					167	97	
EMILIANO LÓPEZ ACHURRA/ Independent	92			92					184	254	
MIGUEL MARTINEZ SAN MARTIN / Proprietary Member	262			262					262	162	
HERIBERT PADROL MUNTÉ/	92			92					92	127	



Proprietary Member											
JUAN ROSELL LASTORTRAS/ Proprietary Member	184			184					184	207	
LUIS SUÁREZ DE LEZO MANTILLA/ Proprietary Member	167			167					167	167	
MIGUEL VALLS MASEDA/ Independent	110			110					110	152	
ELENA HERRERO STARKIE/ Independent	96			96					96		
JOSU JON IMAZ SAN MIGUEL/ Proprietary Member	920			92					92		
MARCELINO ARMENTER VIDAL/ Proprietary Member	92			92					92		
ALEJANDRO GARCIA-BRAGADO DALMAU/ Proprietary Member	55			55					55		
WILLIAM ADAM WOODBURN/ Proprietary Member	101			101					101		
RAJARAM RAO/ Proprietary Member	107			107					107		
MARIO ARMERO MONTES/ Proprietary Member	46			46					46		
TOTAL	7,664			7,664	37			37	7,701	6,982	

D.2. Report on the relationship between the remuneration received by the directors and the results or other performance measures for the entity, explaining, where appropriate, how the variations in the company's performance have influenced the change in the directors' remuneration.

As explained in sections A.13 and C.1 of this report.

D.3 Report on the result of the advisory vote of the general meeting on the annual remuneration report for the previous year, indicating the number of negative votes that, where applicable, have been cast:

	Number	% of the total
Votes cast	774,899,260	77.44

	Number	% of votes cast
Negative votes	56,628,294	7.31
Votes in favour	718,212,630	92.68
Abstentions	58,336	0.01

## **E** OTHER INFORMATION OF INTEREST

If there is any relevant aspect concerning the directors' remuneration that has not been set out in the other sections of this report, but that may be necessary to include for the sake of achieving more complete and reasoned information on the company's remuneration structure and practices in relation to its directors, it should be outlined briefly here.

It should be noted that the remuneration received by the Chief Executive Officer in other Group Companies is deducted from his variable remuneration.

It should be noted that, as a result of not allowing the inclusion of figures with decimals in the circular model for annual report on the remuneration of directors, there are some minor variations in the figures indicated with respect to the actual figures. Thus, as an example, in the summary table entitled "Remuneration earned in the company that is the subject of the present report: i) Cash remuneration (in thousands of €)", the amounts reflected, 127 thousand euros, corresponds to an amount of 126,500 euros.

**GENERAL DISCLAIMER:** This Annual Compensation Report was approved by the Board of Directors of the Company at its meeting on March 7, 2017 and replaces that initially approved on February 7, 2017.

Indicate whether there were any directors that voted against or abstained in relation to the approval of this report.

Yes

No

Name or company name of the members of the board of directors who did not vote in favour of the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons